

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **1-12675 (Kilroy Realty Corporation)**

Commission File Number: **000-54005 (Kilroy Realty, L.P.)**

**KILROY REALTY CORPORATION
KILROY REALTY, L.P.**

(Exact name of registrant as specified in its charter)

Kilroy Realty Corporation

Maryland

95-4598246

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Kilroy Realty, L.P.

Delaware

95-4612685

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California, 90064

(Address of principal executive offices) (Zip Code)

(310) 481-8400

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Registrant</u>	<u>Title of each class</u>	<u>Name of each exchange on which registered</u>	<u>Ticker Symbol</u>
Kilroy Realty Corporation	Common Stock, \$.01 par value	New York Stock Exchange	KRC

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kilroy Realty Corporation Yes ☒ No ☐

Kilroy Realty, L.P. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Kilroy Realty Corporation Yes ☒ No ☐

Kilroy Realty, L.P. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth

company" in Rule 12b-2 of the Exchange Act.

Kilroy Realty Corporation

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Kilroy Realty, L.P.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Kilroy Realty Corporation Yes ☐ No ☒

Kilroy Realty, L.P. Yes ☐ No ☒

As of October 20, 2023, 117,239,558 shares of Kilroy Realty Corporation common stock, par value \$.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2023 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries, and references to “Kilroy Realty, L.P.” or the “Operating Partnership” mean Kilroy Realty, L.P., a Delaware limited partnership and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of September 30, 2023, the Company owned an approximate 99.0% common general partnership interest in the Operating Partnership. The remaining approximate 1.0% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership’s day-to-day management and control and can cause it to enter into certain major transactions, including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership that are reflected in the disclosures in this Form 10-Q. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. The Company is a REIT, the only material asset of which is the partnership interests it holds in the Operating Partnership. As a result, the Company generally does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. The Company itself is not directly obligated under any indebtedness, but generally guarantees all of the debt of the Operating Partnership. The Operating Partnership owns substantially all of the assets of the Company either directly or through its subsidiaries, conducts the operations of the Company’s business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Company, which the Company generally contributes to the Operating Partnership in exchange for units of partnership interest, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s incurrence of indebtedness or through the issuance of units of partnership interest.

Noncontrolling interests, stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners’ capital in the Operating Partnership’s financial statements and, to the extent not held by the Company, as noncontrolling interests in the Company’s financial statements. The differences between stockholders’ equity, partners’ capital and noncontrolling interest result from the differences in the equity issued by the Company and the Operating Partnership.

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

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

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

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Note 10, Net Income Available to Common Stockholders Per Share of the Company;
 - Note 11, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;
 - Note 12, Supplemental Cash Flow Information of the Company; and
 - Note 13, Supplemental Cash Flow Information of the Operating Partnership;

- “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
 - —Liquidity and Capital Resources of the Company;” and
 - —Liquidity and Capital Resources of the Operating Partnership.”

This report also includes separate sections under “Part I – Financial Information, Item 4. Controls and Procedures” and separate Exhibit 31 and Exhibit 32 certifications for the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.

Available Information

We use our website (www.kilroyrealty.com) as a routine channel of distribution of company information, including press releases, presentations, and supplemental information, as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor our website in addition to following press releases, SEC filings, and public conference calls and webcasts. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED) OF KILROY REALTY CORPORATION

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
<u>ASSETS</u>		
REAL ESTATE ASSETS:		
Land and improvements	\$ 1,743,170	\$ 1,738,242
Buildings and improvements	8,431,499	8,302,081
Undeveloped land and construction in progress	1,950,424	1,691,860
Total real estate assets held for investment	12,125,093	11,732,183
Accumulated depreciation and amortization	(2,443,659)	(2,218,710)
Total real estate assets held for investment, net	9,681,434	9,513,473
CASH AND CASH EQUIVALENTS	618,794	347,379
MARKETABLE SECURITIES (Notes 2 and 9)	278,789	23,547
CURRENT RECEIVABLES, NET	11,383	20,583
DEFERRED RENT RECEIVABLES, NET	466,073	452,200
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET	228,742	250,846
RIGHT OF USE GROUND LEASE ASSETS	125,765	126,530
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 3)	60,141	62,429
TOTAL ASSETS	\$ 11,471,121	\$ 10,796,987
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES:		
Secured debt, net (Notes 4 and 9)	\$ 604,480	\$ 242,938
Unsecured debt, net (Notes 4 and 9)	4,330,326	4,020,058
Accounts payable, accrued expenses and other liabilities	426,662	392,360
Ground lease liabilities	124,517	124,994
Accrued dividends and distributions (Note 14)	64,423	64,285
Deferred revenue and acquisition-related intangible liabilities, net	178,542	195,959
Rents received in advance and tenant security deposits	74,646	81,432
Total liabilities	5,803,596	5,122,026
COMMITMENTS AND CONTINGENCIES (Note 8)		
EQUITY:		
Stockholders' Equity:		
Common stock, \$.01 par value, 280,000,000 shares authorized, 117,239,558 and 116,878,031 shares issued and outstanding	1,173	1,169
Additional paid-in capital	5,195,106	5,170,760
Retained earnings	237,665	265,118
Total stockholders' equity	5,433,944	5,437,047
Noncontrolling Interests (Notes 1 and 5):		
Common units of the Operating Partnership	53,328	53,524
Noncontrolling interests in consolidated property partnerships	180,253	184,390
Total noncontrolling interests	233,581	237,914
Total equity	5,667,525	5,674,961
TOTAL LIABILITIES AND EQUITY	\$ 11,471,121	\$ 10,796,987

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
REVENUES				
Rental income (Note 7)	\$ 280,681	\$ 272,546	\$ 852,094	\$ 804,330
Other property income	2,913	3,412	8,584	8,313
Total revenues	283,594	275,958	860,678	812,643
EXPENSES				
Property expenses	59,445	52,075	168,233	147,421
Real estate taxes	28,363	27,415	84,868	78,718
Ground leases	2,390	1,771	7,172	5,473
General and administrative expenses (Note 6)	24,761	23,524	71,356	68,425
Leasing costs	1,852	1,015	4,550	3,475
Depreciation and amortization	85,224	81,140	269,262	266,215
Total expenses	202,035	186,940	605,441	569,727
OTHER INCOME (EXPENSES)				
Interest and other income, net	7,015	295	11,896	501
Interest expense (Note 4)	(29,837)	(19,982)	(81,891)	(60,728)
Gain on sale of depreciable operating property	—	17,329	—	17,329
Total other expenses	(22,822)	(2,358)	(69,995)	(42,898)
NET INCOME	58,737	86,660	185,242	200,018
Net income attributable to noncontrolling common units of the Operating Partnership	(515)	(664)	(1,612)	(1,695)
Net income attributable to noncontrolling interests in consolidated property partnerships	(5,460)	(6,239)	(18,673)	(18,333)
Total income attributable to noncontrolling interests	(5,975)	(6,903)	(20,285)	(20,028)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 52,762	\$ 79,757	\$ 164,957	\$ 179,990
Net income available to common stockholders per share – basic (Note 10)	\$ 0.45	\$ 0.68	\$ 1.40	\$ 1.53
Net income available to common stockholders per share – diluted (Note 10)	\$ 0.45	\$ 0.68	\$ 1.40	\$ 1.53
Weighted average common shares outstanding – basic (Note 10)	117,184,609	116,872,953	117,133,420	116,782,621
Weighted average common shares outstanding – diluted (Note 10)	117,495,246	117,242,411	117,411,395	117,163,149

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in thousands, except share and per share/unit data)

	Common Stock				Total Stock- holders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings			
BALANCE AS OF DECEMBER 31, 2022	116,878,031	\$ 1,169	\$ 5,170,760	\$ 265,118	\$ 5,437,047	\$ 237,914	\$ 5,674,961
Net income				56,608	56,608	8,622	65,230
Issuance of share-based compensation awards			1,365		1,365		1,365
Non-cash amortization of share-based compensation (Note 6)			11,566		11,566		11,566
Settlement of restricted stock units for shares of common stock	445,973	4	(4)		—		—
Repurchase of common stock and restricted stock units	(203,042)	(2)	(8,361)		(8,363)		(8,363)
Distributions to noncontrolling interests in consolidated property partnerships					—	(7,068)	(7,068)
Adjustment for noncontrolling interest			76		76	(76)	—
Dividends declared per common share and common unit (\$0.54 per share/unit)				(64,647)	(64,647)	(622)	(65,269)
BALANCE AS OF MARCH 31, 2023	117,120,962	1,171	5,175,402	257,079	5,433,652	238,770	5,672,422
Net income				55,587	55,587	5,688	61,275
Issuance of share-based compensation awards			726		726		726
Non-cash amortization of share-based compensation (Note 6)			9,496		9,496		9,496
Settlement of restricted stock units for shares of common stock	103,135	1	(1)		—		—
Repurchase of common stock, stock options and restricted stock units	(46,189)	—	(1,340)		(1,340)		(1,340)
Distributions to noncontrolling interests in consolidated property partnerships					—	(10,393)	(10,393)
Adjustment for noncontrolling interest			(56)		(56)	56	—
Dividends declared per common share and common unit (\$0.54 per share/unit)				(63,971)	(63,971)	(621)	(64,592)
BALANCE AS OF JUNE 30, 2023	117,177,908	1,172	5,184,227	248,695	5,434,094	233,500	5,667,594
Net income				52,762	52,762	5,975	58,737
Issuance of share-based compensation awards			538		538		538
Non-cash amortization of share-based compensation (Note 6)			12,310		12,310		12,310
Settlement of restricted stock units for shares of common stock	115,492	2	(2)		—		—
Repurchase of common stock, stock options and restricted stock units	(53,842)	(1)	(1,891)		(1,892)		(1,892)
Distributions to noncontrolling interests in consolidated property partnerships					—	(5,349)	(5,349)
Adjustment for noncontrolling interest			(76)		(76)	76	—
Dividends declared per common share and common unit (\$0.54 per share/unit) (Note 14)				(63,792)	(63,792)	(621)	(64,413)
BALANCE AS OF SEPTEMBER 30, 2023	117,239,558	\$ 1,173	\$ 5,195,106	\$ 237,665	\$ 5,433,944	\$ 233,581	\$ 5,667,525

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY – (Continued)
(Unaudited; in thousands, except share and per share/unit data)

	Common Stock				Total Stock- holders' Equity	Noncontrolling Interests	Total Equity
	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings			
BALANCE AS OF DECEMBER 31, 2021	116,464,169	\$ 1,165	\$ 5,155,232	\$ 283,663	\$ 5,440,060	\$ 249,810	\$ 5,689,870
Net income				53,128	53,128	6,255	59,383
Issuance of share-based compensation awards			1,942		1,942		1,942
Non-cash amortization of share-based compensation			6,598		6,598		6,598
Settlement of restricted stock units for shares of common stock	459,050	5	(5)		—		—
Repurchase of common stock and restricted stock units	(207,139)	(3)	(13,991)		(13,994)		(13,994)
Distributions to noncontrolling interests in consolidated property partnerships					—	(14,842)	(14,842)
Adjustment for noncontrolling interest			192		192	(192)	—
Dividends declared per common share and common unit (\$0.52 per share/unit)				(62,598)	(62,598)	(598)	(63,196)
BALANCE AS OF MARCH 31, 2022	116,716,080	1,167	5,149,968	274,193	5,425,328	240,433	5,665,761
Net income				47,105	47,105	6,870	53,975
Issuance of share-based compensation awards			635		635		635
Non-cash amortization of share-based compensation			9,665		9,665		9,665
Settlement of restricted stock units for shares of common stock	273,382	2	(2)		—		—
Repurchase of common stock, stock options, and restricted stock units	(118,492)	—	(8,660)		(8,660)		(8,660)
Distributions to noncontrolling interests in consolidated property partnerships					—	(6,948)	(6,948)
Adjustment for noncontrolling interest			99		99	(99)	—
Dividends declared per common share and common unit (\$0.52 per share/unit)				(61,278)	(61,278)	(599)	(61,877)
BALANCE AS OF JUNE 30, 2022	116,870,970	1,169	5,151,705	260,020	5,412,894	239,657	5,652,551
Net income				79,757	79,757	6,903	86,660
Issuance of share-based compensation awards			505		505		505
Non-cash amortization of share-based compensation			10,287		10,287		10,287
Settlement of restricted stock units for shares of common stock	11,930	—	—		—		—
Repurchase and cancellation of common stock, stock options, and restricted stock units	(5,447)	—	(267)		(267)		(267)
Distributions to noncontrolling interests in consolidated property partnerships					—	(5,700)	(5,700)
Adjustment for noncontrolling interest			(142)		(142)	142	—
Dividends declared per common share and common unit (\$0.54 per share/unit)				(63,639)	(63,639)	(620)	(64,259)
BALANCE AS OF SEPTEMBER 30, 2022	116,877,453	\$ 1,169	\$ 5,162,088	\$ 276,138	\$ 5,439,395	\$ 240,382	\$ 5,679,777

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 185,242	\$ 200,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate assets and leasing costs	263,662	261,129
Depreciation of non-real estate furniture, fixtures and equipment	5,600	5,086
Revenue reversals for doubtful accounts, net (Note 7)	3,931	191
Non-cash amortization of share-based compensation awards	28,360	21,635
Non-cash amortization of deferred financing costs and debt discounts	3,921	2,442
Non-cash amortization of net below market rents	(5,675)	(8,171)
Gain on sale of depreciable operating property	—	(17,329)
Non-cash amortization of deferred revenue related to tenant-funded tenant improvements	(14,643)	(14,221)
Straight-line rents	(16,533)	(38,239)
Amortization of right of use ground lease assets	765	594
Net change in other operating assets	2,042	(5,323)
Net change in other operating liabilities	35,694	76,418
Net cash provided by operating activities	492,366	484,230
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit (Note 2)	(252,830)	—
Expenditures for development and redevelopment properties and undeveloped land	(338,794)	(334,711)
Expenditures for operating properties and other capital assets	(68,853)	(65,526)
Expenditures for acquisitions of development properties and undeveloped land	—	(40,033)
Net proceeds received from disposition	—	33,416
Net cash used in investing activities	(660,477)	(406,854)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock and restricted stock units	(11,595)	(22,921)
Distributions to noncontrolling interests in consolidated property partnerships	(22,818)	(27,497)
Dividends and distributions paid to common stockholders and common unitholders	(191,499)	(183,822)
Financing costs	(10,962)	(3,083)
Principal payments and repayments of secured debt	(4,310)	(4,146)
Proceeds from issuance of secured debt (Note 4)	375,000	—
Borrowings on unsecured debt (Note 4)	320,000	—
Repurchases of unsecured debt (Note 4)	(14,290)	—
Net cash provided by (used in) financing activities	439,526	(241,469)
Net increase (decrease) in cash and cash equivalents and restricted cash	271,415	(164,093)
Cash and cash equivalents and restricted cash, beginning of period	347,379	427,083
Cash and cash equivalents and restricted cash, end of period	\$ 618,794	\$ 262,990

See accompanying notes to consolidated financial statements.

ITEM 1: FINANCIAL STATEMENTS (UNAUDITED) OF KILROY REALTY, L.P.

KILROY REALTY, L.P.
CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except unit data)

	September 30, 2023	December 31, 2022
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	\$ 1,743,170	\$ 1,738,242
Buildings and improvements	8,431,499	8,302,081
Undeveloped land and construction in progress	1,950,424	1,691,860
Total real estate assets held for investment	12,125,093	11,732,183
Accumulated depreciation and amortization	(2,443,659)	(2,218,710)
Total real estate assets held for investment, net	9,681,434	9,513,473
CASH AND CASH EQUIVALENTS	618,794	347,379
MARKETABLE SECURITIES (Notes 2 and 9)	278,789	23,547
CURRENT RECEIVABLES, NET	11,383	20,583
DEFERRED RENT RECEIVABLES, NET	466,073	452,200
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET	228,742	250,846
RIGHT OF USE GROUND LEASE ASSETS	125,765	126,530
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 3)	60,141	62,429
TOTAL ASSETS	\$ 11,471,121	\$ 10,796,987
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt, net (Notes 4 and 9)	\$ 604,480	\$ 242,938
Unsecured debt, net (Notes 4 and 9)	4,330,326	4,020,058
Accounts payable, accrued expenses and other liabilities	426,662	392,360
Ground lease liabilities	124,517	124,994
Accrued distributions (Note 14)	64,423	64,285
Deferred revenue and acquisition-related intangible liabilities, net	178,542	195,959
Rents received in advance and tenant security deposits	74,646	81,432
Total liabilities	5,803,596	5,122,026
COMMITMENTS AND CONTINGENCIES (Note 8)		
CAPITAL:		
Common units, 117,239,558 and 116,878,031 held by the general partner and 1,150,574 held by common limited partners issued and outstanding	5,487,272	5,490,571
Noncontrolling interests in consolidated property partnerships (Note 1)	180,253	184,390
Total capital	5,667,525	5,674,961
TOTAL LIABILITIES AND CAPITAL	\$ 11,471,121	\$ 10,796,987

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
REVENUES				
Rental income (Note 7)	\$ 280,681	\$ 272,546	\$ 852,094	\$ 804,330
Other property income	2,913	3,412	8,584	8,313
Total revenues	283,594	275,958	860,678	812,643
EXPENSES				
Property expenses	59,445	52,075	168,233	147,421
Real estate taxes	28,363	27,415	84,868	78,718
Ground leases	2,390	1,771	7,172	5,473
General and administrative expenses (Note 6)	24,761	23,524	71,356	68,425
Leasing costs	1,852	1,015	4,550	3,475
Depreciation and amortization	85,224	81,140	269,262	266,215
Total expenses	202,035	186,940	605,441	569,727
OTHER INCOME (EXPENSES)				
Interest and other income, net	7,015	295	11,896	501
Interest expense (Note 4)	(29,837)	(19,982)	(81,891)	(60,728)
Gain on sale of depreciable operating property	—	17,329	—	17,329
Total other expenses	(22,822)	(2,358)	(69,995)	(42,898)
NET INCOME	58,737	86,660	185,242	200,018
Net income attributable to noncontrolling interests in consolidated property partnerships and subsidiaries	(5,460)	(6,239)	(18,673)	(18,333)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$ 53,277	\$ 80,421	\$ 166,569	\$ 181,685
Net income available to common unitholders per unit – basic (Note 11)	\$ 0.45	\$ 0.68	\$ 1.40	\$ 1.53
Net income available to common unitholders per unit – diluted (Note 11)	\$ 0.45	\$ 0.68	\$ 1.40	\$ 1.53
Weighted average common units outstanding – basic (Note 11)	118,335,183	118,023,527	118,283,994	117,933,195
Weighted average common units outstanding – diluted (Note 11)	118,645,820	118,392,985	118,561,969	118,313,723

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(Unaudited; in thousands, except unit and per unit data)

	Partners' Capital		Noncontrolling Interests in Consolidated Property Partnerships		Total Capital
	Number of Common Units	Common Units			
BALANCE AS OF DECEMBER 31, 2022	118,028,605	\$ 5,490,571	\$ 184,390	\$ 5,674,961	
Net income		57,168	8,062	65,230	
Issuance of share-based compensation awards		1,365		1,365	
Non-cash amortization of share-based compensation (Note 6)		11,566		11,566	
Settlement of restricted stock units	445,973	—		—	
Repurchase of common units and restricted stock units	(203,042)	(8,363)		(8,363)	
Distributions to noncontrolling interests in consolidated property partnerships			(7,068)	(7,068)	
Distributions declared per common unit (\$0.54 per unit)		(65,269)		(65,269)	
BALANCE AS OF MARCH 31, 2023	118,271,536	5,487,038	185,384	5,672,422	
Net income		56,124	5,151	61,275	
Issuance of share-based compensation awards		726		726	
Non-cash amortization of share-based compensation (Note 6)		9,496		9,496	
Settlement of restricted stock units	103,135	—		—	
Repurchase of common units, stock options and restricted stock units	(46,189)	(1,340)		(1,340)	
Distributions to noncontrolling interests in consolidated property partnerships			(10,393)	(10,393)	
Distributions declared per common unit (\$0.54 per unit)		(64,592)		(64,592)	
BALANCE AS OF JUNE 30, 2023	118,328,482	5,487,452	180,142	5,667,594	
Net income		53,277	5,460	58,737	
Issuance of share-based compensation awards		538		538	
Non-cash amortization of share-based compensation (Note 6)		12,310		12,310	
Settlement of restricted stock units	115,492	—		—	
Repurchase of common units, stock options and restricted stock units	(53,842)	(1,892)		(1,892)	
Distributions to noncontrolling interests in consolidated property partnerships			(5,349)	(5,349)	
Distributions declared per common unit (\$0.54 per unit) (Note 14)		(64,413)		(64,413)	
BALANCE AS OF SEPTEMBER 30, 2023	118,390,132	\$ 5,487,272	\$ 180,253	\$ 5,667,525	

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL – (Continued)
(Unaudited; in thousands, except unit and per unit data)

	Partners' Capital		Noncontrolling Interests in Consolidated Property Partnerships	Total Capital
	Number of Common Units	Common Units		
BALANCE AS OF DECEMBER 31, 2021	117,614,743	\$ 5,493,806	\$ 196,064	\$ 5,689,870
Net income		53,644	5,739	59,383
Issuance of share-based compensation awards		1,942		1,942
Non-cash amortization of share-based compensation		6,598		6,598
Settlement of restricted stock units	459,050	—		—
Repurchase of common units and restricted stock units	(207,139)	(13,994)		(13,994)
Distributions to noncontrolling interests in consolidated property partnerships			(14,842)	(14,842)
Distributions declared per common unit (\$0.52 per unit)		(63,196)		(63,196)
BALANCE AS OF MARCH 31, 2022	117,866,654	5,478,800	186,961	5,665,761
Net income		47,620	6,355	53,975
Issuance of share-based compensation awards		635		635
Non-cash amortization of share-based compensation		9,665		9,665
Settlement of restricted stock units	273,382	—		—
Repurchase and cancellation of common units, stock options, and restricted stock units	(118,492)	(8,660)		(8,660)
Distributions to noncontrolling interests in consolidated property partnerships			(6,948)	(6,948)
Distributions declared per common unit (\$0.52 per unit)		(61,877)		(61,877)
BALANCE AS OF JUNE 30, 2022	118,021,544	5,466,183	186,368	5,652,551
Net income		80,421	6,239	86,660
Issuance of share-based compensation awards		505		505
Non-cash amortization of share-based compensation		10,287		10,287
Settlement of restricted stock units	11,930	—		—
Repurchase and cancellation of common units, stock options, and restricted stock units	(5,447)	(267)		(267)
Distributions to noncontrolling interests in consolidated property partnerships			(5,700)	(5,700)
Distributions declared per common unit (\$0.54 per unit)		(64,259)		(64,259)
BALANCE AS OF SEPTEMBER 30, 2022	118,028,027	\$ 5,492,870	\$ 186,907	\$ 5,679,777

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 185,242	\$ 200,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of real estate assets and leasing costs	263,662	261,129
Depreciation of non-real estate furniture, fixtures and equipment	5,600	5,086
Revenue reversals for doubtful accounts, net (Note 7)	3,931	191
Non-cash amortization of share-based compensation awards	28,360	21,635
Non-cash amortization of deferred financing costs and debt discounts	3,921	2,442
Non-cash amortization of net below market rents	(5,675)	(8,171)
Gain on sale of depreciable operating property	—	(17,329)
Non-cash amortization of deferred revenue related to tenant-funded tenant improvements	(14,643)	(14,221)
Straight-line rents	(16,533)	(38,239)
Amortization of right of use ground lease assets	765	594
Net change in other operating assets	2,042	(5,323)
Net change in other operating liabilities	35,694	76,418
Net cash provided by operating activities	492,366	484,230
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit (Note 2)	(252,830)	—
Expenditures for development and redevelopment properties and undeveloped land	(338,794)	(334,711)
Expenditures for operating properties and other capital assets	(68,853)	(65,526)
Expenditures for acquisitions of development properties and undeveloped land	—	(40,033)
Net proceeds received from disposition	—	33,416
Net cash used in investing activities	(660,477)	(406,854)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common units and restricted stock units	(11,595)	(22,921)
Distributions to noncontrolling interests in consolidated property partnerships	(22,818)	(27,497)
Distributions paid to common unitholders	(191,499)	(183,822)
Financing costs	(10,962)	(3,083)
Principal payments and repayments of secured debt	(4,310)	(4,146)
Proceeds from issuance of secured debt (Note 4)	375,000	—
Borrowings on unsecured debt (Note 4)	320,000	—
Repurchases of unsecured debt (Note 4)	(14,290)	—
Net cash provided by (used in) financing activities	439,526	(241,469)
Net increase (decrease) in cash and cash equivalents and restricted cash	271,415	(164,093)
Cash and cash equivalents and restricted cash, beginning of period	347,379	427,083
Cash and cash equivalents and restricted cash, end of period	\$ 618,794	\$ 262,990

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Ownership and Basis of Presentation

Organization and Ownership

Kilroy Realty Corporation (the “Company”) is a self-administered real estate investment trust (“REIT”) active in premier office, life science and mixed-use submarkets in the United States. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in Greater Los Angeles, San Diego County, the San Francisco Bay Area, Greater Seattle and Austin, Texas, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “KRC.”

We own our interests in all of our real estate assets through Kilroy Realty, L.P. (the “Operating Partnership”). We generally conduct substantially all of our operations through the Operating Partnership. Unless stated otherwise or the context indicates otherwise, the terms “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” refer to Kilroy Realty Corporation and its consolidated subsidiaries and the term “Operating Partnership” refers to Kilroy Realty, L.P. and its consolidated subsidiaries. The descriptions of our business, employees, and properties apply to both the Company and the Operating Partnership.

Our stabilized portfolio of operating properties was comprised of the following properties at September 30, 2023:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied ⁽¹⁾	Percentage Leased
Stabilized Office Properties ⁽²⁾	120	16,285,153	401	86.2 %	87.5 %

(1) Represents economic occupancy.

(2) Includes stabilized life science and retail space.

	Number of Projects	Number of Units	2023 Average Occupancy
Stabilized Residential Properties	3	1,001	92.9 %

Our stabilized portfolio includes all of our properties with the exception of development properties currently committed for construction, under construction, or in the tenant improvement phase, redevelopment properties under construction, undeveloped land and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define properties in the tenant improvement phase as office and life science properties that we are developing or redeveloping where the project has reached cold shell condition and is ready for tenant improvements, which may require additional major base building construction before being placed in service. Projects in the tenant improvement phase are added to our stabilized portfolio once the project reaches the earlier of 95% occupancy or one year from the date of the cessation of major base building construction activities. Costs capitalized to construction in progress for development and redevelopment properties are transferred to land and improvements, buildings and improvements, and deferred leasing costs on our consolidated balance sheets at the historical cost of the property as the projects or phases of projects are placed in service.

During the nine months ended September 30, 2023, we added one development project to our stabilized portfolio consisting of one building totaling 70,616 square feet of office space in San Diego, California. As of September 30, 2023, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet ⁽¹⁾
In-process development projects - tenant improvement	1	734,000
In-process development projects - under construction	1	875,000
In-process redevelopment projects - under construction	2	100,000

(1) Estimated rentable square feet upon completion.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

We did not have any properties held for sale at September 30, 2023. Our stabilized portfolio also excludes our future development pipeline, which as of September 30, 2023 was comprised of eight future development sites, representing approximately 64 gross acres of undeveloped land.

As of September 30, 2023, all of our properties, development projects and redevelopment projects were owned and all of our business was conducted in the state of California with the exception of ten stabilized office properties and one future development project located in the state of Washington, and one development project in the tenant improvement phase and one future development project in Austin, Texas. All of our properties, development projects and redevelopment projects are 100% owned, excluding four office properties owned by three consolidated property partnerships. Two of the three consolidated property partnerships, 100 First Street Member, LLC ("100 First LLC") and 303 Second Street Member, LLC ("303 Second LLC"), each owned one office property in San Francisco, California through subsidiary REITs. As of September 30, 2023, the Company owned a 56% common equity interest in both 100 First LLC and 303 Second LLC. The third consolidated property partnership, Redwood City Partners, LLC ("Redwood LLC") owned two office properties in Redwood City, California. As of September 30, 2023, the Company owned an approximate 93% common equity interest in Redwood LLC. The remaining interests in all three property partnerships were owned by unrelated third parties.

Ownership and 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, 303 Second LLC, 100 First LLC, Redwood LLC and all of our wholly-owned and controlled subsidiaries. The consolidated financial statements of the Operating Partnership include the consolidated financial position and results of operations of the Operating Partnership, 303 Second LLC, 100 First LLC, Redwood LLC and all of our wholly-owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

As of September 30, 2023, the Company owned an approximate 99.0% common general partnership interest in the Operating Partnership. The remaining approximate 1.0% common limited partnership interest in the Operating Partnership as of September 30, 2023 was owned by non-affiliated investors and certain of our executive officers and directors. Both the general and limited common partnership interests in the Operating Partnership are denominated in common units. Generally, the number of common units held by the Company is equivalent to the number of outstanding shares of the Company's common stock, and the rights of all the common units to quarterly distributions and payments in liquidation mirror those of the Company's common stockholders. The common limited partners have certain redemption rights as provided in the Operating Partnership's Seventh Amended and Restated Agreement of Limited Partnership, as amended, the "Partnership Agreement". With the exception of the Operating Partnership and our consolidated property partnerships, all of our subsidiaries are wholly-owned.

The accompanying interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. The interim financial statements for the Company and the Operating Partnership should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2022.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Variable Interest Entities

The Operating Partnership is a variable interest entity (“VIE”) that is consolidated by the Company as the primary beneficiary as the Operating Partnership is a limited partnership in which the common limited partners do not have substantive kick-out or participating rights. At September 30, 2023, the consolidated financial statements of the Company included two VIEs in addition to the Operating Partnership: 100 First LLC and 303 Second LLC. At September 30, 2023, the Company and the Operating Partnership were determined to be the primary beneficiaries of these two VIEs since we had the ability to control the activities that most significantly impact each of the VIEs’ economic performance. As of September 30, 2023, the two VIEs’ total assets, liabilities and noncontrolling interests included on our consolidated balance sheet were approximately \$423.9 million (of which \$353.2 million related to real estate held for investment), approximately \$26.9 million and approximately \$175.5 million, respectively. Revenues, income and net assets generated by 100 First LLC and 303 Second LLC may only be used to settle their contractual obligations, which primarily consist of operating expenses, capital expenditures and required distributions.

At December 31, 2022, the consolidated financial statements of the Company included two VIEs in addition to the Operating Partnership: 100 First LLC and 303 Second LLC. At December 31, 2022, the Company and the Operating Partnership were determined to be the primary beneficiaries of these two VIEs since we had the ability to control the activities that most significantly impact each of the VIEs’ economic performance. At December 31, 2022, the impact of consolidating the VIEs increased the Company’s total assets, liabilities and noncontrolling interests on our consolidated balance sheet by approximately \$438.7 million (of which \$362.7 million related to real estate held for investment), approximately \$ 31.5 million and approximately \$179.4 million, respectively.

2. Marketable Securities

Marketable securities consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Deferred compensation plan assets	\$ 25,959	\$ 23,547
Certificates of deposit	252,830	—
Total marketable securities	<u>\$ 278,789</u>	<u>\$ 23,547</u>

3. Prepaid Expenses and Other Assets, Net

Prepaid expenses and other assets, net consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Furniture, fixtures and other long-lived assets, net	\$ 37,940	\$ 41,538
Prepaid expenses and deferred financing costs, net	17,558	11,364
Other assets	4,643	9,527
Total prepaid expenses and other assets, net	<u>\$ 60,141</u>	<u>\$ 62,429</u>

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. Secured and Unsecured Debt of the Operating Partnership

Secured Debt

In July 2023, certain of our and the Operating Partnership's subsidiaries entered into a \$ 375.0 million mortgage loan transaction (the "Loan") secured by, among other things, a deed of trust, assignment of leases and rents, security agreement and fixture filing encumbering two office buildings, 608 apartment units and over 95,000 square feet of retail at the Company's One Paseo mixed-use campus in Del Mar, California. The Loan matures on August 10, 2034, bears interest at an annual rate of 5.90% and requires monthly interest payments only, which commenced on September 10, 2023. In addition, the Operating Partnership has entered into a guaranty in favor of the lender in connection with the Loan. The Loan is generally non-recourse to the Operating Partnership, but the lender has recourse to the Operating Partnership for certain recourse exceptions.

Unsecured Debt

The Company generally guarantees all of the Operating Partnership's unsecured debt obligations including the unsecured revolving credit facility, the unsecured term loan facility and all of the unsecured senior notes.

Partial Repurchase of \$425.0 Million Unsecured Senior Note

During the three months ended September 30, 2023, the Company completed open-market repurchases of \$ 14.3 million of the Operating Partnership's 3.45% \$425.0 million unsecured senior notes due December 15, 2024 at a discount, leaving an aggregate remaining principal balance of \$410.7 million.

Unsecured Revolving Credit Facility and Term Loan Facility

The following table summarizes the balance and terms of our unsecured revolving credit facility as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Outstanding borrowings	\$ —	\$ —
Remaining borrowing capacity	1,100,000	1,100,000
Total borrowing capacity ⁽¹⁾	\$ 1,100,000	\$ 1,100,000
Interest rate ⁽²⁾	6.31 %	5.20 %
Facility fee-annual rate ⁽³⁾	0.200%	
Maturity date ⁽⁴⁾	July 31, 2025	

(1) Total borrowing capacity is reduced by the amount of our outstanding letters of credit which total approximately \$ 5.2 million as of the date of this report. We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$500.0 million under an accordion feature pursuant to the terms of the unsecured revolving credit facility.

(2) Our unsecured revolving credit facility interest rate was calculated using a contractual rate of Secured Overnight Financing Rate ("SOFR") plus a SOFR adjustment of 0.10% ("Adjusted SOFR") and a margin of 0.900% based on our credit rating as of September 30, 2023 and December 31, 2022. We may be entitled to a temporary 0.01% reduction in the interest rate provided we meet certain sustainability goals with respect to the ongoing reduction of greenhouse gas emissions.

(3) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of September 30, 2023 and December 31, 2022, \$3.7 million and \$5.3 million of unamortized deferred financing costs, respectively, which are included in prepaid expenses and other assets, net on our consolidated balance sheets, remained to be amortized through the maturity date of our unsecured revolving credit facility.

(4) The maturity date may be extended by two six-month periods, at the Company's option.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company intends to borrow under the unsecured revolving credit facility from time to time for general corporate purposes, to finance development and redevelopment expenditures, to fund potential acquisitions and to potentially repay long-term debt and to supplement cash balances given uncertainties and volatility in market conditions.

In January 2023, the Operating Partnership entered into the first amendment to its existing unsecured term loan facility agreement to (i) exercise the accordion feature under the term loan agreement to provide for \$100.0 million of additional term loan commitments and (ii) increase the borrowing capacity under the accordion feature to provide additional term loan commitments or add one or more tranches of term loans up to an aggregate amount of \$650.0 million. In March 2023, the Operating Partnership further amended the unsecured term loan facility agreement to exercise the accordion feature to provide for \$20.0 million of additional term loan commitments, bringing the total borrowing capacity of the unsecured term loan facility to \$ 520.0 million.

The following table summarizes the balance and terms of our unsecured term loan facility as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Outstanding borrowings	\$ 520,000	\$ 200,000
Remaining borrowing capacity	—	200,000
Total borrowing capacity ⁽¹⁾	\$ 520,000	\$ 400,000
Interest rate ⁽²⁾	6.37 %	5.23 %
Undrawn facility fee-annual rate ⁽³⁾	0.200%	
Maturity date ⁽⁴⁾	October 3, 2024	

(1) We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$ 130.0 million and \$100.0 million as of September 30, 2023 and December 31, 2022, respectively, under an accordion feature pursuant to the terms of the unsecured term loan facility.

(2) Our unsecured term loan facility interest rate was calculated using a contractual rate of Adjusted SOFR plus a margin of 0.950% based on our credit rating as of September 30, 2023 and December 31, 2022.

(3) Our undrawn facility fee is paid on a quarterly basis and is calculated based on the remaining borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of September 30, 2023 and December 31, 2022, \$3.1 million and \$4.5 million, respectively, of unamortized deferred financing costs remained to be amortized through the maturity date of our unsecured term loan facility.

(4) The maturity date may be extended by two twelve-month periods, at the Company's option.

Debt Covenants and Restrictions

The unsecured revolving credit facility, unsecured term loan facility, the unsecured senior notes, including the private placement notes, and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Some of the more restrictive financial covenants include a maximum ratio of total debt to total asset value, a minimum fixed-charge coverage ratio, a maximum ratio of secured debt to total asset value, a minimum unsecured debt ratio and a minimum unencumbered asset pool debt service coverage ratio. Noncompliance with one or more of the covenants and restrictions could result in the full principal balance of the associated debt becoming immediately due and payable. We were in compliance with all of our debt covenants as of September 30, 2023.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Debt Maturities

The following table summarizes the stated debt maturities and scheduled amortization payments for all outstanding debt as of September 30, 2023:

Year	(in thousands)
Remaining 2023	\$ 1,465
2024 ⁽¹⁾	936,716
2025	406,246
2026	401,317
2027	249,125
2028	400,000
Thereafter	2,575,000
Total aggregate principal value ⁽²⁾	\$ 4,969,869

(1) Includes the \$520.0 million outstanding as of September 30, 2023 on the unsecured term loan facility maturing on October 3, 2024, for which the Company has two twelve-month extension options.

(2) Includes gross principal balance of outstanding debt before the effect of the following at September 30, 2023: \$ 29.5 million of unamortized deferred financing costs for the unsecured term loan facility, unsecured senior notes and secured debt and \$5.6 million of unamortized discounts for the unsecured senior notes.

Capitalized Interest and Loan Fees

The following table sets forth gross interest expense, including debt discount and deferred financing cost amortization, net of capitalized interest, for the three and nine months ended September 30, 2023 and 2022. The interest expense capitalized was recorded as a cost of development and redevelopment and increased the carrying value of undeveloped land and construction in progress.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Gross interest expense	\$ 49,893	\$ 39,659	\$ 139,148	\$ 118,995
Capitalized interest and deferred financing costs	(20,056)	(19,677)	(57,257)	(58,267)
Interest expense	\$ 29,837	\$ 19,982	\$ 81,891	\$ 60,728

5. Noncontrolling Interests on the Company's Consolidated Financial Statements

Common Units of the Operating Partnership

The Company owned an approximate 99.0% common general partnership interest in the Operating Partnership as of September 30, 2023, December 31, 2022 and September 30, 2022. The remaining approximate 1.0% common limited partnership interest as of September 30, 2023, December 31, 2022 and September 30, 2022 was owned by non-affiliated investors and certain of our executive officers and directors in the form of noncontrolling common units. There were 1,150,574 common units outstanding held by these investors, executive officers and directors as of September 30, 2023, December 31, 2022 and September 30, 2022.

The noncontrolling common units may be redeemed by unitholders for cash. Except under certain circumstances, we, at our option, may satisfy the cash redemption obligation with shares of the Company's common stock on a one-for-one basis. If satisfied in cash, the value for each noncontrolling common unit upon redemption is the amount equal to the average of the closing quoted price per share of the Company's common stock, par value \$0.01 per share, as reported on the NYSE for the ten trading days immediately preceding the applicable redemption date. The aggregate value upon redemption of the then-outstanding noncontrolling common units was \$37.8 million and \$44.7 million as of September 30, 2023 and December 31, 2022, respectively. This redemption value does not necessarily represent the amount that would be distributed with respect to each noncontrolling common unit in the event of our termination or liquidation. In the event of our termination or liquidation, it is expected in most cases that each common unit would be entitled to a liquidating distribution equal to the liquidating distribution payable in respect of each share of the Company's common stock.

6. Share-Based Compensation

Stockholder Approved Share-Based Incentive Compensation Plan

As of September 30, 2023, we maintained one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, as amended (the "2006 Plan"). The Company has a currently effective registration statement registering 12.6 million shares of our common stock for possible issuance under our 2006 Plan. As of September 30, 2023, approximately 2.9 million shares were available for grant under the 2006 Plan. The calculation of shares available for grant is presented after taking into account a reserve for a sufficient number of shares to cover the vesting and payment of 2006 Plan awards that were outstanding on that date, including performance-based vesting awards at (i) levels actually achieved for the performance conditions (as defined below) for which the performance period has been completed and (ii) at maximum levels for the other performance and market conditions (as defined below) for awards still in a performance period.

Executive Transitions

On March 30, 2023, our Chief Executive Officer ("CEO") announced his retirement effective December 31, 2023. Additionally, as previously disclosed, the Company and our former President entered into a separation agreement in 2022 under which he continued to serve as an officer of the Company until the scheduled expiration date of his employment agreement on March 1, 2023.

For our CEO, the vesting of all unvested share-based compensation awards is being accelerated through December 31, 2023 and the final number of any restricted stock units ("RSUs") subject to market and/or performance-based vesting requirements that vest will be based upon a shortened performance period ending on December 31, 2023. Share-based compensation expense for these awards will be recognized based on our current assumption of the achievement of market and/or performance-based vesting requirements for the shortened performance periods. For our former President, the vesting of all unvested share-based compensation awards was accelerated through March 1, 2023 and the final number of RSUs earned that were subject to market and/or performance-based vesting requirements was based upon the actual achievement of the market and/or performance conditions for a shortened performance period ended on March 1, 2023. For the three and nine months ended September 30, 2023, we recognized \$8.0 million and \$21.2 million, respectively, of stock compensation expense related to the accelerated vesting of awards for our CEO and former President.

2023 Share-Based Compensation Grants

In February 2023, the Executive Compensation Committee of the Company's Board of Directors awarded 517,066 restricted stock units to certain officers of the Company under the 2006 Plan, which included 300,007 RSUs (at the target level of performance) that are subject to market and/or performance-based vesting requirements (the "2023 Performance-Based RSUs") and 217,059 RSUs that are subject to time-based vesting requirements (the "2023 Time-Based RSUs").

2023 Performance-Based RSU Grant

The 2023 Performance-Based RSUs are scheduled to vest at the end of a three year period (consisting of calendar years 2023-2025), except for our CEO, whose RSUs are scheduled to vest on his announced retirement date of December 31, 2023. A target number of 2023 Performance-Based RSUs were awarded, and the final number of 2023 Performance-Based RSUs that vest (which may be more or less than the target number) will be based upon (1) during the first calendar year of the three year performance measurement period, the achievement of pre-set FFO per share goals that applies to 100% of the Performance-Based RSUs awarded (the "FFO Performance Condition") and (2) a performance measure that applies to 50% of the award based upon a measure of the Company's average debt to EBITDA ratio for the three year performance period (the "Debt to EBITDA Ratio Performance Condition") and a market measure that applies to the other 50% of the award based upon the relative ranking of the Company's total stockholder return for the three year performance period compared to the total stockholder returns of an established comparison group of companies over the same period (the "Market Condition"). The 2023 Performance-Based RSUs are also subject to a three year service vesting provision (the "service vesting condition") and are scheduled to cliff vest on the date the final vesting percentage is determined following the end of the three year performance period under the awards. The number of 2023 Performance-Based RSUs ultimately earned could fluctuate from the target number of 2023 Performance-Based RSUs granted based upon the levels of achievement for the FFO Performance Condition, the Debt to EBITDA Ratio Performance Condition, the Market Condition, and the extent to which the service vesting condition

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

is satisfied. The estimate of the number of 2023 Performance-Based RSUs earned is evaluated quarterly during the performance period based on our estimate for each of the performance conditions measured against the applicable goals.

Compensation expense for the 2023 Performance-Based RSU grant is recognized on a straight-line basis over the requisite service period for each participant, which is generally the three year service period, except for our CEO, whose compensation expense is recognized on an accelerated basis through his announced retirement date of December 31, 2023. During the nine months ended September 30, 2023, we recognized \$10.2 million of compensation expense for the 2023 Performance-Based RSU grant assuming the 2023 FFO Performance Condition is met at 150% of the target level of achievement (175% for our CEO) and the 2023 Debt to EBITDA Ratio Performance Condition is met at 100% of the target level of achievement (175% for our CEO). In the event we achieve a lower level of performance or fail to meet the FFO performance condition, we would reverse a portion or all of the \$10.2 million of compensation expense.

Each 2023 Performance-Based RSU represents the right to receive one share of our common stock in the future, subject to, and as modified by the Company's level of achievement of the applicable performance and market conditions. The fair value of the portion of the award subject to the Debt to EBITDA Ratio Performance Condition was calculated using the closing price of the Company's common stock on the valuation date noted below. The fair value of the portion of the award subject to the Market Condition was calculated using a Monte Carlo simulation pricing model based on the assumptions in the table below, which resulted in the following grant date fair value per share.

	Fair Value Assumptions
Valuation date	February 6, 2023
Fair value per share on valuation date ⁽¹⁾	\$40.10
Expected share price volatility	35.0%
Risk-free interest rate	4.12%

(1) For one participant, the fair value per share on the valuation date for their 2023 Performance-Based RSUs is \$ 40.43.

The computation of expected volatility was based on a blend of the historical volatility of our shares of common stock over a period of twice the remaining performance period as of the grant date and implied volatility data based on the observed pricing of six month publicly-traded options on shares of our common stock. The risk-free interest rate was based on the yield curve on zero-coupon U.S. Treasury STRIP securities in effect at February 6, 2023.

The fair value of the 2023 Performance-Based RSU grant as of the valuation date noted above, based on a target level of achievement, was \$12.0 million. For the three and nine months ended September 30, 2023, we recorded compensation expense based upon the grant date fair value per share for each component multiplied by the estimated number of RSUs to be earned.

2023 Time-Based RSU Grant

The 2023 Time-Based RSUs are scheduled to vest in three equal annual installments beginning on January 5, 2024 through January 5, 2026. Compensation expense for the 2023 Time-Based RSUs is recognized on a straight-line basis over the requisite service period, which is generally the explicit service period except for our CEO, whose compensation expense is recognized on an accelerated basis through his announced retirement date of December 31, 2023. Each 2023 Time-Based RSU represents the right to receive one share of our common stock in the future, subject to continued employment through the applicable vesting date, unless accelerated upon separation of employment, provided certain conditions are met. The total grant date fair value of the 2023 Time-Based RSU awards was \$8.6 million, which was based on the \$39.65 closing share price of the Company's common stock on the NYSE on the February 6, 2023 grant date.

2022 and 2021 Performance-Based RSUs

Compensation cost for the 2022 performance-based RSUs for the three and nine months ended September 30, 2023 assumes the 2022 Debt to EBITDA Ratio Performance Condition is met at 150% of the target level of achievement (175% for our CEO). Compensation cost for the 2021 performance-based RSUs for the three and nine months ended September 30, 2023 assumes the 2021 Debt to EBITDA Ratio Performance Condition is met at 150% of the target level of achievement (175% for our CEO).

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Share-Based Compensation Cost Recorded During the Period

The total compensation cost for all share-based compensation programs was \$ 12.3 million and \$10.3 million for the three months ended September 30, 2023 and 2022, respectively, and \$33.4 million and \$26.5 million for the nine months ended September 30, 2023 and 2022, respectively. Share-based compensation costs for the three and nine months ended September 30, 2023 include \$8.0 million and \$21.2 million, respectively, of accelerated share-based compensation costs for our CEO and former President as discussed above. Of the total share-based compensation costs, \$1.7 million and \$5.0 million was capitalized as part of the real estate assets for the three and nine months ended September 30, 2023, respectively, and \$1.9 million and \$5.0 million was capitalized as part of the real estate assets for the three and nine months ended September 30, 2022, respectively. As of September 30, 2023, there was approximately \$28.5 million of total unrecognized compensation cost related to nonvested RSUs granted under share-based compensation arrangements. Such amount is based in part upon the estimated future outcome of the performance metrics as of September 30, 2023, and the actual compensation cost ultimately recognized could increase or decrease from this estimate based upon actual performance results. These costs are expected to be recognized over a weighted-average period of 1.4 years, which includes the shortened vesting period for our CEO due to his announced retirement on December 31, 2023. The remaining compensation cost related to these nonvested RSU awards had been recognized in periods prior to September 30, 2023.

7. Rental Income and Future Minimum Rent

Our rental income is primarily comprised of payments defined under leases and are subject to scheduled fixed increases. Additionally, rental income includes variable payments for tenant reimbursements of property-related expenses and payments based on a percentage of tenant's sales.

The table below sets forth the allocation of rental income between fixed and variable payments and net collectability reversals or recoveries for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)			
Fixed lease payments	\$ 232,090	\$ 231,747	\$ 713,254	\$ 685,797
Variable lease payments	49,232	42,503	142,771	118,724
Net collectability reversals ⁽¹⁾	(641)	(1,704)	(3,931)	(191)
Total rental income	<u>\$ 280,681</u>	<u>\$ 272,546</u>	<u>\$ 852,094</u>	<u>\$ 804,330</u>

(1) Represents adjustments to rental income related to our assessment of the collectability of amounts due under leases with our tenants, including recognition of deferred rent balances associated with tenants restored from a cash basis of revenue recognition to an accrual basis of revenue recognition and allowances for uncollectible receivables and leases deemed not probable of collection.

We have operating leases with tenants that expire at various dates through 2048 and are subject to scheduled fixed increases. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future contractual minimum rent under operating leases, which includes amounts contractually due from leases that are on a cash basis of reporting due to creditworthiness considerations, as of September 30, 2023 for future periods is summarized as follows:

Year Ending	(in thousands)
Remaining 2023	\$ 202,244
2024	805,187
2025	797,014
2026	746,466
2027	681,760
2028	636,557
Thereafter	1,924,042
Total ⁽¹⁾	<u>\$ 5,793,270</u>

(1) Excludes residential leases and leases with a term of one year or less.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

8. Commitments and Contingencies

General

As of September 30, 2023, we had commitments of approximately \$ 396.5 million, excluding our ground lease commitments, for contracts and executed leases directly related to our operating, development and redevelopment properties.

Environmental Matters

As of September 30, 2023, we had accrued environmental remediation liabilities of approximately \$ 77.8 million recorded on our consolidated balance sheets in connection with certain of our in-process and future development projects.

9. Fair Value Measurements and Disclosures

Assets and Liabilities Reported at Fair Value

The only assets we record at fair value on our consolidated financial statements are the marketable securities related to our Deferred Compensation Plan. The following table sets forth the fair value of our deferred compensation plan assets as of September 30, 2023 and December 31, 2022:

Description	Fair Value (Level 1) ⁽¹⁾	
	September 30, 2023	December 31, 2022
	(in thousands)	
Deferred compensation plan assets ⁽²⁾	\$ 25,959	\$ 23,547

(1) Based on quoted prices in active markets for identical securities.

(2) The deferred compensation plan assets are held in a limited rabbi trust.

Financial Instruments Disclosed at Fair Value

The following table sets forth the carrying value and the fair value of our other financial instruments as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value ⁽¹⁾	Carrying Value	Fair Value ⁽¹⁾
	(in thousands)			
Assets				
Certificates of deposit ⁽²⁾	\$ 252,830	\$ 252,830	\$ —	\$ —
Liabilities				
Secured debt, net	\$ 604,480	\$ 565,256	\$ 242,938	\$ 225,847
Unsecured debt, net	\$ 4,330,326	\$ 3,741,167	\$ 4,020,058	\$ 3,500,420

(1) Fair value calculated using Level 2 inputs, which are based on model-derived valuations in which significant inputs and significant value drivers are observable in active markets.

(2) The carrying value of the certificates of deposit approximate their fair values due to their short-term maturities. The Company intends to hold the certificates of deposit until their maturity dates in January and April 2024.

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10. Net Income Available to Common Stockholders Per Share of the Company

The following table reconciles the numerator and denominator in computing the Company's basic and diluted per-share computations for net income available to common stockholders for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands, except share and per share amounts)				
Numerator:				
Net income available to common stockholders	\$ 52,762	\$ 79,757	\$ 164,957	\$ 179,990
Allocation to participating securities ⁽¹⁾	(269)	(287)	(959)	(980)
Numerator for basic and diluted net income available to common stockholders	<u>\$ 52,493</u>	<u>\$ 79,470</u>	<u>\$ 163,998</u>	<u>\$ 179,010</u>
Denominator:				
Basic weighted average vested shares outstanding	117,184,609	116,872,953	117,133,420	116,782,621
Effect of dilutive securities	310,637	369,458	277,975	380,528
Diluted weighted average vested shares and common stock equivalents outstanding	<u>117,495,246</u>	<u>117,242,411</u>	<u>117,411,395</u>	<u>117,163,149</u>
Basic earnings per share:				
Net income available to common stockholders per share	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 1.40</u>	<u>\$ 1.53</u>
Diluted earnings per share:				
Net income available to common stockholders per share	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 1.40</u>	<u>\$ 1.53</u>

(1) Participating securities include certain time-based RSUs and vested market measure-based RSUs.

Share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities. The impact of potentially dilutive common shares, including stock options and RSUs are considered in our diluted earnings per share calculation for the three and nine months ended September 30, 2023 and 2022. Certain market measure-based RSUs are not included in dilutive securities for the three and nine months ended September 30, 2023 and 2022, as not all performance metrics had been met by the end of the applicable reporting periods. Additionally, certain unvested time-based RSUs are not included in dilutive securities for the nine months ended September 30, 2023, as they were anti-dilutive. See Note 6 "Share-Based Compensation" for additional information regarding share-based compensation.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Net Income Available to Common Unitholders Per Unit of the Operating Partnership

The following table reconciles the numerator and denominator in computing the Operating Partnership's basic and diluted per-unit computations for net income available to common unitholders for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands, except unit and per unit amounts)				
Numerator:				
Net income available to common unitholders	\$ 53,277	\$ 80,421	\$ 166,569	\$ 181,685
Allocation to participating securities ⁽¹⁾	(269)	(287)	(959)	(980)
Numerator for basic and diluted net income available to common unitholders	<u>\$ 53,008</u>	<u>\$ 80,134</u>	<u>\$ 165,610</u>	<u>\$ 180,705</u>
Denominator:				
Basic weighted average vested units outstanding	118,335,183	118,023,527	118,283,994	117,933,195
Effect of dilutive securities	310,637	369,458	277,975	380,528
Diluted weighted average vested units and common unit equivalents outstanding	<u>118,645,820</u>	<u>118,392,985</u>	<u>118,561,969</u>	<u>118,313,723</u>
Basic earnings per unit:				
Net income available to common unitholders per unit	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 1.40</u>	<u>\$ 1.53</u>
Diluted earnings per unit:				
Net income available to common unitholders per unit	<u>\$ 0.45</u>	<u>\$ 0.68</u>	<u>\$ 1.40</u>	<u>\$ 1.53</u>

(1) Participating securities include certain time-based RSUs and vested market measure-based RSUs.

Share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities. The impact of potentially dilutive common units, including stock options and RSU are considered in our diluted earnings per share calculation for the three and nine months ended September 30, 2023 and 2022. Certain market measure-based RSUs are not included in dilutive securities for the three and nine months ended September 30, 2023 and 2022, as not all performance metrics had been met by the end of the applicable reporting periods. Additionally, certain unvested time-based RSUs are not included in dilutive securities for the nine months ended September 30, 2023, as they were anti-dilutive. See Note 6 "Share-Based Compensation" for additional information regarding share-based compensation.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

12. Supplemental Cash Flow Information of the Company

Supplemental cash flow information follows (in thousands):

	Nine Months Ended September 30,	
	2023	2022
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$53,637 and \$55,080 as of September 30, 2023 and 2022, respectively	\$ 60,528	\$ 43,838
Cash paid for amounts included in the measurement of ground lease liabilities	\$ 4,939	\$ 4,719
NON-CASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 98,631	\$ 97,014
Tenant improvements funded directly by tenants	\$ 6,026	\$ 7,397
NON-CASH FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common stockholders and common unitholders (Note 14)	\$ 64,423	\$ 64,271

The following is a reconciliation of our cash and cash equivalents and restricted cash at the beginning and end of the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,	
	2023	2022
(in thousands)		
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents at beginning of period	\$ 347,379	\$ 414,077
Restricted cash at beginning of period	—	13,006
Cash and cash equivalents and restricted cash at beginning of period	\$ 347,379	\$ 427,083
Cash and cash equivalents at end of period	\$ 618,794	\$ 249,981
Restricted cash at end of period	—	13,009
Cash and cash equivalents and restricted cash at end of period	\$ 618,794	\$ 262,990

13. Supplemental Cash Flow Information of the Operating Partnership

Supplemental cash flow information follows (in thousands):

	Nine Months Ended September 30,	
	2023	2022
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$53,637 and \$55,080 as of September 30, 2023 and 2022, respectively	\$ 60,528	\$ 43,838
Cash paid for amounts included in the measurement of ground lease liabilities	\$ 4,939	\$ 4,719
NON-CASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 98,631	\$ 97,014
Tenant improvements funded directly by tenants	\$ 6,026	\$ 7,397
NON-CASH FINANCING TRANSACTIONS:		
Accrual of distributions payable to common unitholders (Note 14)	\$ 64,423	\$ 64,271

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following is a reconciliation of our cash and cash equivalents and restricted cash at the beginning and end of the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents at beginning of period	\$ 347,379	\$ 414,077
Restricted cash at beginning of period	—	13,006
Cash and cash equivalents and restricted cash at beginning of period	<u>\$ 347,379</u>	<u>\$ 427,083</u>
Cash and cash equivalents at end of period	\$ 618,794	\$ 249,981
Restricted cash at end of period	—	13,009
Cash and cash equivalents and restricted cash at end of period	<u>\$ 618,794</u>	<u>\$ 262,990</u>

14. Subsequent Events

On October 11, 2023, aggregate dividends, distributions and dividend equivalents of \$ 64.4 million were paid to common stockholders, common unitholders and RSU holders of record on September 30, 2023.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. The results of operations discussion is combined for the Company and the Operating Partnership because there are no material differences in the results of operations between the two reporting entities.

Forward-Looking Statements

Statements contained in this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Forward-looking statements include, among other things, statements or information concerning our plans, objectives, capital resources, portfolio performance, results of operations, projected future occupancy and rental rates, lease expirations, debt maturities, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, projected construction commencement and completion dates, projected square footage of space that could be constructed on undeveloped land that we own, projected rentable square footage of or number of units in properties under construction or in the development pipeline, anticipated proceeds from capital recycling activity or other dispositions and anticipated dates of those activities or dispositions, projected increases in the value of properties, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions, plans to grow our Net Operating Income and FFO, our ability to re-lease properties at or above current market rates, anticipated market conditions and demographics and other forward-looking financial data, as well as the discussion in "—Factors That May Influence Future Results of Operations," "—Liquidity and Capital Resource of the Company," and "—Liquidity and Capital Resources of the Operating Partnership." Forward-looking statements can be identified by the use of words such as "believes," "expects," "projects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" and the negative of these words and phrases and similar expressions that do not relate to historical matters. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated or implied in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or events. Numerous factors could cause actual future performance, results and events to differ materially from those indicated in the forward-looking statements, including, among others: global market and general economic conditions, including periods of heightened inflation, and their effect on our liquidity and financial conditions and those of our tenants; adverse economic or real estate conditions generally, and specifically, in the States of California, Texas and Washington; risks associated with our investment in real estate assets, which are illiquid and with trends in the real estate industry; defaults on or non-renewal of leases by tenants; any significant downturn in tenants' businesses, including bankruptcy, lack of liquidity or lack of funding and the impact labor disruptions or strikes, such as episodic strikes in the entertainment industry, may have on our tenants' businesses; our ability to re-lease property at or above current market rates; reduced demand for office space, including as a result of remote work and flexible working arrangements that allow work from remote locations other than the employer's office premises; costs to comply with government regulations, including environmental remediation; the availability of cash for distribution and debt service and exposure to risk of default under debt obligations; increases in interest rates and our ability to manage interest rate exposure; changes in interest rates and the availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue development, redevelopment and acquisition opportunities and refinance existing debt; a decline in real estate asset valuations, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing, and which may result in write-offs or impairment charges; significant competition, which may decrease the occupancy and rental rates of properties; potential losses that may not be covered by insurance; the ability to successfully complete acquisitions and dispositions on announced terms; the ability to successfully operate acquired, developed and redeveloped properties; the ability to successfully complete development and redevelopment projects on schedule and within budgeted amounts; delays or refusals in obtaining all necessary zoning, land use and other required entitlements, governmental permits and authorizations for our development and redevelopment properties; increases in anticipated capital expenditures, tenant improvement and/or leasing costs; defaults on leases for land on which some of our properties are located; adverse changes to, or enactment or implementations of, tax laws or other applicable laws, regulations or legislation, as well as business and consumer reactions to such changes; risks associated with joint venture investments, including our lack of sole decision-making authority, our reliance on co-venturers' financial condition and disputes between us and our co-venturers; environmental uncertainties and risks related to natural disasters; and our ability to maintain our status as a REIT. The factors included in this report are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional factors that could materially adversely affect the Company's and the Operating Partnership's business and financial performance, see the discussion below, as well as in "Part I,

Item 1A. Risk Factors" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's and the Operating Partnership's annual report on Form 10-K for the year ended December 31, 2022 and their respective other filings with the SEC. All forward-looking statements are based on information that was available and speak only as of the dates on which they were made. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws.

Overview and Background

We are a self-administered REIT active in premier office, life science and mixed-use submarkets in the United States. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in Greater Los Angeles, San Diego County, the San Francisco Bay Area, Greater Seattle and Austin, Texas, which we believe have strategic advantages and strong barriers to entry. We own our interests in all of our real properties through the Operating Partnership and generally conduct substantially all of our operations through the Operating Partnership. We owned an approximate 99.0% general partnership interest in the Operating Partnership as of September 30, 2023, December 31, 2022 and September 30, 2022. As of September 30, 2023, all of our properties are held in fee except for the fourteen office buildings that are held subject to long-term ground leases for the land.

Factors That May Influence Future Results of Operations

Development and Redevelopment Programs

We believe that a portion of our long-term future growth will continue to come from the completion of our in-process development and redevelopment projects and, subject to market conditions, executing on our future development pipeline, including expanding entitlements. Over the past several years, we increased our focus on development and redevelopment opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West Coast and in Austin, Texas.

We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our submarkets. We expect to execute on our development and redevelopment programs with prudence and will be pursuing opportunities with attractive economic returns in strategic locations with proximity to public transportation or transportation access and retail amenities and in markets with strong fundamentals and visible demand. We plan to develop in phases, as appropriate, and we generally favor starting projects with pre-leasing activity.

Stabilized Development Projects

During the nine months ended September 30, 2023, we completed and added the following development project to our stabilized portfolio:

- 9514 Towne Centre Drive, University Towne Center, San Diego, California. We commenced construction on this project in September 2021 and completed base building components and moved the project into the tenant improvement phase in April 2023. This project is comprised of 70,616 square feet of office space at a total estimated investment of \$60.0 million. We completed construction and added the building to our stabilized portfolio in July 2023. The building is 100% leased to a global technology company.

In-Process Development Projects - Tenant Improvement

As of September 30, 2023, the following project was in the tenant improvement phase:

- Indeed Tower, Austin CBD, Austin, Texas. We acquired this project upon core/shell completion in June 2021. This project encompasses approximately 734,000 square feet of office space at a total estimated investment of \$690.0 million and is 74% leased to 14 tenants with 42% of the space leased to Indeed, Inc. through 2034. This project will reach stabilization in the fourth quarter of 2023 upon one year passing since substantial completion.

In-Process Development Projects - Under Construction

As of September 30, 2023, we had one project in our in-process development pipeline that was under construction:

- Kilroy Oyster Point (Phase 2), South San Francisco, California. In June 2021, we commenced construction on Phase 2 of this 39-acre life science campus situated on the waterfront in South San Francisco. The second phase encompasses approximately 875,000 square feet of office space across three buildings at a total estimated investment of \$940.0 million.

In-Process Redevelopment - Under Construction

As of September 30, 2023, we had two redevelopment projects under construction:

- 4690 Executive Drive, University Towne Center, San Diego, California. In March 2022, we began the phased redevelopment of this property, comprised of approximately 52,000 square feet for life science use with total estimated redevelopment costs of \$25.0 million, inclusive of the depreciated basis of the building.
- 4400 Bohannon Drive, Menlo Park, California. In December 2022, we began the redevelopment of this property, comprised of approximately 48,000 square feet, for life science use with total estimated redevelopment costs of \$55.0 million, inclusive of the depreciated basis of the building.

Future Development Pipeline

As of September 30, 2023, our future development pipeline included eight future projects located in Greater Los Angeles, San Diego County, the San Francisco Bay Area, Greater Seattle and Austin with an aggregate cost basis of approximately \$1.3 billion at which we believe we could develop more than 7.0 million rentable square feet for a total estimated investment of approximately \$8.0 billion to \$9.0 billion, depending on successfully obtaining entitlements and market conditions.

The following table sets forth information about our future development pipeline:

Future Development Pipeline	Location	Approx. Developable Square Feet ⁽¹⁾	Total Costs as of 9/30/2023 (\$ in millions) ⁽²⁾
<u>Greater Los Angeles</u>			
1633 26th Street	West Los Angeles	190,000	\$ 15.0
<u>San Diego County</u>			
Santa Fe Summit South / North	56 Corridor	600,000 - 650,000	112.8
2045 Pacific Highway	Little Italy	275,000	57.6
Kilroy East Village	East Village	TBD	68.0
<u>San Francisco Bay Area</u>			
Kilroy Oyster Point - Phases 3 and 4	South San Francisco	875,000 - 1,000,000	227.7
Flower Mart	SOMA	2,300,000	600.2
<u>Greater Seattle</u>			
SIX0	Denny Regrade	925,000	186.7
<u>Austin</u>			
Stadium Tower	Stadium District / Domain	493,000	69.2
Total:			<u>\$ 1,337.2</u>

(1) Represents developable office/life science square feet. The developable square feet and scope of projects could change materially from estimated data provided due to one or more of the following: any significant changes in the economy, market conditions, our markets, tenant requirements and demands, construction costs, new supply, regulatory and entitlement processes or project design.

(2) Represents cash paid and costs incurred, including accrued liabilities in accordance with GAAP, as of September 30, 2023.

Fluctuations in our development activities could cause fluctuations in the average development asset balances qualifying for interest and other carrying cost and internal cost capitalization in future periods. During the three and nine months ended September 30, 2023, we capitalized interest on in-process development projects and future development pipeline projects with an average aggregate cost basis of approximately \$1.9 billion, as it was determined these projects qualified for interest and other carrying cost capitalization under GAAP. In the event of an extended cessation of development activities, such projects may

potentially no longer qualify for capitalization of interest or other carrying costs. For the three and nine months ended September 30, 2023, we capitalized \$20.1 million and \$57.3 million, respectively, of interest to our qualifying development and redevelopment projects. For the three and nine months ended September 30, 2023, we capitalized \$3.7 million and \$12.2 million, respectively, of internal costs to our qualifying development and redevelopment projects.

Capital Recycling Program. We continuously evaluate opportunities for the potential disposition of non-core properties and undeveloped land in our portfolio or the formation of strategic ventures with the intent of recycling the proceeds generated into capital used to fund new operating and development acquisitions, to finance development and redevelopment expenditures, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into transactions intended to qualify as like-kind exchanges pursuant to Section 1031 of the Code ("Section 1031 Exchanges") and other tax deferred transaction structures, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes. See the "Liquidity and Capital Resources of the Operating Partnership – Liquidity Sources" section for further discussion of our capital recycling activities.

The timing of any potential future disposition or strategic venture transactions will depend on market conditions and other factors including, but not limited to, our capital needs, the availability of financing for potential buyers (which has been and may continue to be constrained for some potential buyers due to the current economic and market conditions), and our ability to defer some or all of the taxable gains on the sales. We cannot assure that we will dispose of any additional properties, enter into any additional strategic ventures, or that we will be able to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange or be able to use other tax deferred structures in connection with our strategy. See the "Liquidity and Capital Resources of the Operating Partnership – Liquidity Sources" section for further information.

Acquisitions. As part of our growth strategy, which is highly dependent on market conditions and business cycles, among other factors, we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add and strategic operating properties and land. We focus on growth opportunities primarily in markets populated by knowledge and creative-based tenants in a variety of industries, including technology, media, healthcare, life sciences, entertainment and professional services. Against the backdrop of market volatility, we expect to manage a strong balance sheet and selectively evaluate opportunities that we believe have the potential to either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

In connection with our growth strategy, we often have one or more potential acquisitions of properties and/or undeveloped land under consideration that are in varying stages of negotiation and due diligence review, or under contract, at any point in time. However, we cannot provide assurance that we will enter into any agreements to acquire properties or undeveloped land, or that the potential acquisitions contemplated by any agreements we may enter into in the future will be completed. In addition, acquisitions are subject to various risks and uncertainties and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including cash bonuses and equity incentives, for our executive officers, as defined in Rule 16 under the Exchange Act. For 2023, the annual cash bonus program was structured to allow the Executive Compensation Committee to evaluate a variety of key quantitative and qualitative metrics at the end of the year and make a determination based on the Company's and management's overall performance. Our Executive Compensation Committee also grants equity incentive awards from time to time that include performance-based and/or market-measure based vesting requirements and time-based vesting requirements. As a result, accrued incentive compensation and compensation expense for future awards may be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions, liquidity measures and other factors. Consequently, we cannot predict the amounts that will be recorded in future periods related to such incentive compensation.

As of September 30, 2023, there was approximately \$28.5 million of total unrecognized compensation cost related to outstanding nonvested RSUs granted under share-based compensation arrangements. Such amount is based in part upon the estimated future outcome of the performance metrics as of September 30, 2023, and the actual compensation cost ultimately recognized could increase or decrease from this estimate based upon actual performance results. The costs are expected to be recognized over a weighted-average period of 1.4 years, which includes the shortened vesting period for our Chief Executive Officer due to his announced retirement on December 31, 2023. The \$28.5 million of unrecognized compensation cost does not reflect the future compensation cost for any potential share-based awards that may be issued subsequent to September 30, 2023. Share-based compensation expense for potential future awards could be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions

and other factors. For additional information regarding our equity incentive awards, see Note 6 "Share-Based Compensation" to our consolidated financial statements included in this report.

Information on Leases Commenced and Executed

Leasing Activity and Changes in Rental Rates. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties, newly acquired properties with vacant space, and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods. The following tables set forth certain information regarding leasing activity during the three and nine months ended September 30, 2023.

For Leases Commenced ⁽¹⁾

Quarter to Date	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		Weighted Average		TI/LC per Sq. Ft. ⁽³⁾	TI/LC per Sq. Ft. / Year ⁽³⁾	Changes in Rents ⁽⁴⁾	Changes in Cash Rents ⁽⁵⁾
	New	Renewal	New	Renewal	Lease Term (in months)					
2nd Generation ⁽⁶⁾	12	13	178,282	148,599	81	\$	49.43	\$	7.32	6.9 %
Development Leasing ⁽⁷⁾	2	—	98,561	—	149	\$	121.74	\$	9.80	(6.2) %
Total	14	13	276,843	148,599						

Year to Date	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		Weighted Average		TI/LC per Sq. Ft. ⁽³⁾	TI/LC per Sq. Ft. / Year ⁽³⁾	Changes in Rents ⁽⁴⁾	Changes in Cash Rents ⁽⁵⁾
	New	Renewal	New	Renewal	Lease Term (in months)					
2nd Generation ⁽⁶⁾	33	38	359,620	387,517	73	\$	52.33	\$	8.60	13.4 %
Development Leasing ⁽⁷⁾	3	—	104,016	—	146	\$	121.73	\$	10.01	(0.5) %
Total	36	38	463,636	387,517						

For Leases Executed ⁽¹⁾⁽⁸⁾

Quarter to Date	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		Weighted Average		TI/LC per Sq. Ft. ⁽³⁾	TI/LC per Sq. Ft. / Year ⁽³⁾	Changes in Rents ⁽⁴⁾	Changes in Cash Rents ⁽⁵⁾	Retention Rates ⁽⁹⁾
	New	Renewal	New	Renewal	Lease Term (in months)						
2nd Generation ⁽⁶⁾	9	13	30,867	148,599	72	\$	30.63	\$	5.10	16.1 %	(0.1) %
Development Leasing ⁽⁷⁾	2	—	8,302	—	101	\$	126.44	\$	15.02		41.0 %
Total	11	13	39,169	148,599							

Year to Date	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		Weighted Average		TI/LC per Sq. Ft. ⁽³⁾	TI/LC per Sq. Ft. / Year ⁽³⁾	Changes in Rents ⁽⁴⁾	Changes in Cash Rents ⁽⁵⁾	Retention Rates ⁽⁹⁾
	New	Renewal	New	Renewal	Lease Term (in months)						
2nd Generation ⁽⁶⁾	35	38	341,976	387,517	65	\$	54.62	\$	10.08	10.8 %	(0.9) %
Development Leasing ⁽⁷⁾	4	—	29,452	—	134	\$	168.60	\$	15.10		24.7 %
Total	39	38	371,428	387,517							

(1) Includes 100% of consolidated property partnerships.

(2) Represents leasing activity for leases that commenced or were signed during the period in the stabilized and development portfolios, net of month-to-month leases.

(3) Tenant improvements and leasing commissions per square foot exclude tenant-funded tenant improvements.

(4) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Space that was vacant when the property was acquired is excluded from our change in rents calculations to provide a more meaningful market comparison.

(5) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Space that was vacant when the property was acquired is excluded from our change in rents calculations to provide a more meaningful market comparison.

(6) Second generation leasing includes space where we have made capital expenditures to maintain the current market revenue stream.

(7) Represents leases commenced or executed on new construction added to the stabilized portfolio and leasing activity for leases signed in our development and redevelopment portfolios.

(8) During the three months ended September 30, 2023, 9 new leases totaling 35,726 rentable square feet were signed but not commenced. During the nine months ended September 30, 2023, 20 new leases totaling 227,282 rentable square feet were signed but not commenced.

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

As of September 30, 2023, we believe that the weighted average cash rental rates for our total stabilized portfolio are approximately 5% below the current average market rental rates. Individual properties within any particular submarket presently may be leased either above, below, or at the current market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate or our portfolio.

Our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates.

During the nine months ended September 30, 2023, we saw an increase in physical occupancy at our properties and commitments by large corporations to in-office work by mandating a minimum number of days employees must work in the office. However, we believe that economic uncertainty and hybrid/remote working arrangements have impacted the timing and volume of leasing and will likely continue to do so in the future. Additionally, decreased demand (including as a result of remote work), increased competition (including sublease space available from our tenants) and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have negative effects on our future financial condition, results of operations, and cash flows.

Scheduled Lease Expirations. The following tables set forth certain information regarding our lease expirations for our stabilized portfolio for the remainder of 2023 and the next five years and by region for the remainder of 2023 and in 2024.

Lease Expirations ⁽¹⁾

Year of Lease Expiration	Number of	Total Square Feet	% of Total Leased		Annualized Base		% of Total		Annualized Base	
	Expiring									
	Leases		Sq. Ft.							
(in thousands)										
Remainder of 2023 ⁽⁴⁾	13	264,668	1.9	%	\$	15,076	1.9	%	\$	56.96
2024 ⁽⁴⁾	68	1,008,828	7.3	%		48,700	6.1	%		48.27
2025	67	692,950	5.0	%		34,152	4.3	%		49.28
2026	59	1,916,944	13.9	%		90,492	11.4	%		47.21
2027	69	1,138,106	8.2	%		47,283	6.0	%		41.55
2028	48	1,132,416	8.2	%		71,245	9.0	%		62.91
Total	324	6,153,912	44.5	%	\$	306,948	38.7	%	\$	49.88

		Number of	Total	% of Total	Annualized	% of Total	Annualized Rent
Year	Region	Expiring Leases	Square Feet	Leased Sq. Ft.	Base Rent ⁽²⁾⁽³⁾	Base Rent ⁽²⁾	per Sq. Ft. ⁽²⁾
					(in thousands)		
2023 ⁽⁴⁾	Greater Los Angeles	8	214,689	1.5 %	\$ 12,969	1.6 %	\$ 60.41
	San Diego County	3	38,552	0.3 %	1,367	0.2 %	35.46
	San Francisco Bay Area	1	7,141	0.1 %	547	0.1 %	76.60
	Greater Seattle	1	4,286	— %	193	— %	45.03
	Total	13	264,668	1.9 %	\$ 15,076	1.9 %	\$ 56.96
2024 ⁽⁴⁾	Greater Los Angeles	42	482,259	3.5 %	\$ 21,087	2.7 %	\$ 43.73
	San Diego County	6	45,597	0.3 %	1,759	0.2 %	38.58
	San Francisco Bay Area	11	267,887	1.9 %	17,958	2.2 %	67.04
	Greater Seattle	9	213,085	1.6 %	7,896	1.0 %	37.06
	Total	68	1,008,828	7.3 %	\$ 48,700	6.1 %	\$ 48.27

(1) For leases that have been renewed early with existing tenants, the expiration date and annualized base rent information presented takes into consideration the renewed lease terms. Excludes leases not commenced as of September 30, 2023, space leased under month-to-month leases, storage leases, vacant space and future lease renewal options not executed as of September 30, 2023.

(2) Annualized base rent includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures, including full service gross, modified gross and triple net. Percentages represent percentage of total portfolio annualized contractual base rental revenue. For additional information on tenant improvement and leasing commission costs incurred by the Company for the current reporting period, please see further discussion under the caption "Information on Leases Commenced and Executed."

(3) Includes 100% of annualized base rent of consolidated property partnerships.

(4) Adjusting for leases executed as of September 30, 2023 but not yet commenced, the 2023 and 2024 expirations would be reduced by 15,973 and 13,325 square feet, respectively.

In addition to the 2.2 million rentable square feet, or 13.8%, of currently available space in our stabilized portfolio, leases representing approximately 1.9% and 7.3% of the occupied square footage of our stabilized portfolio are scheduled to expire during the remainder of 2023 and in 2024, respectively. The leases scheduled to expire during the remainder of 2023 and in 2024 represent approximately 1.3 million rentable square feet or 8.0% of our total annualized base rental revenue. Adjusting for leases executed as of September 30, 2023 but not yet commenced, the remaining 2023 and 2024 expirations would be 248,695 and 995,503 square feet, respectively.

Sublease Space. Of our leased space as of September 30, 2023, approximately 1.5 million rentable square feet, or 9.0% of the square footage in our stabilized portfolio, was available for sublease, primarily in the San Francisco Bay Area region. Of the 9.0% of available sublease space in our stabilized portfolio as of September 30, 2023, approximately 7.3% was vacant space, and the remaining 1.7% was occupied. Of the approximately 1.5 million rentable square feet available for sublease as of September 30, 2023, no leases are scheduled to expire in 2023 and approximately 223,003 rentable square feet representing six leases are scheduled to expire in 2024.

Stabilized Portfolio Information

As of September 30, 2023, our stabilized portfolio was comprised of 120 office and life science properties encompassing an aggregate of approximately 16.3 million rentable square feet and 1,001 residential units. Our stabilized portfolio includes all of our properties with the exception of development properties currently committed for construction, under construction or in the tenant improvement phase, redevelopment projects under construction, undeveloped land and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define properties in the tenant improvement phase as office and life science properties that we are developing or redeveloping where the project has reached cold shell condition and is ready for tenant improvements, which may require additional major base building construction before being placed in service. Projects in the tenant improvement phase are added to our stabilized portfolio once the project reaches the earlier of 95% occupancy or one year from the date of the cessation of major base building construction activities. Costs capitalized to construction in progress for development and redevelopment properties are transferred to land and improvements, buildings and improvements, and deferred leasing costs on our consolidated balance sheets at the historical cost of the property as the projects or phases of projects are placed in service.

We did not have any properties held for sale at September 30, 2023. During the nine months ended September 30, 2023, we added one development project to our stabilized portfolio consisting of one building totaling 70,616 square feet of office space in San Diego, California. Our stabilized portfolio also excludes our future development pipeline, which as of September 30, 2023 was comprised of eight potential development sites, representing approximately 64 gross acres of undeveloped land on which we believe we have the potential to develop more than 7.0 million rentable square feet, depending upon economic conditions.

As of September 30, 2023, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet ⁽¹⁾
In-process development projects - tenant improvement	1	734,000
In-process development projects - under construction	1	875,000
In-process redevelopment projects - under construction	2	100,000

(1) Estimated rentable square feet upon completion.

The following table reconciles the changes in the rentable square feet in our stabilized office portfolio of operating properties from September 30, 2022 to September 30, 2023:

	Number of Buildings	Rentable Square Feet
Total as of September 30, 2022	120	16,248,802
Completed development properties placed in-service	1	70,616
Properties transferred to redevelopment	(1)	(48,146)
Remeasurement	—	13,881
Total as of September 30, 2023 ⁽¹⁾	120	16,285,153

(1) Includes four properties owned by consolidated property partnerships (see Note 1 "Organization, Ownership and Basis of Presentation" to our consolidated financial statements included in this report for additional information).

Occupancy Information

The following table sets forth certain information regarding our stabilized portfolio:

Region	Number of Buildings	Rentable Square Feet	Occupancy at ⁽¹⁾		
			9/30/2023	6/30/2023	3/31/2023
Greater Los Angeles	53	4,344,573	81.2 %	81.5 %	80.8 %
San Diego County	24	2,770,380	86.1 %	85.4 %	85.9 %
San Francisco Bay Area	33	6,170,022	91.1 %	92.3 %	94.7 %
Greater Seattle	10	3,000,178	83.5 %	83.4 %	95.3 %
Total Stabilized Portfolio	120	16,285,153	86.2 %	86.6 %	89.6 %

	Average Occupancy			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stabilized Portfolio ⁽¹⁾	86.1 %	91.1 %	87.8 %	91.3 %
Same Store Portfolio ⁽²⁾	86.4 %	91.7 %	88.2 %	91.6 %
Residential Portfolio ⁽³⁾	92.7 %	93.5 %	92.9 %	93.6 %

(1) Occupancy percentages reported are based on our stabilized office portfolio as of the end of the period presented and exclude occupancy percentages of properties held for sale. Represents economic occupancy.

(2) Occupancy percentages reported are based on office properties owned and stabilized as of January 1, 2022 and still owned and stabilized as of September 30, 2023 and exclude our residential portfolio. See discussion under "Results of Operations" for additional information.

(3) Our residential portfolio consists of our 200-unit residential tower and 193-unit Jardine project in Hollywood, California and 608 residential units at our One Paseo mixed-use project in Del Mar, California.

Significant Tenants

The following table sets forth information about our 15 largest tenants based upon annualized base rental revenues, as defined below, as of September 30, 2023.

Tenant Name ⁽¹⁾	Region	Annualized Base		Percentage of Total		Percentage of		Year(s) of Significant Lease Expiration ⁽⁴⁾
		Rental	Rentable	Annualized Base	Total Rentable Square			
		Revenue ^{(2) (3)}	Square Feet	Rental Revenue	Feet			
(in thousands)								
Global technology company	Greater Seattle /							2032 - 2033 /
	San Diego County	\$ 44,851	849,826	5.7 %	5.2 %	2037		
Cruise LLC	San Francisco Bay Area	35,449	374,618	4.5 %	2.3 %	2031		
Stripe, Inc.	San Francisco Bay Area	33,110	425,687	4.2 %	2.6 %	2034		
Salesforce, Inc.	San Francisco Bay Area /							2024 / 2029 -
	Greater Seattle	30,100	613,497	3.8 %	3.8 %	2030 / 2032		
LinkedIn Corporation / Microsoft Corporation	San Francisco Bay Area	29,752	663,460	3.8 %	4.1 %	2024 / 2026		
Adobe Systems, Inc.	San Francisco Bay Area /							2027 / 2031
	Greater Seattle	27,897	522,879	3.5 %	3.2 %			
Okta, Inc.	San Francisco Bay Area	24,206	293,001	3.1 %	1.8 %	2028		
DoorDash, Inc.	San Francisco Bay Area	23,842	236,759	3.0 %	1.5 %	2032		
Riot Games, Inc. ⁽⁵⁾	Greater Los Angeles	22,918	340,584	2.9 %	2.1 %	2023 - 2024 /		2031
	Greater Los Angeles	21,854	361,388	2.8 %	2.2 %	2032		
Box, Inc.	San Francisco Bay Area	20,390	341,441	2.6 %	2.1 %	2028		
Cytokinetics, Inc.	San Francisco Bay Area	18,167	234,892	2.3 %	1.4 %	2033		
DIRECTV, LLC	Greater Los Angeles	16,085	532,956	2.0 %	3.3 %	2026 - 2027		
Synopsys, Inc.	San Francisco Bay Area	15,492	342,891	2.0 %	2.1 %	2030		
Amazon.com	Greater Seattle	14,989	340,705	1.9 %	2.1 %	2029 - 2030		
Total		\$ 379,102	6,474,584	48.1 %	39.8 %			

(1) Includes subsidiaries of tenant listed.

(2) Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of September 30, 2023.

(3) Includes 100% of the annualized base rental revenues of consolidated property partnerships.

(4) We define significant lease expirations as those with space expiring greater than 25,000 rentable square feet.

(5) The 2023 lease expiration represents 158,371 rentable square feet expiring on November 30, 2023.

Results of Operations

Net Operating Income

Management internally evaluates the operating performance and financial results of our stabilized portfolio based on Net Operating Income. We define “Net Operating Income” as consolidated operating revenues (rental income and other property income) less consolidated operating expenses (property expenses, real estate taxes and ground leases).

Net Operating Income is considered by management to be an important and appropriate supplemental performance measure to net income because we believe it helps both investors and management to understand the core operations of our properties excluding corporate and financing-related costs and non-cash depreciation and amortization. Net Operating Income is an unlevered operating performance metric of our properties and allows for a useful comparison of the operating performance of individual assets or groups of assets. This measure thereby provides an operating perspective not immediately apparent from GAAP income from operations or net income. In addition, Net Operating Income is considered by many in the real estate industry to be a useful starting point for determining the value of a real estate asset or group of assets. Other real estate companies may use different methodologies for calculating Net Operating Income, and accordingly, our presentation of Net Operating Income may not be comparable to other real estate companies. Because of the exclusion of the items shown in the reconciliation below, Net Operating Income should only be used as a supplemental measure of our financial performance and not as an alternative to GAAP income from operations or net income.

Management further evaluates Net Operating Income by evaluating the performance from the following property groups:

- Same Store Properties – includes the consolidated results of all of the office properties that were owned and included in our stabilized portfolio for two comparable reporting periods, i.e., owned and included in our stabilized portfolio as of January 1, 2022 and still owned and included in the stabilized portfolio as of September 30, 2023, including our three residential properties in Hollywood and Del Mar, California;
- Development Properties – includes the results generated by certain of our in-process development and redevelopment projects, expenses for certain of our future development projects and the results generated by the following stabilized development properties:
 - One office building that was added to the stabilized portfolio in the second quarter of 2022;
 - Three office buildings that were added to the stabilized portfolio in the third quarter of 2022; and
 - One office building that was added to the stabilized portfolio in the third quarter of 2023; and
- Disposition Properties – includes the results of one property disposed of in the third quarter of 2022.

The following table sets forth certain information regarding the property groups within our stabilized office portfolio as of September 30, 2023:

Group	# of Buildings	Rentable Square Feet
Same Store Properties	115	15,063,419
Stabilized Development and Redevelopment Properties ⁽¹⁾	5	1,221,734
Total Stabilized Portfolio	120	16,285,153

(1) Excludes development projects in the tenant improvement phase, our in-process development and redevelopment projects and future development projects.

Comparison of the Three Months Ended September 30, 2023 to the Three Months Ended September 30, 2022

The following table summarizes our Net Operating Income, as defined, for our total portfolio for the three months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Dollar	Percentage
	2023	2022	Change	Change
(\$ in thousands)				
Reconciliation of Net Income Available to Common Stockholders to Net Operating Income, as defined:				
Net Income Available to Common Stockholders	\$ 52,762	\$ 79,757	\$ (26,995)	(33.8)%
Net income attributable to noncontrolling common units of the Operating Partnership	515	664	(149)	(22.4)%
Net income attributable to noncontrolling interests in consolidated property partnerships	5,460	6,239	(779)	(12.5)%
Net income	\$ 58,737	\$ 86,660	\$ (27,923)	(32.2)%
Unallocated expense (income):				
General and administrative expenses	24,761	23,524	1,237	5.3 %
Leasing costs	1,852	1,015	837	82.5 %
Depreciation and amortization	85,224	81,140	4,084	5.0 %
Interest and other income, net	(7,015)	(295)	(6,720)	NM*
Interest expense	29,837	19,982	9,855	49.3 %
Gain on sale of depreciable operating property	—	(17,329)	17,329	(100.0)%
Net Operating Income, as defined	\$ 193,396	\$ 194,697	\$ (1,301)	(0.7)%

* Percentage not meaningful.

The following tables summarize our Net Operating Income, as defined, for our total portfolio for the three months ended September 30, 2023 and 2022.

	Three Months Ended September 30,							
	2023				2022			
	Same Store	Development	Disposition	Total	Same Store	Development	Disposition	Total
(in thousands)								
Operating revenues:								
Rental income	\$ 252,173	\$ 28,508	\$ —	\$ 280,681	\$ 255,606	\$ 16,832	\$ 108	\$ 272,546
Other property income	2,729	184	—	2,913	3,126	323	(37)	3,412
Total	254,902	28,692	—	283,594	258,732	17,155	71	275,958
Property and related expenses:								
Property expenses	55,539	3,906	—	59,445	50,020	1,750	305	52,075
Real estate taxes	25,124	3,239	—	28,363	25,596	1,773	46	27,415
Ground leases	1,895	495	—	2,390	1,754	17	—	1,771
Total	82,558	7,640	—	90,198	77,370	3,540	351	81,261
Net Operating Income, as defined	\$ 172,344	\$ 21,052	\$ —	\$ 193,396	\$ 181,362	\$ 13,615	\$ (280)	\$ 194,697

Three Months Ended September 30, 2023 as compared to the Three Months Ended September 30, 2022

	Same Store		Development		Disposition		Total	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
(\$ in thousands)								
Operating revenues:								
Rental income	\$ (3,433)	(1.3)%	\$ 11,676	69.4 %	\$ (108)	(100.0)%	\$ 8,135	3.0 %
Other property income	(397)	(12.7)%	(139)	(43.0)%	37	(100.0)%	(499)	(14.6)%
Total	(3,830)	(1.5)%	11,537	67.3 %	(71)	(100.0)%	7,636	2.8 %
Property and related expenses:								
Property expenses	5,519	11.0 %	2,156	123.2 %	(305)	(100.0)%	7,370	14.2 %
Real estate taxes	(472)	(1.8)%	1,466	82.7 %	(46)	(100.0)%	948	3.5 %
Ground leases	141	8.0 %	478	NM*	—	— %	619	35.0 %
Total	5,188	6.7 %	4,100	115.8 %	(351)	(100.0)%	8,937	11.0 %
Net Operating Income, as defined	\$ (9,018)	(5.0)%	\$ 7,437	54.6 %	\$ 280	(100.0)%	\$ (1,301)	(0.7)%

* Percentage not meaningful.

Net Operating Income decreased \$1.3 million, or 0.7%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 resulting from:

- A decrease in Net Operating Income of \$9.0 million attributable to the Same Store Properties, which was driven by the following activity:
 - A decrease in total operating revenues of \$3.8 million primarily due to:
 - \$9.4 million net decrease comprised of a \$12.7 million decrease from lease expirations, net of a \$3.3 million increase from new leases and renewals at higher rates; partially offset by
 - \$3.8 million increase in the tenant reimbursement component of rental income primarily due to higher reimbursable operating expenses; and
 - \$1.8 million increase in non-recurring revenue related to tenant restoration fees and revenue adjustments for tenant creditworthiness considerations; and
 - An increase in property and related expenses of \$5.2 million primarily due to an overall increase in physical occupancy from our tenants' continued return to the office as well as an increase in insurance premiums;
- An increase in Net Operating Income of \$7.4 million attributable to the Development Properties, of which \$5.2 million was contributed by Indeed Tower due to revenue recognition on the space leased to Indeed, Inc., which commenced in the fourth quarter of 2022; and
- An increase in Net Operating Income of \$0.3 million attributable to the Disposition Properties.

Other Expenses and Income

General and Administrative Expenses

General and administrative expenses increased \$1.2 million, or 5.3%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 due to an increase in share-based compensation expense of \$2.1 million, which was driven by the accelerated vesting of awards for our CEO's previously announced retirement, partially offset by a decrease from corporate cost-cutting measures.

Leasing Costs

Leasing costs increased \$0.8 million, or 82.5%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to an increase in leasing overhead and deal costs during the three months ended September 30, 2023.

Depreciation and Amortization

Depreciation and amortization increased \$4.1 million, or 5.0%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, primarily due to the following:

- An increase of \$11.8 million attributable to the Development Properties; partially offset by
- A decrease of \$7.5 million attributable to the Same Store Properties primarily due to an in-place lease intangible asset becoming fully amortized in the second quarter of 2023; and
- A decrease of \$0.2 million attributable to the Disposition Properties.

Interest Expense

The following table sets forth our gross interest expense, including debt discounts and deferred financing cost amortization, and capitalized interest, including capitalized debt discounts and deferred financing cost amortization, for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Dollar Change	Percentage Change
	2023	2022		
	(in thousands)			
Gross interest expense	\$ 49,893	\$ 39,659	\$ 10,234	25.8 %
Capitalized interest and deferred financing costs	(20,056)	(19,677)	(379)	1.9 %
Interest expense	\$ 29,837	\$ 19,982	\$ 9,855	49.3 %

Gross interest expense, before the effect of capitalized interest and deferred financing costs, increased \$10.2 million, or 25.8%, for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, due to an increase in the average outstanding debt balance and an increase in the weighted average interest rate for the three months ended September 30, 2023. The weighted average interest rates were 4.16% and 3.87% for the three months ended September 30, 2023 and 2022, respectively.

Capitalized interest and deferred financing costs remained generally consistent for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. During the three months ended September 30, 2023 and 2022, we capitalized interest on in-process development and redevelopment projects and future development pipeline projects with an average aggregate cost basis of approximately \$1.9 billion and \$2.0 billion, respectively. In the event of an extended cessation of development or redevelopment activities to get any of these projects ready for its intended use, such projects could potentially no longer qualify for capitalization of interest or other carrying costs.

Net Income Attributable to Noncontrolling Interests in Consolidated Property Partnerships

Net income attributable to noncontrolling interests in consolidated property partnerships decreased \$0.8 million or 12.5% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to lower rental income resulting from a lease termination during the first quarter of 2023 partially offset by termination fee income recognized in the third quarter of 2023 at properties held in consolidated property partnerships. The amounts reported for the three months ended September 30, 2023 and 2022 are comprised of the noncontrolling interest's share of net income for 100 First Street Member, LLC ("100 First LLC") and 303 Second Street Member, LLC ("303 Second LLC") and the noncontrolling interest's share of net income for Redwood City Partners, LLC ("Redwood LLC").

Comparison of the Nine Months Ended September 30, 2023 to the Nine Months Ended September 30, 2022

The following table summarizes our Net Operating Income, as defined, for our total portfolio for the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,		Dollar	Percentage
	2023	2022	Change	Change
(\$ in thousands)				
Reconciliation of Net Income Available to Common Stockholders to Net Operating Income, as defined:				
Net Income Available to Common Stockholders	\$ 164,957	\$ 179,990	\$ (15,033)	(8.4)%
Net income attributable to noncontrolling common units of the Operating Partnership	1,612	1,695	(83)	(4.9)%
Net income attributable to noncontrolling interests in consolidated property partnerships	18,673	18,333	340	1.9 %
Net income	\$ 185,242	\$ 200,018	\$ (14,776)	(7.4)%
Unallocated expense (income):				
General and administrative expenses	71,356	68,425	2,931	4.3 %
Leasing costs	4,550	3,475	1,075	30.9 %
Depreciation and amortization	269,262	266,215	3,047	1.1 %
Interest and other income, net	(11,896)	(501)	(11,395)	NM*
Interest expense	81,891	60,728	21,163	34.8 %
Gain on sale of depreciable operating property	—	(17,329)	17,329	(100.0)%
Net Operating Income, as defined	\$ 600,405	\$ 581,031	\$ 19,374	3.3 %

* Percentage not meaningful.

The following tables summarize our Net Operating Income, as defined, for our total portfolio for the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,							
	2023				2022			
	Same Store	Development	Disposition	Total	Same Store	Development	Disposition	Total
(in thousands)								
Operating revenues:								
Rental income	\$ 768,187	\$ 83,907	\$ —	\$ 852,094	\$ 758,294	\$ 43,884	\$ 2,152	\$ 804,330
Other property income	7,790	794	—	8,584	7,355	909	49	8,313
Total	775,977	84,701	—	860,678	765,649	44,793	2,201	812,643
Property and related expenses:								
Property expenses	157,669	10,564	—	168,233	141,529	4,811	1,081	147,421
Real estate taxes	74,318	10,550	—	84,868	73,837	4,705	176	78,718
Ground leases	5,673	1,499	—	7,172	5,264	209	—	5,473
Total	237,660	22,613	—	260,273	220,630	9,725	1,257	231,612
Net Operating Income, as defined	\$ 538,317	\$ 62,088	\$ —	\$ 600,405	\$ 545,019	\$ 35,068	\$ 944	\$ 581,031

Nine Months Ended September 30, 2023 as compared to the Nine Months Ended September 30, 2022

	Same Store		Development		Disposition		Total	
	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
(\$ in thousands)								
Operating revenues:								
Rental income	\$ 9,893	1.3 %	\$ 40,023	91.2 %	\$ (2,152)	(100.0)%	\$ 47,764	5.9 %
Other property income	435	5.9 %	(115)	(12.7)%	(49)	(100.0)%	271	3.3 %
Total	10,328	1.3 %	39,908	89.1 %	(2,201)	(100.0)%	48,035	5.9 %
Property and related expenses:								
Property expenses	16,140	11.4 %	5,753	119.6 %	(1,081)	(100.0)%	20,812	14.1 %
Real estate taxes	481	0.7 %	5,845	124.2 %	(176)	(100.0)%	6,150	7.8 %
Ground leases	409	7.8 %	1,290	617.2 %	—	— %	1,699	31.0 %
Total	17,030	7.7 %	12,888	132.5 %	(1,257)	(100.0)%	28,661	12.4 %
Net Operating Income, as defined	\$ (6,702)	(1.2)%	\$ 27,020	77.1 %	\$ (944)	(100.0)%	\$ 19,374	3.3 %

Net Operating Income increased \$19.4 million, or 3.3%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 primarily resulting from:

- A decrease of \$6.7 million attributable to the Same Store Properties primarily resulting from:
 - An increase in property and related expenses of \$17.0 million primarily due to an overall increase in physical occupancy from our tenants' continued return to the office as well as an increase in insurance premiums; partially offset by
 - An increase in total operating revenues of \$10.3 million primarily due to:
 - \$14.5 million increase in the tenant reimbursements component of rental income primarily due to higher reimbursable operating expenses; and
 - \$8.1 million net increase in non-recurring revenue related to \$10.8 million of tenant restoration fees net of \$2.7 million of revenue adjustments for tenant creditworthiness considerations; partially offset by
 - \$12.7 million net decrease comprised of \$22.0 million decrease from lease expirations net of \$9.3 million increase from new leases and renewals at higher rates; and
- A decrease of \$0.9 million attributable to the Disposition Properties; partially offset by
- An increase of \$27.0 million attributable to the Development Properties, of which \$16.1 million was contributed by Indeed Tower due to revenue recognition on the space leased to Indeed, Inc., which commenced in the fourth quarter of 2022.

Other Expenses and Income

General and Administrative Expenses

General and administrative expenses increased \$2.9 million, or 4.3%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to an increase in share-based compensation expense of \$6.4 million, which was driven by the accelerated vesting of awards for our CEO's previously announced retirement, partially offset by a decrease from corporate cost-cutting measures.

Leasing Costs

Leasing costs increased \$1.1 million, or 30.9%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, primarily due to an increase in leasing overhead during the nine months ended September 30, 2023.

Depreciation and Amortization

Depreciation and amortization increased \$3.0 million, or 1.1%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the following:

- An increase of \$14.0 million attributable to the Development Properties; partially offset by
- A decrease of \$10.2 million attributable to the Same Store Properties primarily due to an in-place lease intangible asset becoming fully amortized in the second quarter of 2023; and
- A decrease of \$0.8 million attributable to the Disposition Properties.

Interest Expense

The following table sets forth our gross interest expense, including debt discounts and deferred financing cost amortization, and capitalized interest, including capitalized debt discounts and deferred financing cost amortization for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		Dollar Change	Percentage Change
	2023	2022		
	(in thousands)			
Gross interest expense	\$ 139,148	\$ 118,995	\$ 20,153	16.9 %
Capitalized interest and deferred financing costs	(57,257)	(58,267)	1,010	(1.7) %
Interest expense	<u>\$ 81,891</u>	<u>\$ 60,728</u>	<u>\$ 21,163</u>	<u>34.8 %</u>

Gross interest expense, before the effect of capitalized interest and deferred financing costs, increased \$20.2 million, or 16.9%, for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, due to an increase in the average outstanding debt balance and an increase in the weighted average interest rate for the nine months ended September 30, 2023. The weighted average interest rates were 4.10% and 3.87% for the nine months ended September 30, 2023 and 2022, respectively.

Capitalized interest and deferred financing costs decreased \$1.0 million, or 1.7%, compared to the nine months ended September 30, 2022, primarily due to a decrease in the average development asset balances qualifying for interest capitalization during the nine months ended September 30, 2023. During the nine months ended September 30, 2023 and 2022, we capitalized interest on in-process development projects and future development pipeline projects with an average aggregate cost basis of approximately \$1.9 billion and \$2.0 billion, respectively. In the event of an extended cessation of development or redevelopment activities to get any of these projects ready for its intended use, such projects could potentially no longer qualify for capitalization of interest or other carrying costs. Refer to "Part I, Item 1A. Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2022 for additional information about the potential impact of inflation on our interest expense and construction costs and the impact on our business, financial condition, results of operations, cash flows, liquidity and ability to satisfy our debt service obligations.

Net Income Attributable to Noncontrolling Interests in Consolidated Property Partnerships

Net income attributable to noncontrolling interests in consolidated property partnerships remained generally consistent for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The amounts reported for the nine months ended September 30, 2023 and 2022 are comprised of the noncontrolling interest's share of net income for 100 First Street Member, LLC ("100 First LLC") and 303 Second Street Member, LLC ("303 Second LLC") and the noncontrolling interest's share of net income for Redwood City Partners, LLC ("Redwood LLC").

Liquidity and Capital Resources of the Company

In this “Liquidity and Capital Resources of the Company” section, the term the “Company” refers only to Kilroy Realty Corporation on an unconsolidated basis and excludes the Operating Partnership and all other subsidiaries.

The Company's business is operated primarily through the Operating Partnership. Distributions from the Operating Partnership are the Company's primary source of capital. The Company believes the Operating Partnership's sources of working capital, specifically its cash flow from operations and borrowings available under its unsecured revolving credit facility and unsecured term loan facility and funds from its capital recycling program, including strategic ventures, are adequate for it to make its distribution payments to the Company and, in turn, for the Company to make its dividend payments to its common stockholders for the next twelve months. Cash flows from operating activities generated by the Operating Partnership for the nine months ended September 30, 2023 were sufficient to cover the Company's payment of cash dividends to its stockholders. However, there can be no assurance that the Operating Partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distributions to the Company. The unavailability of capital could adversely affect the Operating Partnership's ability to make distributions to the Company, which would in turn, adversely affect the Company's ability to pay cash dividends to its stockholders.

The Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depositary shares, warrants and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other things, market conditions, available pricing and capital needs. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility and unsecured term loan facility, to develop new or redevelop existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

As the sole general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes, and the Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities and the revenues and expenses of the Company and the Operating Partnership are substantially the same on their respective financial statements. The section entitled “Liquidity and Capital Resources of the Operating Partnership” should be read in conjunction with this section to understand the liquidity and capital resources of the Company on a consolidated basis and how the Company is operated as a whole.

Liquidity Highlights

As of September 30, 2023, we had approximately \$618.8 million in cash and cash equivalents as well as \$252.8 million in short-term certificates of deposit. In March 2023, we increased the total borrowing capacity of the unsecured term loan facility to \$520.0 million and the full amount was outstanding as of September 30, 2023. In August and September, we repurchased \$14.3 million of the Operating Partnership's 3.45% \$425.0 million unsecured senior notes due December 15, 2024 at a discount. As of the date of this report, we had approximately \$1.1 billion available under our unsecured revolving credit facility. Excluding our unsecured term loan facility, for which we have two twelve-month extension options, our next debt maturity occurs in December 2024. We believe that our available liquidity demonstrates a strong balance sheet and makes us well positioned to navigate any additional future uncertainties. In addition, the Company is a well-known seasoned issuer and has historically been able to raise capital on a timely basis in the public markets, as well as the private markets. Any future financings, however, will depend on market conditions for both capital raises and the investment of such proceeds, and there can be no assurances that we will successfully obtain such financings.

Distribution Requirements

The Company is required to distribute 90% of its taxable income (subject to certain adjustments and excluding net capital gains) on an annual basis to maintain qualification as a REIT for federal income tax purposes and is required to pay income tax at regular corporate rates to the extent it distributes less than 100% of its taxable income (including capital gains). As a result of these distribution requirements, the Operating Partnership cannot rely on retained earnings to fund its on-going operations to the same extent as other companies whose parent companies are not REITs. In addition, the Company may be required to use borrowings under the Operating Partnership's revolving credit facility, if necessary, to meet REIT distribution requirements and maintain its REIT status. The Company may also need to continue to raise capital in the equity markets to fund the Operating Partnership's working capital needs, as well as potential developments of new or existing properties or acquisitions.

The Company intends to continue to make, but has not committed to make, regular quarterly cash distributions to common stockholders, and through the Operating Partnership, to common unitholders from the Operating Partnership's cash flow from operating activities. All such distributions are at the discretion of the Board of Directors. As the Company intends to maintain distributions at a level sufficient to meet the REIT distribution requirements and minimize its obligation to pay income and excise taxes, it will continue to evaluate whether the current levels of distribution are appropriate to do so throughout 2023. In addition, in the event the Company is unable to successfully complete Section 1031 Exchanges to defer some or all of the taxable gains related to property dispositions (or in the event additional legislation is enacted that further modifies or repeals laws with respect to Section 1031 Exchanges), the Company may be required to distribute a special dividend to its common stockholders and common unitholders in order to minimize or eliminate income taxes on such gains. The Company considers market factors and its performance in addition to REIT requirements in determining its distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which is consistent with the Company's intention to maintain its qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit, and interest-bearing bank deposits.

On September 12, 2023, the Board of Directors declared a regular quarterly cash dividend of \$0.54 per share. The regular quarterly cash dividend is payable to stockholders of record on September 30, 2023 and a corresponding cash distribution of \$0.54 per Operating Partnership unit is payable to holders of the Operating Partnership's common limited partnership interests of record on September 30, 2023, including those owned by the Company. The total cash quarterly dividends and distributions paid on October 11, 2023 were \$63.9 million.

Debt Covenants

The covenants contained within certain of our unsecured debt obligations generally prohibit the Company from paying dividends during an event of default in excess of an amount which results in distributions to us in an amount sufficient to permit us to pay dividends to our stockholders that we reasonably believe are necessary to (a) maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or excise tax.

Capitalization

As of September 30, 2023, our total debt as a percentage of total market capitalization was 57.1%, which was calculated based on the closing price per share of the Company's common stock of \$31.61 on September 30, 2023 as shown in the following table:

	Shares/Units at September 30, 2023	Aggregate Principal Amount or \$ Value Equivalent	% of Total Market Capitalization	
(\$ in thousands)				
Debt: ⁽¹⁾⁽²⁾				
Unsecured Term Loan Facility		\$ 520,000	6.0	%
Unsecured Senior Notes due 2024		410,710	4.7	%
Unsecured Senior Notes due 2025		400,000	4.6	%
Unsecured Senior Notes Series A & B due 2026		250,000	2.9	%
Unsecured Senior Notes due 2028		400,000	4.6	%
Unsecured Senior Notes due 2029		400,000	4.6	%
Unsecured Senior Notes Series A & B due 2027 & 2029		250,000	2.9	%
Unsecured Senior Notes due 2030		500,000	5.7	%
Unsecured Senior Notes due 2031		350,000	4.0	%
Unsecured Senior Notes due 2032		425,000	4.9	%
Unsecured Senior Notes due 2033		450,000	5.2	%
Secured debt		614,159	7.0	%
Total debt		\$ 4,969,869	57.1	%
Equity and Noncontrolling Interests in the Operating Partnership: ⁽³⁾				
Common limited partnership units outstanding ⁽⁴⁾	1,150,574	\$ 36,370	0.4	%
Shares of common stock outstanding	117,239,558	3,705,942	42.5	%
Total Equity and Noncontrolling Interests in the Operating Partnership		\$ 3,742,312	42.9	%
Total Market Capitalization		\$ 8,712,181	100.0	%

(1) Represents gross aggregate principal amount due at maturity before the effect of the following at September 30, 2023: \$29.5 million of unamortized deferred financing costs on the unsecured term loan facility, unsecured senior notes and secured debt and \$5.6 million of unamortized discounts for the unsecured senior notes.

(2) As of September 30, 2023, there was no outstanding balance on the unsecured revolving credit facility.

(3) Value based on closing price per share of our common stock of \$31.61 as of September 30, 2023.

(4) Includes common units of the Operating Partnership not owned by the Company; does not include noncontrolling interests in consolidated property partnerships.

Liquidity and Capital Resources of the Operating Partnership

In this “Liquidity and Capital Resources of the Operating Partnership” section, the terms “we,” “our,” and “us” refer to the Operating Partnership or the Operating Partnership and the Company together, as the context requires.

General

Our primary liquidity sources and uses are as follows:

Liquidity Sources

- Net cash flow from operations;
- Borrowings under the Operating Partnership's unsecured revolving credit facility and unsecured term loan facility;
- Proceeds from our capital recycling program, including the disposition of assets and the formation of strategic ventures;
- Proceeds from additional secured or unsecured debt financings; and
- Proceeds from public or private issuance of debt, equity or preferred equity securities.

Liquidity Uses

- Property operating and corporate expenses;
- Capital expenditures, tenant improvement and leasing costs;
- Development and redevelopment costs;
- Operating property or undeveloped land acquisitions;
- Debt service and principal payments, including debt maturities;
- Distributions to common security holders;
- Repurchases and redemptions of outstanding common stock of the Company; and
- Outstanding debt repurchases, redemptions and repayments.

General Strategy

Our general strategy is to maintain a conservative balance sheet with a strong credit profile and to maintain a capital structure that allows for financial flexibility and diversification of capital resources. We manage our capital structure to reflect a long-term investment approach and utilize multiple sources of capital to meet our long-term capital requirements. We believe that our current projected liquidity requirements for the next twelve-month period, as set forth above under the caption “—Liquidity Uses,” will be satisfied using a combination of the liquidity sources listed above, although there can be no assurance in this regard. We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhance our ability to obtain additional sources of liquidity if necessary, and, therefore, we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities, although there can be no assurance in this regard.

Liquidity Sources

Unsecured Revolving Credit Facility and Term Loan Facility

The following table summarizes the balance and terms of our unsecured revolving credit facility as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Outstanding borrowings	\$ —	\$ —
Remaining borrowing capacity	1,100,000	1,100,000
Total borrowing capacity ⁽¹⁾	\$ 1,100,000	\$ 1,100,000
Interest rate ⁽²⁾	6.31 %	5.20 %
Facility fee-annual rate ⁽³⁾	0.200%	
Maturity date ⁽⁴⁾	July 31, 2025	

- (1) Total borrowing capacity is reduced by the amount of our outstanding letters of credit which total \$5.2 million as of the date of this report. We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$500.0 million under an accordion feature pursuant to the terms of the unsecured revolving credit facility.
- (2) Our unsecured revolving credit facility interest rate was calculated using a contractual rate of Secured Overnight Financing Rate ("SOFR") plus a SOFR adjustment of 0.10% ("Adjusted SOFR") and a margin of 0.900% based on our credit rating as of September 30, 2023 and December 31, 2022. We may be entitled to a temporary 0.01% reduction in the interest rate provided we meet certain sustainability goals with respect to the ongoing reduction of greenhouse gas emissions.
- (3) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of September 30, 2023 and December 31, 2022, \$3.7 million and \$5.3 million of unamortized deferred financing costs, respectively, which are included in prepaid expenses and other assets, net on our consolidated balance sheets, remained to be amortized through the maturity date of our unsecured revolving credit facility.
- (4) The maturity date may be extended by two six-month periods, at the Company's option.

We intend to borrow under the unsecured revolving credit facility as necessary for general corporate purposes, to finance development and redevelopment expenditures, to fund potential acquisitions and to potentially repay long-term debt to supplement cash balances given uncertainties and volatility in market conditions.

In January 2023, the Operating Partnership entered into the first amendment to its existing unsecured term loan facility agreement to (i) exercise the accordion feature under the term loan agreement to provide for \$100.0 million of additional term loan commitments and (ii) increase the borrowing capacity under the accordion feature to provide additional term loan commitments or add one or more tranches of term loans up to an aggregate amount of \$650.0 million. In March 2023, the Operating Partnership further amended the unsecured term loan facility agreement to exercise the accordion feature to provide for \$20.0 million of additional term loan commitments, bringing the total borrowing capacity of the unsecured term loan facility to \$520.0 million.

The following table summarizes the balance and terms of our unsecured term loan facility as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(in thousands)	
Outstanding borrowings	\$ 520,000	\$ 200,000
Remaining borrowing capacity	—	200,000
Total borrowing capacity ⁽¹⁾	\$ 520,000	\$ 400,000
Interest rate ⁽²⁾	6.37 %	5.23 %
Undrawn facility fee-annual rate ⁽³⁾	0.200%	
Maturity date ⁽⁴⁾	October 3, 2024	

- (1) We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional \$130.0 million and \$100.0 million as of September 30, 2023 and December 31, 2022, respectively, under an accordion feature pursuant to the terms of the unsecured term loan facility.
- (2) Our unsecured term loan facility interest rate was calculated using a contractual rate of Adjusted SOFR plus a margin of 0.950% based on our credit rating as of September 30, 2023 and December 31, 2022.
- (3) Our undrawn facility fee is paid on a quarterly basis and is calculated based on the remaining borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of September 30, 2023 and December 31, 2022, \$3.1 million and \$4.5 million, respectively, of unamortized deferred financing costs remained to be amortized through the maturity date of our unsecured term loan facility.
- (4) The maturity date may be extended by two twelve-month periods, at the Company's option.

Capital Recycling Program

As discussed in the section *"Factors That May Influence Future Results of Operations - Capital Recycling Program,"* we continuously evaluate opportunities for the potential disposition of properties and undeveloped land in our portfolio or the formation of strategic ventures with the intent of recycling the proceeds generated from the disposition of less strategic or core assets into capital used to finance development and redevelopment expenditures, to fund new acquisitions, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into Section 1031 Exchanges, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes.

Any potential future disposition transactions and the timing of any potential future capital recycling transactions will depend on market conditions and other factors, including but not limited to our capital needs, the availability of financing for potential buyers (which has been and may continue to be constrained for some potential buyers due to current economic and market conditions), and our ability to defer some or all of the taxable gains on the sales. In addition, we cannot assure you that we will dispose of any additional properties, or that we will be able to identify and complete the acquisitions of suitable replacement properties to effect Section 1031 Exchanges to defer some or all of the taxable gains related to our capital recycling program. In the event we are unable to complete dispositions as planned, we may raise capital through other sources of liquidity including our available unsecured revolving credit facility, our unsecured term loan facility or the public or private issuance of unsecured debt.

Shelf Registration Statement

The Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depository shares and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other things, market conditions, available pricing and capital needs. Capital raising could be more challenging under current market conditions as uncertainty related to interest rates, inflation rates, economic outlook, geopolitical events (including the military conflicts between Russia and Ukraine as well as Israel and Gaza) and other factors have contributed and may continue to contribute to significant volatility and negative pressures in financial markets. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility and unsecured term loan facility, to develop new or redevelop existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

Unsecured and Secured Debt

The aggregate principal amount of the unsecured and secured debt of the Operating Partnership outstanding as of September 30, 2023 was as follows:

	Aggregate Principal Amount Outstanding (in thousands)
Unsecured Term Loan Facility	\$ 520,000
Unsecured Senior Notes due 2024	410,710
Unsecured Senior Notes due 2025	400,000
Unsecured Senior Notes Series A & B due 2026	250,000
Unsecured Senior Notes due 2028	400,000
Unsecured Senior Notes due 2029	400,000
Unsecured Senior Notes Series A & B due 2027 & 2029	250,000
Unsecured Senior Notes due 2030	500,000
Unsecured Senior Notes due 2031	350,000
Unsecured Senior Notes due 2032	425,000
Unsecured Senior Notes due 2033	450,000
Secured Debt	614,159
Total Unsecured and Secured Debt ⁽¹⁾	4,969,869
Less: Unamortized Net Discounts and Deferred Financing Costs ⁽²⁾	(35,063)
Total Debt, Net	\$ 4,934,806

(1) As of September 30, 2023, there was no outstanding balance on the unsecured revolving credit facility.

(2) Includes \$29.5 million of unamortized deferred financing costs on the unsecured term loan facility, unsecured senior notes and secured debt and \$5.6 million of unamortized discounts for the unsecured senior notes. Excludes unamortized deferred financing costs on the unsecured revolving credit facility, which are included in prepaid expenses and other assets, net on our consolidated balance sheets.

In July 2023, certain of our and the Operating Partnership's subsidiaries entered into a \$375.0 million mortgage loan transaction (the "Loan") secured by, among other things, a deed of trust, assignment of leases and rents, security agreement and fixture filing encumbering two office buildings, 608 apartment units and over 95,000 square feet of retail at the Company's One Paseo mixed-use campus in Del Mar, California. The Loan matures on August 10, 2034, bears interest at an annual rate of 5.90% and requires monthly interest payments only, commencing on September 10, 2023. In addition, the Operating Partnership has entered into a guaranty in favor of the lender in connection with the Loan. The Loan is generally non-recourse to the Operating Partnership, but the lender has recourse to the Operating Partnership for certain recourse exceptions.

Debt Composition

The composition of the Operating Partnership's aggregate debt balances between secured and unsecured and fixed-rate and variable-rate debt as of September 30, 2023 and December 31, 2022 was as follows:

	Percentage of Total Debt ⁽¹⁾		Weighted Average Interest Rate ⁽¹⁾	
	September 30, 2023 ⁽²⁾	December 31, 2022	September 30, 2023 ⁽²⁾	December 31, 2022
Secured vs. unsecured:				
Unsecured	87.6 %	94.3 %	4.0 %	3.7 %
Secured	12.4 %	5.7 %	5.1 %	3.9 %
Variable-rate vs. fixed-rate:				
Variable-rate	10.5 %	4.7 %	6.4 %	5.2 %
Fixed-rate ⁽³⁾	89.5 %	95.3 %	3.8 %	3.7 %
Fixed-rate ⁽³⁾			4.1 %	3.7 %
AAP effective rate ⁽⁴⁾			4.1 %	3.8 %
AAP effective rate including debt issuance costs			4.3 %	4.0 %

(1) As of the end of the period presented.

(2) As of September 30, 2023, there was no outstanding balance on the unsecured revolving credit facility.

(3) Excludes the impact of the amortization of any debt discounts/premiums and deferred financing costs.

(4) Includes the impact of amortization of any debt discounts/premiums, excluding deferred financing costs.

Liquidity Uses

Contractual Obligations

Refer to our 2022 Annual Report on Form 10-K for a discussion of our contractual obligations. There have been no material changes outside of the ordinary course of business to these contractual obligations during the nine months ended September 30, 2023 other than the mortgage loan discussed under “Liquidity Sources – Unsecured and Secured Debt.”

Other Liquidity Uses

Development

The following table summarizes our development spending directly related to our operating, development and redevelopment properties as of September 30, 2023:

Development Phase	Number of Projects	Total Estimated	Total Costs	Remaining	Remaining Costs			
		Investment ⁽¹⁾	Incurred	Investment ⁽²⁾	to be Spent in 2023			
		(in millions)						
Stabilized	2	\$ 200	\$ 178	\$ 22	\$5	to	\$10	
Tenant Improvement ⁽³⁾	1	690	653	37	5	to	10	
Under Construction	3	994	564	430	51	to	105	
Total:	6	\$ 1,884	\$ 1,395	\$ 489	\$61	to	\$125	

(1) For redevelopment projects, represents the incremental cost of redevelopment and excludes the existing depreciated basis of the buildings under redevelopment.

(2) Includes costs related to estimated tenant improvements.

(3) Represents projects that have reached cold shell condition and are ready for tenant improvements, which may require additional major base building construction before being placed in service.

The ultimate timing of these expenditures may fluctuate given construction progress and leasing status of the projects, or as a result of events outside our control, such as delays or increased costs as a result of heightened inflation and market conditions. We expect that any material additional development activities will be funded with borrowings under the unsecured revolving credit facility, the unsecured term loan facility, the public or private issuance of debt or equity securities, the disposition of assets under our capital recycling program, or strategic venture opportunities. We cannot provide assurance that development projects will be completed on the terms, for the amounts or on the timelines currently contemplated, or at all.

Debt Maturities

We believe our conservative leverage, staggered debt maturities, unsecured term loan facility and our unsecured revolving credit facility provide us with financial flexibility and enhance our ability to obtain additional sources of liquidity if necessary, and, therefore, we believe we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities. However, we can provide no assurance that we will have access to the public or private debt or equity markets in the future on favorable terms or at all. Excluding our unsecured term loan facility maturing in October 2024, for which we have two twelve-month extension options, our next debt maturity occurs in December 2024. We may, however, repurchase our outstanding debt (including our unsecured senior notes) from time to time prior to maturity (depending on prevailing market conditions, our liquidity, contractual restrictions and other factors) through cash purchases, open-market purchases, privately negotiated transactions, tender offers or otherwise.

In August 2023, the Company completed open-market repurchases of \$14.3 million of the Operating Partnership's 3.45% \$425.0 million unsecured senior notes due December 15, 2024 at a discount, leaving an aggregate remaining principal balance of \$410.7 million.

Potential Future Acquisitions

As discussed in the section “*Factors That May Influence Future Results of Operations - Acquisitions*,” we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add and strategic operating properties, dependent on market conditions and business cycles, among other factors. We focus on growth opportunities primarily in markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, life sciences, entertainment and professional services. We expect that any material acquisitions will be funded with borrowings under the unsecured revolving credit facility and unsecured term loan facility, the public or private issuance of debt or equity securities, the disposition of assets under our capital recycling program, the formation of strategic ventures or through the assumption of existing debt, although there can be no assurance in this regard.

We cannot provide assurance that we will enter into any agreements to acquire properties or undeveloped land, or that potential acquisitions contemplated by any agreements we may enter into in the future will be completed.

Share Repurchases

As of September 30, 2023, 4,935,826 shares remained eligible for repurchase under a share repurchase program approved by the Company's Board of Directors in 2016. Under this program, repurchases may be made in open market transactions at prevailing prices or through privately negotiated transactions. We may elect to repurchase shares of our common stock under this program in the future depending upon various factors, including market conditions, the trading price of our common stock and our other uses of capital. This program does not have a termination date and repurchases may be discontinued at any time. We intend to fund repurchases, if any, primarily with the proceeds from property dispositions.

Potential Future Leasing Costs and Capital Improvements

The amounts we incur for tenant improvements and leasing costs depend on leasing activity in each period. Tenant improvements and leasing costs generally fluctuate in any given period depending on factors such as the type and condition of the property, the term of the lease, the type of the lease, the involvement of external leasing agents, and overall market conditions, including the level of inflation. Capital expenditures may fluctuate in any given period subject to the nature, extent and timing of improvements required to maintain our properties and may be impacted by inflationary pressures on the cost of construction materials. Additionally, due to the uncertainty around current economic market conditions and companies utilizing hybrid/remote work arrangements, there may be a continued lower level of leasing activity as compared to historical trends.

Factors That May Influence Future Sources of Capital and Liquidity of the Company and the Operating Partnership

We continue to evaluate sources of financing for our business activities, including borrowings under the unsecured revolving credit facility, the unsecured term loan facility, issuance of public and private equity securities, unsecured debt and fixed-rate secured mortgage financing, proceeds from the disposition of selective assets through our capital recycling program, and the formation of strategic ventures. However, our ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors, including the state of the macro economy, the state of the credit and equity markets, significant tenant defaults, a decline in the demand for office properties, a decrease in market rental rates or market values of real estate assets in our submarkets, the amount of our future borrowings and uncertainty related to interest rates, inflation rates, geopolitical events (including the military conflicts between Russia and Ukraine as well as Israel and Gaza) and other factors (refer to “Part I, Item 1A. Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2022 for additional information). These events could result in the following:

- Decreases in our cash flows from operations, which could create further dependence on the unsecured revolving credit facility;
- An increase in the proportion of variable-rate debt, which could increase our sensitivity to interest rate fluctuations in the future; and
- A decrease in the value of our properties, which could have an adverse effect on the Operating Partnership's ability to incur additional debt, refinance existing debt at competitive rates, or comply with its existing debt obligations.

In addition to the factors noted above, the Operating Partnership's credit ratings are subject to ongoing evaluation by credit rating agencies and may be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. In the event that the Operating Partnership's credit ratings are downgraded, we may incur higher borrowing costs and may experience difficulty in obtaining additional financing or refinancing existing indebtedness.

Debt Covenants

The unsecured revolving credit facility, unsecured term loan facility, unsecured senior notes, and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Key existing financial covenants and their covenant levels include:

Unsecured Revolving Credit Facility, Unsecured Term Loan Facility and Private Placement Notes (as defined in the applicable Credit Agreements):	Covenant Level	Actual Performance as of September 30, 2023
Total debt to total asset value	less than 60%	28%
Fixed charge coverage ratio	greater than 1.5x	3.7x
Unsecured debt ratio	greater than 1.67x	3.56x
Unencumbered asset pool debt service coverage	greater than 1.75x	4.11x
Unsecured Senior Notes due 2024, 2025, 2028, 2029, 2030, 2032 and 2033 (as defined in the applicable Indentures):		
Total debt to total asset value	less than 60%	39%
Interest coverage	greater than 1.5x	7.1x
Secured debt to total asset value	less than 40%	5%
Unencumbered asset pool value to unsecured debt	greater than 150%	268%

The Operating Partnership was in compliance with all of its debt covenants as of September 30, 2023. Our current expectation is that the Operating Partnership will continue to meet the requirements of its debt covenants in both the short and long term. However, in the event of an economic slowdown or continued volatility in the credit markets, there is no certainty that the Operating Partnership will be able to continue to satisfy all the covenant requirements.

Consolidated Historical Cash Flow Summary

The following summary discussion of our consolidated historical cash flow is based on the consolidated statements of cash flows in Item 1. "Financial Statements" and is not meant to be an all-inclusive discussion of the changes in our cash flow for the periods presented below. Changes in our cash flow include changes in cash and cash equivalents and restricted cash. Our historical cash flow activity for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 is as follows:

	Nine Months Ended September 30,			
	2023	2022	Dollar Change	Percentage Change
(\$ in thousands)				
Net cash provided by operating activities	\$ 492,366	\$ 484,230	\$ 8,136	1.7 %
Net cash used in investing activities	(660,477)	(406,854)	(253,623)	62.3 %
Net cash provided by (used in) financing activities	439,526	(241,469)	680,995	(282.0)%
Net increase (decrease) in cash and cash equivalents	\$ 271,415	\$ (164,093)	\$ 435,508	(265.4)%

Operating Activities

Our cash flows from operating activities depends on numerous factors including the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants, the level of operating expenses, the impact of property acquisitions, completed development projects and related financing activities, and other general and administrative costs. Our net cash provided by operating activities increased by \$8.1 million, or 1.7%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily as result of an increase in cash Net Operating Income generated from stabilized development properties in our Development Portfolio and cash rents received during the nine months ended September 30, 2023 from tenants who had free rent and beneficial occupancy periods during the nine months ended September 30, 2022, partially offset by net changes in other operating liabilities related to the timing of expenditures. See additional information under the caption "—Results of Operations."

Investing Activities

Our cash flows from investing activities is generally used to fund development and operating property acquisitions, expenditures for development and redevelopment projects, and recurring and nonrecurring capital expenditures for our operating properties, net of proceeds received from dispositions of real estate assets. During the nine months ended September 30, 2023, our net cash used in investing activities increased by \$253.6 million or 62.3% compared the nine months ended September 30, 2022 primarily due to purchases of certificates of deposit during the nine months ended September 30, 2023.

Financing Activities

Our cash flows from financing activities is principally impacted by our capital raising activities, net of dividends and distributions paid to common stockholders and common unitholders. During the nine months ended September 30, 2023, we had net cash provided by financing activities of \$439.5 million compared to net cash used in financing activities of \$241.5 million during the nine months ended September 30, 2022 primarily as a result of borrowing \$320.0 million on the unsecured term loan facility and entering into the \$375.0 million mortgage loan during the nine months ended September 30, 2023. We did not draw on any debt facilities or complete any significant debt transactions during the nine months ended September 30, 2022.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods. We base our estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from these estimates.

In our Annual Report on Form 10-K for the year ended December 31, 2022, we identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not made any material changes to our critical accounting policies and estimates during the period covered by this report.

Non-GAAP Supplemental Financial Measure: Funds From Operations (“FFO”)

We calculate FFO in accordance with the 2018 Restated White Paper on FFO approved by the Board of Governors of Nareit. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustment for unconsolidated partnerships and joint ventures. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We also add back net income attributable to noncontrolling common units of the Operating Partnership because we report FFO attributable to common stockholders and common unitholders.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of our operating performance because it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands)				
Net income available to common stockholders	\$ 52,762	\$ 79,757	\$ 164,957	\$ 179,990
Adjustments:				
Net income attributable to noncontrolling common units of the Operating Partnership	515	664	1,612	1,695
Net income attributable to noncontrolling interests in consolidated property partnerships	5,460	6,239	18,673	18,333
Depreciation and amortization of real estate assets	83,518	79,410	263,662	261,129
Gain on sale of depreciable real estate	—	(17,329)	—	(17,329)
Funds From Operations attributable to noncontrolling interests in consolidated property partnerships	(8,208)	(9,084)	(27,045)	(27,042)
Funds From Operations ⁽¹⁾⁽²⁾	<u>\$ 134,047</u>	<u>\$ 139,657</u>	<u>\$ 421,859</u>	<u>\$ 416,776</u>

(1) Reported amounts are attributable to common stockholders, common unitholders and restricted stock unitholders.

(2) FFO available to common stockholders and unitholders includes amortization of deferred revenue related to tenant-funded tenant improvements of \$4.9 million and \$5.0 million for the three months ended September 30, 2023 and 2022, respectively, and \$15.0 million and \$14.2 million for the nine months ended September 30, 2023 and 2022, respectively.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about our market risk is disclosed in "Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and is incorporated herein by reference. There have been no material changes for the nine months ended September 30, 2023, to the information provided in "Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Kilroy Realty Corporation

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures as of September 30, 2023, the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of that time, the disclosure controls and procedures were effective at the reasonable assurance level.

There have been no changes that occurred during the period covered by this report in the Company's internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Kilroy Realty, L.P.

The Operating Partnership maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Operating Partnership's reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer of its general partner, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Operating Partnership carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of its general partner, of the effectiveness of the design and operation of the disclosure controls and procedures as of September 30, 2023, the end of the period covered by this report. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of its general partner concluded, as of that time, the disclosure controls and procedures were effective at the reasonable assurance level.

There have been no changes that occurred during the period covered by this report in the Operating Partnership's internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We and our properties are subject to routine litigation incidental to our business. These matters are generally covered by insurance. As of September 30, 2023, we are not a defendant in, and our properties are not subject to, any legal proceedings that we believe, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in the Company's and the Operating Partnership's annual report on Form 10-K for the year ended December 31, 2022, other than as set forth below, which supplements the risk factors included in the Company's and the Operating Partnership's annual report on Form 10-K for the year ended December 31, 2022.

We could be adversely affected by labor disputes, strikes or other union job actions. If workers providing services at our properties were to engage in a strike or other work stoppage or interruption, our business, results of operations, financial condition and liquidity could be materially adversely affected. Although we believe that our relations with our service providers are good, if disputes with our service providers arise or if workers providing services at our properties engage in a strike or other work stoppage or interruption, we could experience a significant disruption of, or inefficiencies in, our operations or at our properties or incur higher labor costs, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Some of our tenants employ the services of writers, directors, actors and other talent as well as trade employees and others who are subject to collective bargaining agreements in the entertainment industry. If expiring collective bargaining agreements cannot be renewed, then it is possible that the affected unions could take action in the form of strikes or work stoppages. Such actions, including episodic strikes in the entertainment industry, as well as higher costs or operating complexities in connection with these collective bargaining agreements or a significant labor dispute, could have an adverse effect on our tenants' businesses by causing delays in production, added costs or by reducing profit margins, which in turn could adversely affect our ability to collect rent from those tenants and potentially the markets in which our properties are located.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) *Recent Sales of Unregistered Securities: None.*

(b) *Use of Proceeds from Registered Securities: None.*

(c) *Purchases of Equity Securities by the Issuer and Affiliated Purchasers:*

The table below reflects our purchases of common stock during each of the three months in the three-month period ended September 30, 2023.

Period	Total Number of Shares of Stock Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) that May Yet be Purchased Under the Plans or Programs
July 1, 2023 - July 31, 2023	—	\$ —	—	—
August 1, 2023 - August 31, 2023	—	—	—	—
September 1, 2023 - September 30, 2023	53,842	35.13	—	—
Total	53,842	\$ 35.13	—	—

(1) Represents shares of common stock remitted to the Company to satisfy tax withholding obligations in connection with the distribution of, or the vesting and distribution of, restricted stock units or restricted stock in shares of common stock. The value of such shares of common stock remitted to the Company was based on the closing price of the Company's common stock on the applicable withholding date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

(a). None

(b). None

(c). During the three months ended September 30, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each such term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

<u>Exhibit</u> <u>Number</u>	<u>Description</u>
3.(i)1	Articles of Amendment and Restatement of Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 21, 2020)
3.(i)2	Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)3	Amendment to the Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)
3.(i)4	Articles Supplementary reclassifying shares of the Series G Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(i)5	Articles Supplementary reclassifying shares of the Series H Preferred Stock of the Company (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 23, 2017)
3.(ii)1	Seventh Amended and Restated Bylaws of Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 20, 2021)
3.(ii)2	Seventh Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of August 15, 2012, as amended (previously filed by Kilroy Realty Corporation on Form 10-Q for the quarter ended June 30, 2014)
10.1*	Promissory Note dated as of July 20, 2023
10.2*	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of July 20, 2023
10.3*	Guaranty dated as of July 20, 2023
10.4*	Multipurpose Side Letter dated as of July 20, 2023
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty Corporation
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty Corporation
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty, L.P.
31.4*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty, L.P.
32.1*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty Corporation
32.2*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty Corporation
32.3*	Section 1350 Certification of Chief Executive Officer of Kilroy Realty, L.P.
32.4*	Section 1350 Certification of Chief Financial Officer of Kilroy Realty, L.P.
101.1	The following Kilroy Realty Corporation and Kilroy Realty, L.P. financial information for the quarter ended September 30, 2023, formatted in inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Equity (unaudited), (iv) Consolidated Statements of Capital (unaudited), (v) Consolidated Statements of Cash Flows (unaudited) and (vi) Notes to the Consolidated Financial Statements (unaudited). ⁽¹⁾
104.1*	Cover Page Interactive Data File - The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

Filed herewith.

Management contract or compensatory plan or arrangement.

) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of 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 October 26, 2023.

KILROY REALTY CORPORATION

By: /s/ John Kilroy
John Kilroy
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Elliott Trencher
Elliott Trencher
Executive Vice President,
Chief Financial Officer
and Chief Investment Officer
(Principal Financial Officer)

By: /s/ Merryl E. Werber
Merryl E. Werber
Senior Vice President,
Chief Accounting Officer and Controller
(Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements 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 October 26, 2023.

KILROY REALTY, L.P.

BY: KILROY REALTY CORPORATION

Its general partner

By: /s/ John Kilroy

John Kilroy
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Elliott Trencher

Elliott Trencher
Executive Vice President,
Chief Financial Officer
and Chief Investment Officer
(Principal Financial Officer)

By: /s/ Merryl E. Werber

Merryl E. Werber
Senior Vice President,
Chief Accounting Officer and Controller
(Principal Accounting Officer)

PROMISSORY NOTE

\$375,000,000.00

San Diego, California
July 20, 2023

FOR VALUE RECEIVED, **KR ONE PASEO RESIDENTIAL, LLC**, a Delaware limited liability company, **KR ONE PASEO RETAIL, LLC**, a Delaware limited liability company, and **KR ONE PASEO OFFICE, LLC**, a Delaware limited liability company (collectively, "**Maker**"), each having an office at c/o Kilroy Realty Corporation, 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064, promises to pay to **NEW YORK LIFE INSURANCE COMPANY**, a New York mutual insurance company ("**Holder**"), having its principal office at 51 Madison Avenue, New York, New York 10010-1603, or order, without offset, at its principal office in New York, New York, or at such other place as may be designated in writing by Holder, the principal sum of Three Hundred Seventy-Five Million and 00/100 Dollars (\$375,000,000.00), lawful money of the United States of America, together with interest thereon at the rate ("**Interest Rate**") of five and 90/100th percent (5.90%) per annum, payable in monthly payments of interest only ("**Payments**") in the amount of One Million Eight Hundred Forty-Three Thousand Seven Hundred Fifty and 00/100 Dollars (\$1,843,750.00), commencing on the tenth (10th) day of September, 2023 and payable on the tenth (10th) day of each and every month thereafter until and including August 10, 2034 ("**Maturity Date**"). In addition, on the Maturity Date, Maker shall pay to Holder the entire unpaid principal balance of this Note, together with all interest then accrued thereon pursuant to this Note and all other Obligations (as hereinafter defined) then unpaid pursuant to the Loan Instruments (as hereinafter defined). Holder shall apply each Payment, when received, first to the Obligations, other than principal and interest, which are then due and payable, but only if so elected by Holder in its sole and absolute discretion, and then to the payment of accrued interest on the outstanding principal balance hereof and the remainder to the reduction of such principal balance. Interest from the date hereof through and including August 9, 2023, is due and payable on the date of this Note and shall be computed on the basis of the actual number of days in such period over a 360-day year.

1. **Loan Instruments.** This Note is governed and secured by, among other things, (a) a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "**Security Instrument**"), dated as of the date hereof, granted by Maker to Holder and encumbering the premises and other property (the "**Secured Property**") more particularly described in the Security Instrument, (b) an Assignment of Leases, Rents, Income and Cash Collateral, dated as of the date hereof, from Maker to Holder, and (c) a multi-purpose side letter agreement dated as of the date hereof, by and among Holder, Maker and Guarantor (the "**Side Letter**"). Obligations, Loan Instruments and all other capitalized terms used in this Note and not expressly defined herein shall have the meanings assigned to such terms in the Security Instrument. The terms and provisions of the Loan Instruments, other than this Note, are hereby fully incorporated into this Note by reference.

2. **ACH.** In the event that electronic fund transfer debiting is established for regularly scheduled payments under the Loan Instruments, Maker will cooperate with Holder and provide such documentation as is required to effectuate such payments by electronic fund transfer debit transactions through the Automated Clearing House network. Once the payment authorization is

established, the failure of the electronic funds transfer debit entry transaction to be timely completed, for whatever reason, other than Holder's failure to initiate the debit, shall not relieve Maker of its obligations to make all payments required hereunder or under the other Loan Instruments when due, and to comply with Maker's other obligations under the Loan Instruments.

3. **Default Interest.** From and after the occurrence of an Event of Default (other than an Event of Default which Lender, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), the aggregate amount of the Obligations shall automatically bear interest at an annual rate ("**Increased Rate**") equal to the Interest Rate plus five percentage points (5%), unless compliance with applicable law requires a lesser interest rate, in which event the aggregate amount of the Obligations shall bear interest at the maximum rate permitted by law.

4. **Late Charge.** Any default in the making of any Payment or in the making of any payment due pursuant to Section 1.04 of the Security Instrument or in the making of any other deposit or reserve due pursuant to any Loan Instrument on the date the same is due will result in loss and additional expense to Holder in servicing the Obligations, handling such delinquent payments and meeting its other financial obligations. Accordingly, upon the occurrence of any such default, Maker shall pay, without regard to any grace periods, a late charge ("**Late Charge**") of four percent (4%) of each such overdue payment. Maker agrees that (a) the exact amount of such loss and additional expense is extremely difficult, if not impossible to determine, (b) the Late Charge is a reasonable estimate of such loss and expense and therefore does not constitute a penalty and (c) in addition to, and not in lieu of, the exercise of any other remedies to which Holder may be entitled, Holder may collect from Maker all Late Charges for the purpose of defraying such loss and expense, unless applicable law requires a lesser such charge, in which event Holder may collect from Maker a Late Charge at the maximum rate permitted by applicable law. For the avoidance of doubt, no Late Charge shall be applied with respect to the payment of the outstanding principal balance due on the Maturity Date.

5. **Prepayment.**

(a) Maker may not prepay the Obligations prior to September 10, 2025 (such period from the Closing Date through September 9, 2025, the "**Closed Period**"). On or at any time after September 10, 2025, Maker may prepay the outstanding principal balance of this Note (in whole but not in part), together with accrued interest thereon to the date of prepayment and any other outstanding Obligations, provided that (i) Maker gives Holder not less than thirty (30) days and not more than one hundred (100) days prior written notice of Maker's intention to make such prepayment, (ii) at least five (5) Business Days prior to the prepayment date, Maker gives Holder written notice confirming the actual prepayment date and (iii) in addition to paying the entire outstanding principal balance of this Note, all accrued interest thereon and any other outstanding Obligations, Maker pays to Holder the Make-Whole Amount. Any notice of prepayment may be rescheduled to a later date or rescinded by Maker provided that Maker (i) delivers to Holder notice of said rescheduling or rescission at least five (5) days prior to the date scheduled for prepayment, (ii) pays to Holder in connection with each rescheduling or rescission after the first rescheduling or rescission, together with said rescheduling or rescission notice, a fee equal to \$1,000 and (iii) shall be responsible for the prompt payment of all reasonable costs actually incurred by Holder in connection with any rescinded prepayment notice. Any prepayment notice given by Maker shall be deemed null and void if the prepayment covered by such notice is not made within thirty (30)

days following the date specified in Maker's prepayment notice as the designated date for prepayment.

(b) **"Make-Whole Amount"** with respect to any prepayment that occurs after the Closed Period means an amount equal to the greater of (i) one percent (1%) of the then entire outstanding principal balance of this Note or (ii) the present value as of the date of prepayment of the remaining scheduled payments of principal and interest (including the balloon payment on the Maturity Date), determined by discounting such payments at the Monthly Equivalent Treasury Security Rate (as hereinafter defined), less the amount of principal being prepaid, provided such difference shall not be less than zero. **"Monthly Equivalent Treasury Security Rate"** means the rate which, when compounded monthly, results in a yield that is equivalent to the yield on the Most Recently Auctioned U.S. Treasury Security (as hereinafter defined), which is compounded semi-annually, plus fifty (50) basis points, having the same maturity date as this Note (or if there is not a Most Recently Auctioned U.S. Treasury Security with the same maturity date as the maturity date of this Note, then the linearly interpolated yield-to-maturity of the two Most Recently Auctioned U.S. Treasury Securities have the next longer and the next shorter remaining terms to maturity), as reported in the Bloomberg News Service (or, if Bloomberg New Service is no longer available, The Wall Street Journal or another daily financial service or publication of national circulation reasonably selected by Holder) as of the close of business on the second (2nd) Business Day preceding the date of prepayment. **"Most Recently Auctioned U.S. Treasury Security"** means the U.S. Treasury bonds, notes and bills with maturities of thirty (30) years, ten (10) years, five (5) years, three (3) years, two (2) years, one (1) year, six (6) months and three (3) months that were most recently auctioned by the United States Treasury Department as of the date the Make-Whole Amount is calculated. Maker waives any right of prepayment except as expressly provided herein and as may be provided in the other Loan Instruments. If Maker prepays all Obligations on or after May 10, 2034 and after not less than thirty (30) days prior written notice to Holder, Maker shall not be required to pay the Make-Whole Amount.

(c) Notwithstanding the foregoing, in the event of a casualty or condemnation with respect to the Secured Property, provided that (i) no Event of Default has occurred, other than an Event of Default which Holder, in its sole discretion, has accepted a cure in writing (or otherwise waived in writing in Holder's sole discretion) and (ii) Holder, in accordance with the terms of the Loan Instruments, upon notice to Maker (**"Holder's Application Election Notice"**), does not permit the insurance proceeds or condemnation award, as applicable, to be used for the restoration of the Secured Property and elects to apply such award or proceeds to the Obligations, then no Make-Whole Amount shall be due with respect to such application of the insurance proceeds or condemnation award to the Obligations.

(d) Notwithstanding anything contained herein to the contrary, Maker shall have the right to partially prepay the Obligations under this Note in connection with (i) a transfer pursuant to Section 4 of the Side Letter or (ii) a Release pursuant to Section 7 of the Side Letter, in each case provided that (x) all of the conditions set forth in the Side Letter with respect to such transfer or Release, respectively, have been satisfied and the partial prepayment is made simultaneous with the transfer or Release, (y) such prepayment amount does not exceed the minimum amount necessary to satisfy the conditions set forth in the Side Letter with respect to such transfer or Release, respectively, and (z) Maker shall pay the Make-Whole Amount (if any) with respect to the amount of such prepayment. For purposes of a partial prepayment under this

clause (d), such prepayment may occur during the Closed Period to the extent permitted pursuant to the terms of the Side Letter.

6. **Event of Default**. If the outstanding principal balance of this Note or any portion thereof shall become due and payable or shall be paid as a result of (a) an Event of Default (which Event of Default shall be presumed to be, and conclusively shall be deemed to be a willful default and a deliberate attempt on Maker's part to avoid payment of the Make-Whole Amount), (b) the exercise by Maker or any other person of any right of redemption or the taking by Maker or any other person of any other action to prevent a foreclosure of the Secured Property, (c) any prepayment of the Loan in connection with a foreclosure or similar proceeding or a foreclosure judgment, (d) a casualty or condemnation with respect to the Secured Property not addressed by Section 5(c) above, or (e) any other prepayment not permitted by the Loan Instruments, then Maker shall pay to Holder the Make-Whole Amount computed, to the extent not prohibited by applicable law, as if Maker had elected to prepay this Note, as provided in Section 5(b) above, on the date of such Event of Default, exercise, action, casualty or condemnation, as applicable. If such Event of Default, exercise, action, casualty or condemnation occurs during the Closed Period, then, to the extent not prohibited by applicable law, the Make-Whole Amount shall be equal to the greater of (a) ten percent (10%) of the principal balance of this Note then unpaid or (b) the Make-Whole Amount, as calculated in the manner set forth in Section 5(b) above.

7. **Acceleration**. From and after the existence of an Event of Default, Holder, at its option, may declare all Obligations to be immediately due and payable, then or thereafter, as Holder may elect, regardless of the stated Maturity Date of this Note.

8. **Costs**. If Holder collects all or any part of the Obligations by an action, at law or in equity, or in any bankruptcy, receivership or other court proceeding (whether at the trial or appellate level), or if this Note is placed in the hands of attorney(s) for collection, Maker shall pay, in addition to the principal and interest due or deemed to be due, whether by acceleration or otherwise, and in addition to the Make-Whole Amount (a) all out-of-pocket costs, including, without limitation, attorneys' fees and expenses, of collecting or attempting to collect all amounts due pursuant to this Note and all other Obligations, of enforcing or attempting to enforce Holder's rights and remedies pursuant to the Loan Instruments and of protecting the collateral securing this Note, (b) all Late Charges due pursuant to this Note and (c) interest, at the Increased Rate, computed on the amount of the Obligations.

9. **Remedies**. The failure by Holder to exercise any right, power, privilege, remedy or option as to maturity, foreclosure or otherwise, provided in any Loan Instrument or otherwise available at law or in equity (each a "**Remedy**" and collectively, "**Remedies**") before or after any Event of Default, in any one or more instances, or the acceptance by Holder of any partial payment or partial performance, shall not constitute a waiver of any default or any Remedy, each of which shall remain continuously in force, until waived in writing by Holder. Holder, at its option, may rescind, in writing, any acceleration of this Note, but the tender and acceptance of partial payment or partial performance alone shall not rescind or in any other way affect any acceleration of this Note or the exercise by Holder of any of its Remedies.

10. **Usury Savings Clause**. Maker and Holder intend to comply strictly with all usury laws now or hereafter in force in the jurisdiction ("**State**") in which the Secured Property is located,

and all interest payable pursuant to this Note or any other Loan Instrument shall be reduced to the maximum amount which is not in excess of the maximum non-usurious rate of interest applicable to this Note or any other Loan Instrument ("**Legal Rate**") allowed under the usury laws of the State, as now or hereafter construed by the courts having jurisdiction over such matters. If the aggregate of all interest (whether designated as interest, Late Charges, Make-Whole Amount or otherwise) contracted for, chargeable or receivable pursuant to this Note or any other Loan Instrument, whether upon regular payment or acceleration or otherwise, exceeds the Legal Rate, it shall conclusively be deemed a mutual mistake. Such excess shall be canceled automatically, and, if theretofore paid, shall, at the option of Holder, either be rebated to Maker or credited in reduction of the outstanding principal balance of this Note, or, if this Note has been repaid, such excess shall be rebated to Maker. In the event of a conflict between the provisions of this paragraph and the provisions of any other portion of this Note or any other Loan Instrument, the provisions of this paragraph shall control.

11. **Waiver and Consent**. Maker waives all requirements for presentment, protest, notice of protest, notice of dishonor, demand for payment and diligence in collection of this Note or the Loan Instruments, and any and all other notices and matters of a like nature, except for those expressly required by the Loan Instruments. Without notice to Maker and without discharging Maker's liability hereunder, Maker consents to any extension of time (whether one or more) of payment of this Note, release of all or any part of the security for the payment of this Note or release of any Person liable for payment of this Note.

12. **Miscellaneous**. This Note may be changed only by an agreement, in writing, signed by Maker and Holder. Maker waives and renounces all homestead exemption rights as to the Obligations or any renewal or extension thereof. No failure or delay on the part of Holder in exercising any Remedy pursuant to this Note or any Loan Instrument, and no course of dealing between Maker and Holder, shall operate as a waiver of any Remedy, nor shall any single or partial exercise of any Remedy preclude any other or further exercise thereof or the exercise of any other Remedy. All Remedies expressly provided for in the Loan Instruments are cumulative, and are not exclusive of any rights, powers, privileges or remedies which Holder would otherwise have at law or equity. No notice to or demand on Maker in any case shall entitle Maker to any other or further notice or demand in similar or other circumstances, nor shall any such notice or demand constitute a waiver of the right of Holder to take any other or further action in any circumstances without notice or demand.

13. **Joint and Several Liability/Severability**. The obligations of each Person and entity comprising Maker shall be joint and several. The unenforceability or invalidity of any provision of this Note as to any Person or circumstance shall not render that provision unenforceable or invalid as to any other Person or circumstance, and all provisions hereof, in all other respects, shall remain valid and enforceable.

14. **Recourse**. This Note is and shall be full recourse to Maker.

15. **Business Day**. If any payment required hereunder or under any other Loan Instrument becomes due on a day that is not a Business Day, then such payment shall be due and payable on the immediately preceding Business Day.

16. **Successors and Assigns.** "Maker" and "Holder" shall be deemed to include the respective heirs, administrators, legal representatives, successors and assigns of Maker and Holder.

17. **Time is of the Essence.** Time is of the essence with respect to each and every provision hereof.

18. **Governing Law.** This Note shall be governed by, and construed and enforced in accordance with the laws of the State, other than such laws with respect to conflicts of laws.

19. **Inconsistencies.** In the event of any inconsistencies between the terms of this Note and the terms of any other Loan Instruments, the terms of this Note shall prevail.

20. **Counterparts.** This Note may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

MAKER:

KR ONE PASEO RESIDENTIAL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend

Name: Jon Taylor Friend

Title: SVP, Treasurer

By: /s/ Lauren N. Stadler

Name: Lauren N. Stadler

Title: SVP, Corporate Counsel

KR ONE PASEO RETAIL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend

Name: Jon Taylor Friend

Title: SVP, Treasurer

By: /s/ Lauren N. Stadler

Name: Lauren N. Stadler

Title: SVP, Corporate Counsel

[Signatures continued on the following page]

KR ONE PASEO OFFICE, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend

Name: Jon Taylor Friend

Title: SVP, Treasurer

By: /s/ Lauren N. Stadler

Name: Lauren N. Stadler

Title: SVP, Corporate Counsel

THIS INSTRUMENT PREPARED
BY AND WHEN
RECORDED RETURN TO:
Alison M. Mitchell, Esq.
DLA Piper LLP (US)
444 West Lake Street, Suite 900
Chicago, Illinois 60606-0089

A.P.N.: 304-070-64; 304-070-65; 304-070-66; and 304-070-67
Property Address: 3200 Paseo Village Way, 12830 and 12860 El Camino
Real, San Diego, California 92130

DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING

KR ONE PASEO RESIDENTIAL, LLC, a Delaware limited liability company,
KR ONE PASEO RETAIL, LLC, a Delaware limited liability company, and
KR ONE PASEO OFFICE, LLC, a Delaware limited liability company,

collectively, Grantor

to

CHICAGO TITLE COMPANY, a California corporation,

as Trustee for the benefit of

NEW YORK LIFE INSURANCE COMPANY, a New York mutual insurance company,

Beneficiary

Dated as of: July 20, 2023

ATTENTION: THIS SECURITY INSTRUMENT SERVES AS A FINANCING STATEMENT FILED AS A FIXTURE FILING UNDER SECTION 9502 OF THE CALIFORNIA UNIFORM COMMERCIAL CODE AND COVERS GOODS THAT ARE OR ARE TO BECOME FIXTURES ON THE REAL PROPERTY DESCRIBED HEREIN AND IS TO BE FILED FOR RECORD IN THE RECORDS WHERE DEEDS OF TRUST ON REAL ESTATE ARE RECORDED. ADDITIONALLY, THIS SECURITY INSTRUMENT IS TO BE FILED IN THE INDEX OF FINANCING STATEMENTS UNDER THE NAMES OF THE TRUSTOR, AS "DEBTOR", AND THE BENEFICIARY, AS "SECURED PARTY". THE TRUSTOR IS A RECORD OWNER OF AN INTEREST IN THE REAL PROPERTY DESCRIBED HEREIN. THE MAILING ADDRESSES OF THE TRUSTOR (DEBTOR) AND THE BENEFICIARY (SECURED PARTY) ARE SET FORTH BELOW.

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DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING

DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (this "Security Instrument"), dated as of July 20, 2023, from **KR ONE PASEO RESIDENTIAL, LLC**, a Delaware limited liability company ("Residential Grantor"), **KR ONE PASEO RETAIL, LLC**, a Delaware limited liability company ("Retail Grantor"), and **KR ONE PASEO OFFICE, LLC**, a Delaware limited liability company ("Office Grantor") and, together with Residential Grantor and Retail Grantor, individually or collectively as the context may require, "Grantor" or "Grantors", each having an office at c/o Kilroy Realty Corporation, 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064, to CHICAGO TITLE COMPANY, a California corporation ("Trustee"), having an office at 4911 Birch Street, Newport Beach, CA 92660, for the benefit of **NEW YORK LIFE INSURANCE COMPANY**, a New York mutual insurance company ("Beneficiary"), having an office at 51 Madison Avenue, New York, New York 10010-1603.

Grantor has executed and delivered to Beneficiary a Promissory Note ("Note"), dated as of July 20, 2023, payable to the order of Beneficiary in the original principal sum of Three Hundred Seventy-Five Million and 00/100 Dollars (\$375,000,000.00), lawful money of the United States of America. The Note is secured by this Security Instrument and the terms, covenants and conditions of the Note are hereby incorporated herein and made a part hereof.

In consideration of the sum of Ten Dollars (\$10.00) paid and other good and lawful consideration, the receipt and sufficiency of which are hereby acknowledged and in order to secure the Obligations (as hereinafter defined), Grantor hereby mortgages, grants, assigns, releases, transfers, pledges and sets over to Trustee, its successors and assigns, in trust, WITH POWER OF SALE and right of entry and possession, for the benefit of Beneficiary and grants to Beneficiary a security interest in the following property now owned, or hereafter acquired by Grantor:

GRANTING CLAUSE ONE

All that tract or parcel of land ("Land") more particularly described in Exhibit A attached hereto and incorporated herein by this reference.

GRANTING CLAUSE TWO

All buildings, structures and improvements (collectively, "Improvements") now or hereafter located on the Land, including all machinery, apparatus, equipment and fixtures attached to, or used or procured for use in connection with the operation or maintenance of, any Improvement, all refrigerators, shades, awnings, venetian blinds, screens, screen doors, storm doors, storm windows, stoves, ranges, curtain fixtures, partitions, attached floor coverings and fixtures, apparatus, equipment or articles used to supply sprinkler protection and waste removal, laundry equipment, furniture, furnishings, appliances, office equipment, elevators, escalators, tanks, dynamos, motors, generators, switchboards, communication equipment, electrical equipment, television and radio systems, heating, plumbing, lifting and ventilating apparatus, air-cooling and air conditioning apparatus, gas and electric fixtures, fittings and machinery and all other personal property and equipment of every kind and description and all accessions,

renewals and replacements thereof and all articles in substitution therefor, provided however, that the following shall be excluded: personal property of any Lessee (as hereinafter defined) that does not become the property of Grantor upon expiration or termination of the term of the Lease in question. Whether or not any of the foregoing are attached to the Land or any of the Improvements in any manner, all such items shall be deemed to be fixtures, part of the real estate and security for the Obligations. The Land and Improvements are herein collectively called "Premises". To the extent any of the Improvements are not deemed real estate under the laws of the State, they shall be deemed personal property and this grant shall include all of Grantor's right, title and interest in, under and to such personal property and all other personal property now or hereafter attached to or located upon the Premises (except to the extent set forth on Schedule B of that certain Certification of Inventory dated as of the date hereof from Grantor to Beneficiary (the "Certification of Inventory")) or used or useable in the management, maintenance or operation of the Improvements or the activities conducted on the Premises, including all computer hardware and software, but excluding personal property of any Lessee, unless such personal property becomes the property of Grantor upon expiration or termination of the Lease in question, and all accessions, renewals and replacements thereof and all articles in substitution therefor (collectively, "Personal Property").

GRANTING CLAUSE THREE

All now or hereafter existing easements and rights-of-way and all right, title and interest of Grantor, in and to any land lying within the right-of-way of any street, opened or proposed, adjoining the Premises, any and all sidewalks, alleys and strips and gores of land, streets, ways, passages, sewer rights, waters, water courses, water rights and powers, estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, air rights, development rights, covenants, conditions, restrictions, credits and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to, or above or below the Premises, whether now or hereafter existing.

GRANTING CLAUSE FOUR

Except to the extent set forth on Schedule B of the Certification of Inventory, all intangible rights, interests and properties of Grantor relating to the Premises or any part thereof, and necessary or desirable for the continued ownership, use, operation, leasing or management thereof, whether now or hereafter existing, including any trademarks, service marks, logos or trade names relating to the Premises or by which the Premises or any part thereof may be known and any other franchises or other agreements relating to services in connection with the use, occupancy, or maintenance of the Premises, instruments, actions or rights in action and all intangible property and rights relating to the Premises; provided, however, that notwithstanding anything herein to the contrary, Grantor's right to the non-exclusive use of the name "One Paseo" shall be preserved.

GRANTING CLAUSE FIVE

All accounts receivable, insurance policies (other than any blanket policy, provided that proceeds from any blanket insurance policies that are attributable to the Premises shall be included under this Granting Clause Five), interests, rights under all oil, gas and mineral leases and agreements and all benefits arising therefrom, and all other claims, both at law and in equity, relating to the Premises, which Grantor now has or may hereafter acquire.

GRANTING CLAUSE SIX

All estate, interest, right, title and other claim or demand which Grantor now has or may hereafter acquire in any and all awards or payments relating to the taking by eminent domain, or by any proceeding or purchase in lieu thereof, of the whole or any part of the Premises, including all awards resulting from a change of grade of any street and awards for severance damages, together, in all cases, with all interest thereon.

GRANTING CLAUSE SEVEN

All proceeds of, and any unearned premiums on, insurance policies to the extent covering all or any part of the Premises, including the right to receive and apply the proceeds of all insurance or judgments related to the Premises, or settlements made in lieu thereof.

GRANTING CLAUSE EIGHT

All estate, interest, right, title and other claim or demand which Grantor now has or may hereafter acquire against anyone with respect to any damage to all or any part of the Premises, including damage arising or resulting from any defect in or with respect to the design or construction of all or any part of the Improvements.

GRANTING CLAUSE NINE

All deposits or other security or advance payments, including rental payments, made by or on behalf of Grantor to others in connection with the Obligations or the ownership or operation of all or any part of the Premises, including any such deposits or payments made with respect to (a) Impositions (as hereinafter defined), (b) insurance policies (to the extent related to the Premises and specifically excluding any blanket policy), (c) utility service, (d) cleaning, maintenance, repair or similar services, (e) refuse removal or sewer service, (f) rental of equipment, if any, used by or on behalf of Grantor, and (g) parking or similar services or rights.

GRANTING CLAUSE TEN

All remainders, reversions or other estates in the Premises or any part thereof.

GRANTING CLAUSE ELEVEN

All management contracts, permits, certificates, licenses, approvals, contracts, entitlements and authorizations, however characterized, now or hereafter issued or in any way furnished for the acquisition, construction, development, operation and use of the Land, the Improvements or the Leases, including building permits, environmental certificates, licenses, certificates of operation or occupancy, warranties and guaranties, except, in each case, to the extent that such mortgage, grant, assignment, transfer or pledge is restricted by the terms of such management contract, permit, certificate, license, approval, contract, entitlement or authorization and such restriction is enforceable under applicable law.

GRANTING CLAUSE TWELVE

All right, title and interest of Grantor in and to all easements, roads, streets, ways, sidewalks, alleys, passages, sewer rights, other utility rights, encroachment rights, and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, air rights, and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to, or arising under any easements, declarations or agreements affecting the Secured Property, whether now or hereafter existing.

GRANTING CLAUSE THIRTEEN

All proceeds, products, replacements, additions, substitutions, renewals and accessions of any of the foregoing, including personal property acquired by Grantor with cash proceeds.

TO HAVE AND TO HOLD the above granted and described Secured Property unto the Trustee and his successors or substitutes in this trust and to his or their successors or substitutes in trust in fee simple, forever.

DEFINITIONS AND INTERPRETATION

As used in this Security Instrument, the following terms shall have the meanings specified below:

"Acceptable Delaware LLC" means a limited liability company formed under Delaware law which (a) has at least one springing member, which, upon the dissolution of all of the members of the limited liability company or the withdrawal or the disassociation of all of the members from the limited liability company, shall immediately become the sole member of such limited liability company, (b) has a duly-appointed Independent Manager and (c) otherwise meets Beneficiary's criteria applicable to such entities.

"Alteration Threshold" shall mean an amount equal to \$2,000,000.

"Assignment" shall mean the Assignment of Leases, Rents, Income and Cash Collateral, dated as of the date hereof, from Grantor, as assignor, to Beneficiary, as assignee.

"Beneficiary's Architect" shall mean a licensed architect or registered engineer approved by Beneficiary.

"Business Day" shall mean all days except Saturdays, Sundays, U.S. federal holidays or any other day on which banks are not required or authorized to close in the State of California.

"Code" shall mean the Uniform Commercial Code of the State.

"Condemnation Proceedings" shall have the meaning set forth in Section 1.07A.

"Delaware LLC Act" shall mean the Delaware Limited Liability Company Act (6 Del. C. § 18 101 et seq.), as amended from time to time.

"ERISA" shall have the meaning set forth in Section 2.11.

"Environmental Indemnity" shall have the meaning set forth in Section 1.05E.

"Event of Default" shall have the meaning set forth in Section 3.01.

"Governmental Agency" shall mean any government, quasi-governmental or government sponsored enterprise, legislative body, commission, board, regulatory authority, bureau, administrative or other agency, court, arbitrator, grand jury or any other public body or entity or instrumentality, whether domestic, foreign, federal, state, county or municipal.

"Guarantor" shall mean Kilroy Realty, L.P., a Delaware limited partnership, its successors, assigns and replacements subject to and in accordance with the terms of the Loan Instruments, and any indemnitor (other than Grantor) under the Environmental Indemnity or any subsequent Environmental Indemnity Agreement or similar agreement executed by Grantor and/or an indemnitor in favor of Beneficiary.

"Impositions" shall have the meaning set forth in Section 1.02A.

"Improvements" shall have the meaning set forth in Granting Clause Two.

"Increased Rate" shall have the meaning set forth in the Note.

"Independent Manager" shall have the meaning set forth in Section 5.20U.

"Individual Parcel" shall have the meaning set forth in Section 1.06A.

"Land" shall have the meaning set forth in Granting Clause One.

"Lease" and "Leases" shall have the respective meanings set forth in Section 1.08A.

"Legal Requirements" shall mean all present or future laws, statutes, permits, approvals, authorizations, franchises, ordinances, restrictions, orders, rules, codes, regulations, judgments, decrees, injunctions or requirements of all Governmental Agencies or any officers thereof, including any Board of Fire Underwriters.

"Lessee" shall have the meaning set forth in Section 1.08A.

"Loan" shall mean the mortgage loan evidenced by the Note and secured by this Security Instrument.

"Loan Instruments" shall mean the Note, this Security Instrument, the Assignment and each other instrument now or hereafter given to evidence, secure, indemnify, guaranty or otherwise assure or provide for the payment or performance of the Obligations or otherwise executed in connection with the Loan by Grantor, Guarantor or any other Person liable for any of the Obligations.

"Make-Whole Amount" shall have the meaning set forth in the Note.

"Material Action" shall mean (a) any proposed insolvency or bankruptcy proceeding of Grantor or any SPE Principal, (b) any dissolution or liquidation of Grantor or any SPE Principal,

and (c) any amendment or modification of any provision of Grantor's or any SPE Principals organizational documents relating to its purpose or bankruptcy-remote status.

"Maturity Date" shall have the meaning set forth in the Note.

"Note" shall have the meaning set forth in the second introductory paragraph of this Security Instrument.

"Obligations" shall mean and include all indebtedness, obligations, covenants, agreements and liabilities of Grantor to Beneficiary, including all obligations to pay interest, the Make-Whole Amount and all charges and advances, whether direct or indirect, existing, future, contingent or otherwise, due or to become due, pursuant to or arising out of or in connection with the Note, this Security Instrument, the Assignment or any other Loan Instrument, all modifications, extensions and renewals of any of the foregoing and all out-of-pocket expenses and costs of collection or enforcement, including attorneys' fees and disbursements actually incurred by Beneficiary in the collection or enforcement of any of the Loan Instruments or in the exercise of any rights or remedies pursuant to the Loan Instruments or applicable law.

"OFAC" shall have the meaning set forth in Section 2.08.

"Office Parcel" shall have the meaning set forth in Section 1.06A.

"Partial Foreclosure" shall have the meaning set forth in Section 4.01B.

"Permitted Encumbrances" shall mean collectively, (a) the lien and security interests created by this Security Instrument and the other Loan Instruments, (b) all liens, rights-of-way, encumbrances and other matters disclosed on Schedule B-I of that certain ALTA loan title insurance policy issued to Beneficiary (the "Title Policy"), (c) statutory liens, if any, for property taxes imposed by any Governmental Agency not yet due or delinquent or which are being contested in accordance with the terms of this Security Instrument, (d) existing Leases and new Leases entered into in accordance with this Security Instrument, (e) liens in connection with any permitted equipment leases, (f) any workers', mechanics' or other similar liens on the Premises provided that any such lien is inchoate or otherwise arising out of work performed by or at the request of Grantor provided that any such lien is bonded or discharged within thirty (30) days after such lien is of record or is being contested in accordance with the terms of this Security Instrument and the other Loan Instruments, (g) easements, rights-of-way, restrictions or other similar encumbrances encumbering the Premises to be entered into after the date hereof permitted pursuant to the express terms and provisions of the Loan Instruments, and (h) any other liens being contested in good faith in accordance with the terms and conditions of this Security Instrument.

"Person" shall mean a corporation, a limited or general partnership, a limited liability company or partnership, a joint stock company, a joint venture, a trust, an unincorporated association, a Governmental Agency, an individual or any other entity similar to any of the foregoing.

"Personal Property" shall have the meaning set forth in Granting Clause Two.

"Premises" shall have the meaning set forth in Granting Clause Two.

"Proceeds" shall have the meaning set forth in Section 1.03F(2).

"Rents" shall mean all rents, issues, profits, cash collateral, royalties, income and other benefits derived from the Secured Property or any part thereof (including benefits accruing from all present or future leases and agreements, including oil, gas and mineral leases and agreements).

"Residential Parcel" shall have the meaning set forth in Section 1.06A.

"Retail Parcel" shall have the meaning set forth in Section 1.06A.

"Secured Property" shall mean the Premises, the Personal Property and all other rights and interests described in the Granting Clauses of this Security Instrument.

"SPE Principal" shall mean the special purpose entity that is (a) the general partner of Grantor, if Grantor is a limited partnership, or the managing member of Grantor, if Grantor is a limited liability company (other than an Acceptable Delaware LLC, for which no SPE Principal shall be required) and (b) is an Acceptable Delaware LLC or a corporation that is a special purpose entity satisfying the requirements of Section 5.20.

"State" shall mean the State, Commonwealth or territory in which the Land is located.

"Transfer" shall have the meaning set forth in Section 1.11B.

"Unsecured Obligations" shall have the meaning set forth in Section 1.05E.

As used in this Security Instrument (a) words such as "herein", "hereof", "hereto", "hereunder" and "hereby" or similar terms refer to this Security Instrument as a whole and not to any specific Section or provision hereof; (b) wherever the singular or plural number or the masculine, feminine or neuter gender is used, it shall include each other number or gender; and (c) the word "including" shall mean "including, without limitation," and the word "includes" shall mean "includes, without limitation."

ARTICLE 1 COVENANTS AND AGREEMENTS

Grantor hereby covenants and agrees as follows:

1.01 Payment, Performance and Security. Grantor shall pay when due the amount of, and otherwise timely perform, all Obligations. This Security Instrument shall secure all Obligations, other than the Unsecured Obligations (as defined below).

1.02 Payment of Taxes, Assessments, etc.

1.02A. Impositions. Grantor shall pay prior to delinquency, before any fine, penalty, interest or cost for the nonpayment thereof may be added thereto, and without any right of offset or credit against any interest or other amounts payable to Beneficiary pursuant to this Security Instrument or on the Note, all taxes, assessments, water and sewer rents, rates and charges, transit taxes, charges for public utilities, excises, levies, vault taxes or charges, license and permit

fees and other governmental charges, general and special, ordinary and extraordinary, unforeseen and foreseen, of any kind and nature whatsoever (including penalties, interest costs and charges accrued or accumulated thereon), which at any time may be assessed, levied, confirmed, imposed upon, or become due and payable out of or in respect to, or become a lien on, the Secured Property or any part thereof, or any appurtenance thereto (all of the foregoing collectively, "Impositions" and individually, an "Imposition").

1.02B. Installments. Notwithstanding anything to the contrary contained in Section 1.02A, if by law any Imposition, at the option of the taxpayer, may be paid in installments, and provided interest shall not accrue on the unpaid balance of such Impositions, Grantor may exercise the option to pay the same in installments and, in such event, shall pay such installments prior to delinquency before any fine, penalty, interest or cost may be added thereto.

1.02C. Receipts. Grantor, upon request of Beneficiary, will furnish to Beneficiary within ten (10) days before the date when any Imposition would become delinquent, official receipts of the appropriate taxing authority, or other evidence reasonably satisfactory to Beneficiary, evidencing the payment thereof.

1.02D. Evidence of Payment. The bill, certificate or advice of nonpayment, issued by the appropriate official (designated by law either to make or issue the same or to receive payment of any Imposition), of the nonpayment of an Imposition shall be prima facie evidence that such Imposition is due and unpaid at the time of the making or issuance of such certificate, advice or bill. Grantor shall pay Beneficiary, on demand, all reasonable charges, costs and expenses of every kind including each tax service search fee or charge actually incurred by Beneficiary at any time or times during the term of this Security Instrument in connection with obtaining evidence reasonably satisfactory to Beneficiary that the payment of all Impositions is current and that there is no Imposition due and owing.

1.02E. Payment by Beneficiary. If Grantor shall fail to pay any Imposition in accordance with the provisions of this Section 1.02, Beneficiary, at its option and at such time as it may elect, may pay such Imposition, but shall be under no obligation to do so. Grantor will repay to Beneficiary, on demand, any amount so paid by Beneficiary, with interest thereon at the Increased Rate from the date of such payment by Beneficiary to the date of repayment by Grantor. This Security Instrument shall secure each such amount and such interest.

1.02F. Change in Law. In the event of the passage after the date of this Security Instrument of any law deducting the Obligations from the value of the Secured Property or any part thereof for the purpose of taxation or resulting in any lien thereon, or changing in any way the laws now in force for the taxation of this Security Instrument or the Obligations for state or local purposes, or the manner of the operation of any such taxes so as to affect the interest of Beneficiary, then, and in such event, Grantor shall bear and pay the full amount of such taxes, provided that if for any reason payment by Grantor of any such new or additional taxes would be unlawful or if the payment thereof would constitute usury or render the Loan or the Obligations wholly or partially usurious under any of the terms or provisions of the Note, this Security Instrument or otherwise, Beneficiary may, at its option, declare all Obligations secured by this Security Instrument, with interest thereon, to be due and payable within twelve (12) Business Days following written demand from Beneficiary, or Beneficiary may, at its option, pay that amount or

portion of such taxes as renders the Loan or the Obligations unlawful or usurious, in which event Grantor shall concurrently therewith pay the remaining lawful and non-usurious portion or balance of such taxes.

1.02G. Joint Assessment. Grantor shall not suffer, permit or initiate the joint assessment of the Premises and the Personal Property, or any other procedure whereby personal property taxes and real property taxes shall be assessed, levied or charged to the Secured Property as a single lien.

1.02H. Permitted Contests. Notwithstanding anything herein to the contrary, if, and for so long as, Grantor is not in default pursuant to any of the Loan Instruments, Grantor shall have the right to contest the amount or the validity, in whole or in part, of any Imposition, by appropriate proceedings diligently conducted in good faith and without cost or expense to Beneficiary. Subject to the provisions of Section 1.02I and provided Grantor is in compliance with the provisions of the next sentence, Grantor may postpone or defer payment of such Imposition if Grantor, on or before the delinquency date thereof, shall, at Grantor's option, (1) deposit or cause to be deposited with Beneficiary a surety bond issued by a surety company of recognized responsibility acceptable to Beneficiary, guaranteeing and securing the payment in full of such Imposition, pending the determination of such contest, (2) deposit or cause to be deposited with Beneficiary an amount equal to one hundred percent (100%) of such Imposition or any balance thereof remaining unpaid, and from time to time, but not more frequently than quarterly, deposit amounts in order to keep on deposit at all such times an amount equal to one hundred percent (100%) of the Imposition remaining unpaid, or (3) furnish or cause to be furnished to Beneficiary other security reasonably satisfactory to Beneficiary. If such deposit is made or such security furnished and Grantor continues in good faith to contest the validity of such Imposition by appropriate legal proceedings which shall operate to prevent the collection of such Imposition so contested, the imposition of interest, fines or other penalties with respect to such Imposition and the sale of the Secured Property or any part thereof to satisfy such Imposition, Grantor shall have no obligation to pay such Imposition until such time as it has been finally determined to be a valid, due and payable Imposition. Upon termination of any such proceeding, or at any earlier time that Grantor shall have been adjudicated liable for the payment of such Imposition, Grantor shall pay in full the amount of such Imposition or part thereof as shall have been finally determined in such proceeding, together with all liabilities in connection therewith. Beneficiary shall have the full power and authority to apply or require the application of any amounts that may have been deposited pursuant to this Section 1.02H to payment of any unpaid Imposition. However, Beneficiary shall not have any liability for application of, or failure to apply, any amount so deposited, except for Beneficiary's intentional and willful failure to apply a deposited amount after Grantor shall have notified Beneficiary of such final decision and Grantor or the Person making such deposit shall have requested in writing the application of such amount to the payment of the particular Imposition with respect to which it was deposited. Beneficiary shall repay to Grantor, or as directed by Grantor, the remainder of any such deposit after payment in full of the related Imposition, unless Grantor shall be in default pursuant to any of the Loan Instruments. If a default then exists, Beneficiary may, in its discretion, apply all or any part of such remainder to the curing of such default. After the curing of all such defaults (and the payment in full of all then due and payable Impositions), Beneficiary shall pay the remainder of such surplus, if any, to Grantor.

1.02I. No Lease Default. If contesting the validity or amount of any Imposition shall cause a breach of any of the terms, conditions or covenants required to be performed by Grantor as lessor under any Lease, Grantor shall not have the right to contest the same as provided in Section 1.02H, and Grantor shall pay such Imposition pursuant to Section 1.02A.

1.03 Insurance.

1.03A. All Risk Coverage.

(1) Grantor, at its sole cost and expense, shall keep the Improvements and the Personal Property insured against loss or damage by fire and against loss or damage by other risks now covered by All Risk" or "Special Perils" insurance, in form and substance satisfactory to Beneficiary. Such All Risk or Special Perils insurance shall cover acts of terrorism (both foreign and domestic) ("Terrorism Insurance") and earthquake insurance and windstorm insurance. If any of the Terrorism Insurance or earthquake insurance or windstorm insurance is obtained through a separate insurance policy rather than as part of an All Risk or Special Perils policy, the requirements set forth herein with respect to All Risk or Special Perils insurance, nevertheless, shall be deemed to apply to any such insurance provided in a separate policy, including the rent and/or business interruption insurance described in Section 1.03A(3) below. The deductible for the earthquake insurance shall not be greater than five percent (5%) of the replacement cost value of the Secured Property that is specifically applicable to earthquake insurance, as reasonably determined by Beneficiary.

(2) The All Risk or Special Perils insurance shall be in an amount equal to at least one hundred percent (100%) of the full replacement cost of the Improvements and the Personal Property, including work performed for tenants, without deduction for depreciation. The "All Risk" or "Special Perils insurance" shall include coverage for law and ordinance, demolition and increased cost of construction and an agreed amount endorsement for the estimated replacement cost.

(3) The All Risk or Special Perils insurance (including any terrorism, earthquake or windstorm coverage included in such insurance) shall include rent and/or business income interruption insurance coverage, including coverage for rental loss (a) of not less than eighteen (18) months of aggregate rentals or (b) Actual Loss Sustained, with no time element restrictions, and in the case of the coverage described in the preceding clause (a) or clause (b), an Extended Period of Indemnity of not less than twelve (12) months. The rental loss coverage with respect to each Lease shall include all Rent payable thereunder, including minimum rent, escalation charges, percentage rent and all other additional rent of every kind and any other amounts payable by tenants or other occupants, from time to time, at the Secured Property pursuant to Leases or otherwise.

1.03B. Additional Coverage. Grantor, at its sole cost and expense, shall at all times also maintain:

(1) Commercial general liability insurance against claims for bodily injury, personal injury or property damage, occurring in, on, under or about the Secured Property

or in, on, under or about the adjoining streets, sidewalks and passageways; such insurance to be in amounts and in form and substance reasonably satisfactory to Beneficiary;

(2) If the Improvements are located in a flood hazard area, flood insurance on the Improvements and the Personal Property, in an amount equal to one hundred percent (100%) of the full replacement cost of the Improvements and the Personal Property, including work performed for tenants, without deduction for depreciation and including rent and/or business interruption insurance as described in Section 1.03A(3) above;

(3) Insurance, in such amounts as Beneficiary shall from time to time reasonably require, against loss or damage from leakage or explosion of steam boilers, air conditioning equipment, pressure vessels or similar apparatus, now or hereafter installed in or on the Secured Property; and

(4) Such other insurance and any replacements, substitutions or additions thereto as shall at any time be reasonably required by Beneficiary against other insurable hazards, including earthquake, as reasonably required by Beneficiary and in such amount as Beneficiary shall reasonably determine.

1.03C. Separate Insurance. Grantor shall not carry separate insurance, concurrent in kind or form and contributing in the event of loss with any insurance required hereunder. Grantor may, however, effect for its own account any insurance not required pursuant to the provisions of this Security Instrument, but any such insurance effected by Grantor on the Secured Property, whether or not required pursuant to this Section 1.03, shall be for the mutual benefit of Grantor and Beneficiary, as their respective interests may appear, and shall be subject to all other provisions of this Section 1.03.

1.03D. Insurers; Policies.

(1) All insurance provided for in this Section 1.03 shall be effected under valid and enforceable policies issued by financially responsible insurers, rated by A.M. Best as "A" or better and as having a class size of at least "X(10)" (provided, however, that insurers (i) providing less than 20% of the total limit of insurance and (ii) not within the primary layer of coverage may be rated by A.M. Best as "A-" or better and have a class size of at least "VIII") and authorized to do business in the State, with deductibles acceptable to Beneficiary and otherwise in form reasonably acceptable to Beneficiary and substance acceptable to Beneficiary. Except as provided in Section 1.03D(3), an original copy of all such policies shall be deposited with and held by Beneficiary and shall contain the standard non-contributory mortgagee clause in favor of Beneficiary and a waiver of subrogation endorsement, all in form and content satisfactory to Beneficiary. All such policies shall contain a provision that such policies will not be cancelled or materially amended (including any reduction in the scope or limits of coverage), without at least thirty (30) days' prior written notice to Beneficiary. Not less than thirty (30) days prior to the expiration dates of the expiring policies theretofore furnished pursuant to this Section 1.03, originals of the policies bearing notations evidencing the full payment of the annual premium or accompanied by other evidence satisfactory to Beneficiary of such payment shall be delivered by Grantor to Beneficiary.

(2) Grantor's insurance policies may be part of a blanket insurance policy provided that (a) such blanket policy specifically lists the Secured Property as covered and includes the per occurrence and aggregate limits (if any) for the Secured Property, which limits must be acceptable to Beneficiary, (b) Beneficiary receives the documentation reasonably required to determine the adequacy of the shared blanket limits among the properties insured by the blanket policy, which documentation shall include, a list of the properties covered by the blanket policy, including the Secured Property, and their respective locations and a statement of insurable values for all Special Perils, for each of such properties, and a Catastrophe Loss Analysis by an independent, qualified catastrophe modeling firm, approved by Beneficiary, on an annual basis, and (c) the blanket policy includes an endorsement naming Beneficiary, with respect to any property insurance, as a certificate holder, mortgagee and lender loss payee and with respect to any liability insurance, as an additional insured. Notwithstanding the foregoing, as long as the blanket policy limit remains as per occurrence and reinstates after every loss, then with respect to clause (b) above, Beneficiary shall only require a list of properties located within the City of San Diego, California that are covered by the blanket policy, and their respective locations and a statement of insurable values for all Special Perils for such properties, and Beneficiary shall not require a Catastrophe Loss Analysis as provided above.

(3) With respect to blanket insurance policies only, Beneficiary shall not require the delivery of original policies of insurance, provided that upon the closing of the Loan and upon each renewal of Grantor's "All Risk" insurance policy and commercial general liability insurance policy Grantor delivers to Beneficiary (i) an ACORD 28 with respect to the "All Risk" coverage and an ACORD 25 with respect to liability coverage, together with the Security Instrument Holder's clause, all of which must be in form and substance acceptable to Beneficiary and (ii) such other summaries, policy provisions, endorsements and/or other documentation, as may be requested by Beneficiary and that shall be reasonably satisfactory to Beneficiary.

1.03E. Beneficiary's Right to Secure Coverage. If Grantor fails to furnish to Beneficiary and keep in force the original policies of insurance required by this Section 1.03, Beneficiary, at its option, may procure such insurance, which procurement, at Beneficiary's further option, may be by the purchase of insurance policies or by the addition of the Secured Property to Beneficiary's blanket policy. In the event that Beneficiary has exercised either of such options, promptly upon demand by Beneficiary, Grantor (i) will reimburse Beneficiary for all premiums on the policies purchased by Beneficiary or (ii) in the event Beneficiary has added the Secured Property to its blanket policy, will pay to Beneficiary an amount equal to the estimated cost of the insurance coverage which Beneficiary has added to its blanket policy had such coverage been obtained under a separate policy and not under a blanket policy, in either case, with interest thereon at the Increased Rate from the date Beneficiary pays such premiums to the date Grantor repays such premiums to Beneficiary in full. Until they are so repaid, this Security Instrument shall secure the amount of such premiums and interest.

1.03F. Damage or Destruction. Upon the occurrence of any damage or casualty to the Secured Property or any part thereof, the following shall apply:

(1) Grantor shall give Beneficiary written notice of such damage or casualty as soon as possible, but not later than five (5) Business Days following the date that Grantor obtains actual knowledge of the occurrence of such damage or casualty.

(2) All proceeds of insurance ("Proceeds") paid or to be paid pursuant to any of the policies maintained pursuant to this Security Instrument shall be payable to Beneficiary. Grantor hereby authorizes and directs any affected insurer to make payment of the Proceeds directly to Beneficiary. Beneficiary may commingle, with other monies in Beneficiary's possession, all Proceeds received by Beneficiary. All such Proceeds shall constitute additional security for the Obligations and Grantor shall not be entitled to the payment of interest thereon. Beneficiary may settle, adjust or compromise all claims for loss, damage or destruction pursuant to any policy or policies of insurance.

(3) Subject to the provisions of Section 1.03H below, Beneficiary shall have the option, in its discretion, and without regard to the adequacy of its security hereunder, of applying all or part of the Proceeds to (a) the Obligations, whether or not then due, in such order as Beneficiary shall determine, (b) the repair or restoration of the Secured Property, (c) reimburse Beneficiary for its costs and expenses in connection with the recovery of the Proceeds, or (d) any combination of the foregoing. Notwithstanding anything herein to the contrary, provided that (a) no Event of Default has occurred, other than an Event of Default as to which Beneficiary, in its sole discretion, has accepted a cure (or otherwise waived in Beneficiary's sole discretion) and (b) Beneficiary, in accordance with the terms of this Section 1.03, does not permit the Proceeds to be used for the restoration of the Secured Property and elects to apply such Proceeds to the Obligations, then no Make-Whole Amount shall be due with respect to such application of the Proceeds to the Obligations.

(4) Nothing herein contained shall be deemed to excuse Grantor from repairing or maintaining the Secured Property as provided in Section 1.05 or restoring all damage or destruction to the Secured Property, regardless of whether there are Proceeds available or whether the Proceeds are sufficient in amount, and the application or release by Beneficiary of any Proceeds shall not cure or waive any Event of Default or notice of default pursuant to this Security Instrument or invalidate any act done pursuant to such notice.

1.03G. Transfer of Interest in Policies. In the event of the foreclosure of this Security Instrument or other transfer of title or assignment of the Secured Property in payment and performance, in whole or in part, of the Obligations, all right, title and interest of Grantor in and to all policies of insurance required by this Section 1.03 shall inure to the benefit of, and pass to the purchaser or grantee of the Secured Property (except that with respect to blanket insurance policies, only claims and proceeds under such blanket insurance policies pertaining the Secured Property shall inure to the benefit of, and pass to, the purchaser or grantee of the Secured Property). If, prior to Beneficiary's receipt of the Proceeds, the Secured Property shall have been sold through the foreclosure of this Security Instrument or other similar proceeding, Beneficiary shall have the right to receive the Proceeds to the extent that any portion of the Obligations are still unpaid after application of the proceeds of the foreclosure sale or similar proceeding, together with interest thereon at the Increased Rate, plus attorney's fees and other costs and disbursements incurred by Beneficiary in connection with the collection of the Proceeds and in establishing the amount of and collecting the deficiency. Grantor hereby assigns, transfers and sets over to Beneficiary all of the Grantor's right, title and interest in and to said sum. The balance, if any, shall be paid to Grantor, or as otherwise required by law.

1.03H. Grantor's Use of Proceeds.

(1) Notwithstanding any provision herein to the contrary, but subject to the provisions of Section 1.03H(5), in the event of any destruction to the Secured Property by fire or other casualty resulting in damage to the Secured Property that does not exceed \$2,000,000, so long as (i) Grantor has provided timely notice to Beneficiary of such casualty, (ii) no Event of Default has occurred (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing) and (iii) Grantor is pursuing the settlement of all Proceeds associated therewith with reasonable diligence, Grantor shall be permitted to use such Proceeds for repair and restoration of the Improvements. Grantor shall promptly commence and diligently pursue all necessary repair and restoration.

(2) Further notwithstanding any provision herein to the contrary, but subject to the provisions of Section 1.03H(5), in the event of any destruction to the Secured Property by fire or other casualty of not more than 30% of the leasable area of the Improvements but resulting in damage to the Secured Property of more than \$2,000,000, the Proceeds shall be made available to Grantor for repair and restoration, after deducting therefrom and payment to Beneficiary of an amount equal to Beneficiary's reasonable costs in connection with collection, review and disbursement of the Proceeds of such damage or casualty, provided that:

- (a) The Proceeds are deposited with Beneficiary;
- (b) No Event of Default shall have occurred and be continuing under the terms of any of the Loan Instruments;
- (c) The insurer does not deny liability to any named insured;
- (d) Beneficiary is furnished with, and has approved (i) a complete, final set of plans and specifications for the work to be performed in connection with the repair or restoration, (ii) an estimate of the cost of repair and restoration, and (iii) a certificate of Beneficiary's Architect as to such costs;
- (e) The value, quality and condition of the Secured Property so repaired or restored shall be no less than that of the Secured Property prior to such damage or casualty;
- (f) Grantor furnishes Beneficiary with evidence reasonably satisfactory to Beneficiary that all Improvements so repaired or restored and their use shall fully comply with all applicable (i) easements, covenants, conditions, restrictions or other private agreements or instruments of record affecting the Secured Property and (ii) Legal Requirements;
- (g) If the estimated cost of such repair or restoration exceeds the Proceeds available, Grantor shall either (i) furnish a bond of completion or provide other evidence satisfactory to Beneficiary of Grantor's ability to pay such excess costs, or (ii) deposit with Beneficiary additional funds equal to such excess;
- (h) Beneficiary shall have received written notice of damage or casualty from Grantor within ten (10) days from the date that Grantor obtains actual knowledge of such damage or casualty, which notice shall state the date of

such damage or casualty, and shall contain a request to Beneficiary to make the Proceeds available to Grantor;

(i) Beneficiary shall have received a report or proof of claim from the insurer describing the damage or casualty and the insurer's payment therefor;

(j) During and after the repair and restoration period, the aggregate monthly net income pursuant to rent and/or business income interruption insurance coverage and/or pursuant to all Leases remaining in full force and effect shall be in an amount sufficient to pay the monthly installments of principal and interest required to be paid on the Obligations, all payments for taxes and insurance required pursuant to Section 1.04 and all Secured Property operating expenses (provided, Grantor may deposit funds with Beneficiary to cover such payments and expenses), as reasonably estimated by Beneficiary; and

(k) the Projected Hybrid DCR (as such term is defined in that certain Reserve Deposit Agreement dated as of the date hereof) for both during and after the repair and restoration is not less than 1.10 to 1.00, taking into account for the repair and restoration period, proceeds of rent and/or business income interruption insurance and any deposits made by Grantor pursuant to Section 1.03(H)(2)(j) above.

(3) Beneficiary shall disburse the Proceeds during the course of repair or restoration upon (a) the certification of Beneficiary's Architect as to the cost of the work done, (b) the conformity, as reasonably determined by Beneficiary, of the work to plans and specifications approved by Beneficiary, and (c) receipt of evidence from a title insurance company reasonably acceptable to Beneficiary that there are no liens (other than Permitted Encumbrances) arising out of the repair or restoration or otherwise. Notwithstanding the above, a portion of the Proceeds may be released prior to the commencement of repair or restoration to pay for items approved by Beneficiary in its discretion. Subject to satisfaction of the foregoing conditions, Beneficiary shall make such disbursements within ten (10) Business Days after a written request by Grantor. No payment made prior to the final completion of work shall exceed ninety percent (90%) of the value of the work performed from time to time, and at all times the undisbursed balance of the Proceeds (together with any funds for payment of costs of restoration deposited by Grantor with Beneficiary) remaining with Beneficiary must be at least sufficient to pay for the cost of completion of the work (as estimated by Beneficiary in its discretion), free and clear of liens. Beneficiary shall make final payment after receipt of a certification of Beneficiary's Architect confirming the completion of the work in accordance with plans and specifications approved by Beneficiary.

(4) Provided no Event of Default has occurred (other than an Event of Default which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), Beneficiary shall return to Grantor the balance of the Proceeds, but not the balance of any Award, after full disbursement in accordance with Sections 1.03H(2) and (3).

(5) In all cases in which any destruction of the Secured Property by fire or other casualty occurs during the last twelve (12) months prior to the Maturity Date, or in Beneficiary's reasonable determination, Grantor is not proceeding with the repair or restoration in a manner that would entitle Grantor to have the Proceeds disbursed to it, or for any other reason

Beneficiary reasonably determines that Grantor shall not be entitled to the Proceeds pursuant to the terms of this Security Instrument, Beneficiary shall have the options set forth in Section 1.03F(3).

(6) Under no circumstances shall Beneficiary become personally liable for the fulfillment of the terms, covenants and conditions contained in any of the Leases or obligated to take any action to repair or restore the Secured Property.

1.04 Escrow Payments. To further secure the Obligations as to payment of the Impositions (as set forth in Section 1.02) and premiums for insurance (as set forth in Section 1.03), Grantor will pay to Beneficiary, or its designee, on the due date of each monthly installment of principal and/or interest pursuant to the Note, a sum equal to the Impositions and insurance premiums next due on the Secured Property, all as reasonably estimated by Beneficiary, less all sums already paid with respect to the Impositions and insurance premiums for such period, divided by the number of months to elapse before one month prior to the date when such Impositions and insurance premiums shall become due and payable. Beneficiary or its designee shall hold all payments without any obligation for the payment of interest thereon to Grantor and free of all liens or claims on the part of creditors of Grantor and as a part of the Secured Property. Beneficiary or its designee shall use such payments to pay current Impositions and insurance premiums, as the same accrue and are payable. Such payments shall not be, nor be deemed to be, trust funds, but may be commingled with the general funds of Beneficiary, or its designee. If at any time and for any reason Beneficiary reasonably determines that such payments are insufficient to pay the Impositions and insurance premiums in full as they become payable, Grantor will pay to Beneficiary or its designee, within ten (10) days after written demand therefor, such additional sum or sums as may be required in order for Beneficiary or its designee to so pay such Impositions and insurance premiums in full. Grantor shall furnish Beneficiary with the bills therefor within sufficient time to enable Beneficiary or its designee to pay the Impositions and insurance premiums before any penalty attaches and before any policy lapses. Upon any Event of Default (other than an Event of Default which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), Beneficiary may, at its discretion and without regard to the adequacy of its security hereunder, apply any unused portion of such payments to the payment of the Obligations in such manner as it may elect. Transfer of legal title to the Secured Property shall automatically transfer to the new owner any then remaining rights of Grantor in all sums held by Beneficiary pursuant to this Section 1.04.

1.05 Care and Use of the Premises.

1.05A. Maintenance and Repairs. Grantor, at its sole cost and expense, shall (1) take good care of the Secured Property and the sidewalks and curbs adjoining the Secured Property and keep the same in good order and condition, ordinary wear and tear excepted, (2) make all necessary repairs thereto, interior and exterior, structural and nonstructural, ordinary and extraordinary, foreseen and unforeseen, (3) not commit or suffer to be committed any physical waste of the Secured Property, and (4) not knowingly do or suffer to be done anything which will increase the risk of fire or other hazard to the Secured Property or any part thereof.

1.05B. Standard of Repairs. The necessity for and adequacy of repairs to the Secured Property pursuant to Section 1.05A shall be measured by the standard which is appropriate

for a first-class retail, residential and office mixed-use development and related facilities of similar construction and type located in the San Diego County, California metropolitan area. Further, Grantor shall make all repairs necessary to avoid any structural damage to the Improvements and to keep the Secured Property in a proper condition for its intended use. When used in this Section 1.05, the terms "repair" and "repairs" shall include all necessary renewals and replacements. Grantor shall make all repairs with new, first-class materials and in a good, substantial and workerlike manner which shall be no less than the quality and class to the original work.

1.05C. Removal of Equipment. Grantor shall have the right, at any time and from time to time, to remove and dispose of equipment which may have become obsolete or unfit for use or which is no longer useful in the operation of the Secured Property. Grantor will promptly replace all equipment so disposed of or removed with other equipment of a value and serviceability not less than the original value and serviceability of the equipment so removed or disposed of, free of all liens, claims or other encumbrances. If by reason of technological or other developments in the operation and maintenance of buildings of the general character of the Improvements, no replacement of the building equipment so removed or disposed of is necessary or desirable in the proper operation or maintenance of the Improvements, Grantor shall not be required to replace same. The security interest of this Security Instrument shall cover all such replacement equipment.

1.05D. Compliance With Laws and Insurance. Grantor shall promptly comply with all applicable Legal Requirements including maintaining the Secured Property in compliance with all applicable Legal Requirements. Grantor shall not bring or keep any article upon the Secured Property or cause or permit any condition to exist thereon which would be prohibited by or would invalidate any insurance coverage maintained, or required hereunder to be maintained, by Grantor on or with respect to any part of the Secured Property. Grantor shall do all other acts, which from the character or use of the Secured Property are reasonably necessary to protect the Secured Property. Upon request of Beneficiary, Grantor shall furnish to Beneficiary a copy of any license, permit or approval required by any Governmental Agency with respect to the Secured Property and/or the operations conducted thereon.

1.05E. Hazardous Materials. Grantor has provided representations, warranties and covenants regarding environmental matters set forth in that certain Environmental Indemnity Agreement of even date herewith made by Grantor for the benefit of Beneficiary (the "Environmental Indemnity"), which such representations, warranties and covenants are hereby incorporated herein by this reference as if fully set forth herein. Subject to the following sentence, any breach or default with respect to such matters that remains uncured after notice and expiration of the cure periods under Section 3.01 will constitute an Event of Default hereunder. Notwithstanding the foregoing or anything to the contrary herein, this Security Instrument shall not be deemed or construed to secure the Environmental Indemnity, or any of the representations, warranties and covenants contained therein (the "Unsecured Obligations").

1.05F. Compliance With Instruments of Record. Grantor shall promptly perform and observe, or cause to be performed and observed, all terms, covenants and conditions of all instruments of record affecting the Secured Property, non-compliance with which may affect the priority of the lien of this Security Instrument, or which may impose any duty or obligation upon Grantor. Grantor shall do or cause to be done all things necessary to preserve intact and unimpaired

all easements, appurtenances and other interests and rights in favor, or constituting any part, of the Secured Property.

1.05G. Alteration of Secured Property. Grantor shall not demolish, remove, construct, restore, add to or alter any portion of the Secured Property or any extension thereof, or consent to or permit any such demolition, removal, construction, restoration, addition or alteration without Beneficiary's prior written consent, except for: (1) tenant improvement work provided for in any Lease in effect on the date hereof and in any other Lease entered into in accordance with the Loan Instruments; (2) ordinary, non-structural maintenance and decorative work; (3) alterations of the Improvements that are not structural in nature and the cost of which is not reasonably anticipated to exceed the Alteration Threshold; (4) alterations required for life/safety purposes or required by Legal Requirements; and (5) work performed in connection with the restoration of a Property after the occurrence of a casualty or condemnation in accordance with the terms and provisions of this Agreement.

1.05H. Parking. Grantor shall comply with all applicable Legal Requirements for parking and shall grant no parking rights in the Secured Property other than those provided for in existing or future Leases, except with Beneficiary's prior written consent, which consent shall not be unreasonably withheld. The Secured Property shall contain at all times not less than the greatest of (i) the number of parking spaces required by the then applicable Legal Requirements and (ii) the number of parking spaces required by the then current Leases. If any part of the automobile parking areas included within the Secured Property is taken by condemnation or such areas are otherwise reduced, Grantor shall provide parking facilities in kind, size and location as required to comply with all Leases and with the parking requirements set forth herein. Any lease or other contract for such facilities must be assignable and must be otherwise in form and substance reasonably satisfactory to Beneficiary. Before entering into any such lease or other contract, Grantor will furnish to Beneficiary reasonably satisfactory assurance of the completion of such facilities free of all liens and in conformity with all applicable Legal Requirements.

1.05I. Entry on Secured Property. Beneficiary or its representatives may enter upon and inspect the Secured Property at all reasonable times upon reasonable advance notice.

1.05J. No Consent to Alterations or Repairs. Nothing contained in this Security Instrument shall in any way constitute the consent or request of Beneficiary, expressed or implied, by inference or otherwise, to use any particular contractor, subcontractor, laborer or materialman for the performance of any labor or the furnishing of any materials for any specific improvement, alteration or repair of the Secured Property or any part thereof.

1.05K. Preservation of Lien; Mechanic's Liens. Grantor shall do or cause to be done everything necessary so that the lien of this Security Instrument shall be fully preserved, at the sole cost of Grantor. Grantor shall discharge, pay or bond, or cause to be discharged, paid or bonded, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers and others which, if unpaid, might result in, or permit the creation of, a lien on the Secured Property or any part thereof, or on the revenues, rents, issues, income or profits arising therefrom. Grantor shall have the right to contest in good faith any claim for such lien by appropriate legal proceedings and in accordance with all Legal Requirements, after notice to, but without cost or expense to, Beneficiary, provided that (a) no Event of Default

exists, (b) such contest shall be promptly and diligently prosecuted by and at the expense of Grantor, (c) Beneficiary shall not thereby suffer any civil penalty, or be subjected to any criminal penalties or sanctions, (d) such contest shall be discontinued and such liens promptly paid if at any time all or any part of the Secured Property shall be in imminent danger of being foreclosed, sold, forfeited or otherwise lost or if the title, liens and security interest created by this Security Instrument or the priority thereof shall be in imminent danger of being impaired, (e) Grantor shall have set aside adequate reserves (in Beneficiary's judgment) for the payment of such liens, together with all interest and penalties thereon, and (f) Grantor shall have furnished such security as may be required in the proceeding or as may be reasonably requested by Beneficiary, to insure the payment of any such liens, together with all interest and penalties thereon.

1.05L. Use of Secured Property by Grantor. Grantor shall use, or cause to be used, the Residential Parcel principally and continuously as and for a first-class residential development, the Office Parcel principally and continuously as and for a first-class office development, and the Retail Parcel principally and continuously as a first-class retail development. Grantor shall not use, or permit the use of, the Secured Property or any part thereof, for any other principal use without the prior written consent of Beneficiary. Grantor shall not initiate or acquiesce to any change in any zoning or other land use classification now or hereafter in effect and affecting the Secured Property or any part thereof without in each case obtaining Beneficiary's prior written consent thereto.

1.05M. Use of Secured Property by Public. Grantor shall not suffer or permit the Secured Property, or any part thereof, to be used by the public as such, without restriction or in such manner as might impair Grantor's title to the Secured Property or any part thereof, or in such manner as would reasonably be expected to give rise to a valid claim or valid claims of adverse usage or adverse possession, or of any implied dedication to the public of the Secured Property or any part thereof.

1.05N. Management. Management of the Premises shall be satisfactory to Beneficiary and shall be performed by Grantor and/or a management company (which may be an affiliate of Grantor) approved in writing by Beneficiary, which approval shall not be unreasonably withheld, and under a management contract reasonably satisfactory to Beneficiary, which management contract shall be subject and subordinate to the rights and title of Beneficiary under this Security Instrument. Notwithstanding the foregoing, Grantor represents to Beneficiary, and Beneficiary hereby agrees, that as of the date hereof (i) the management of the Retail Parcel is performed by KR One Paseo Retail, LLC without a management agreement and without payment of a property management fee, (ii) the management of the Office Parcel is performed by KR One Paseo Office, LLC without a management agreement and without payment of a property management fee and (iii) the management of the Residential Parcel is performed by Greystar California, Inc. pursuant to that certain Management Agreement dated January 25, 2019, as amended. In the event that Grantor engages any other Person to manage the Retail Parcel or the Office Parcel (or any portion thereof) or at any time KR One Paseo Retail, LLC or KR One Paseo Office, LLC commences charging a property management fee, Grantor shall enter into a management contract reasonably satisfactory to Beneficiary, which management contract shall be subject and subordinate to the rights and title of Beneficiary under this Security Instrument.

1.06 Financial Information.

1.06A. Financial Statements. Grantor shall keep and maintain complete and accurate books and records of the earnings and expenses of the Secured Property. Grantor shall furnish to Beneficiary, at its own expense, within one hundred twenty (120) days after the end of each fiscal year and within forty-five (45) days after the end of each fiscal quarter of Grantor (including the fiscal year during which the Loan is closed and including, as to quarterly financial statements, the fiscal quarter for which annual financial statements are also due), annual or quarterly audited consolidated (with respect to all Individual Parcels) financial statements, as applicable, prepared and certified by an independent certified public accountant reasonably satisfactory to Beneficiary, in accordance with generally accepted accounting principles, consistently applied. Notwithstanding the foregoing, if no Event of Default has occurred (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), the quarterly and annual financial statements may be unaudited and prepared and certified by any officer or other authorized party of Grantor. The annual and quarterly consolidated financial statements required hereunder shall include with respect to the Secured Property (and broken down for the residential portion of the Secured Property (the "Residential Parcel"), the office portion of the Secured Property (the "Office Parcel") and the retail portion of the Secured Property (the "Retail Parcel"; the Residential Parcel, the Office Parcel and Retail Parcel are each referred to herein as an "Individual Parcel"): (1) a balance sheet, (2) a statement of cash flows, (3) a reasonably detailed summary of operations, including all rents and other income derived from and all operating and capital expenses paid or incurred in connection with the Secured Property and (4) a certified rent roll and other pertinent information regarding the leasing as may be reasonably required by Beneficiary. With respect to the Retail Parcel, the financial statements shall also include annual sales figures for any Lessee that is required to provide such figures pursuant to its Lease. In addition to such financial statements, Grantor shall furnish to Beneficiary such interim statements of financial position and cash flows and such interim summaries of operations and interim rent rolls, including any of the information described in the foregoing clauses (1) through (4), as Beneficiary shall require; provided, however, that unless an Event of Default exists, Grantor shall not be required to furnish such interim statements, summaries or rent rolls more than two (2) times in any twelve (12) month period. As to any Guarantor, and without any expense to Beneficiary, Grantor shall furnish, or cause to be furnished, to Beneficiary, within one hundred twenty (120) days after the end of each fiscal year and within forty-five (45) days after the end of each fiscal quarter of each Guarantor, if any (including the fiscal year during which the Loan is closed and including, as to quarterly financial statements, the fiscal quarter for which annual financial statements are also due), annual or quarterly audited financial statements, as applicable, for each Guarantor, prepared and certified by an independent, certified public accountant, reasonably satisfactory to Beneficiary, in accordance with generally accepted accounting principles, consistently applied. Notwithstanding the foregoing, if no Event of Default has occurred (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), the quarterly and annual financial statements for Guarantor may be unaudited and prepared and certified by any officer or other authorized party of Guarantor. The annual and quarterly financial statements required hereunder shall include a balance sheet, a statement of cash flows and a statement of profit and loss. Further notwithstanding the foregoing to the contrary, Beneficiary acknowledges and agrees that the quarterly and annual consolidated financial statements of Kilroy Realty, L.P. are publicly disclosed and, therefore, for the avoidance of doubt, said statements (which shall be in the form of a Form

10-Q and a Form 10-K) shall be acceptable as long as Beneficiary receives same from Kilroy Realty, L.P. in accordance with the terms of this Section 1.06A and said statements show the information required herein above. Grantor shall also deliver the certifications required by Section 5.20 of this Security Instrument within the same time frame set forth in this Security Instrument or any other applicable Loan Instrument for the delivery of annual financial statements.

1.06B. Right to Inspect Books and Records. Beneficiary or its representatives shall have the right upon reasonable advance notice and at reasonable times to examine and make copies of all books and records and all supporting vouchers and data related to the Secured Property. Such examination may occur at the Secured Property or at Grantor's principal place of business and shall be at Grantor's sole cost and expense; provided, however, that unless an Event of Default exists, Beneficiary shall not conduct more than one (1) such examination in any twelve (12) month period.

1.07 Condemnation.

1.07A. Beneficiary's Right to Participate in Proceedings. If the Secured Property, or any part thereof, shall be taken in condemnation proceedings or by exercise of any right of eminent domain (collectively, "Condemnation Proceedings"), Beneficiary shall have the right to participate in any such Condemnation Proceedings and all awards or payments (collectively, "Award") that may be made in any such Condemnation Proceedings are hereby assigned to Beneficiary, and shall be deposited with Beneficiary and applied in the manner set forth in this Section 1.07. Grantor shall give Beneficiary notice not later than ten (10) Business Days following the date that Grantor obtains actual knowledge of the actual or threatened (in writing) commencement of any Condemnation Proceedings affecting all or any part of the Secured Property, including all such Condemnation Proceedings as to severance and consequential damage and change in grade in streets, and will deliver to Beneficiary copies of any and all papers served or received in connection with any Condemnation Proceedings. Notwithstanding the foregoing, Beneficiary is hereby authorized, at its option, to commence, appear in and prosecute in its own or Grantor's name any action or proceeding relating to any Condemnation Proceedings and to settle or compromise any claim in connection therewith. No settlement for the damages sustained in connection with any Condemnation Proceedings shall be made by Grantor without Beneficiary's prior written approval, which shall not be unreasonably withheld. Grantor shall execute any and all further documents that may be required in order to facilitate the collection of each Award.

1.07B. Application of Condemnation Award.

(1) If at any time title or temporary possession of the whole or any part of the Secured Property shall be taken in any Condemnation Proceeding or pursuant to any agreement among Grantor, Beneficiary and/or those authorized to exercise the right of condemnation, Beneficiary, in its discretion and without regard to the adequacy of its security hereunder, shall have the right to apply any Award received to payment of the Obligations whether or not due, in such order as Beneficiary shall determine. Notwithstanding anything herein to the contrary, provided that (a) no Event of Default has occurred, other than an Event of Default as to which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing and (b) Beneficiary, in accordance with the terms of this Section 1.07, does not permit the Award to be used for the restoration of the Secured Property and elects to apply such Award to the Obligations, then no Make-Whole Amount shall be due with respect to such application of the

Award to the Obligations. If all or substantially all of the Secured Property is taken and the amount of the Award received by Beneficiary is not sufficient to pay the then unpaid balance of the Obligations, the balance of the Obligations shall, at the option of Beneficiary, become immediately due and payable and Grantor shall, within ten (10) days after notice to Grantor that Beneficiary has so applied the Award, pay the difference between such balance and the amount of the Award. "Substantially all of the Secured Property" shall be deemed to have been taken if the balance of the Secured Property, in the reasonable judgment of Beneficiary, (a) cannot be restored to a self-contained and architecturally complete unit or units or (b) the balance of the Secured Property as restored will not be economically viable and capable of supporting all carrying charges and operating and maintenance expenses.

(2) Notwithstanding any provision contained herein to the contrary, but subject to the provisions of Section 1.07B(3), if less than substantially all of the Secured Property shall be taken in a Condemnation Proceeding (except for a taking (a) of more than 30% of the leasable area of the Improvements, (b) of parking spaces such that the Secured Property will no longer comply with applicable Legal Requirements, and/or (c) that prevents access to the Premises or any material part thereof from a public right of way), Beneficiary shall, after deducting Beneficiary's reasonable costs in connection with collection, review and disbursement related to the Award and the Condemnation Proceeding, apply the balance of the Award to the cost of restoring, repairing or altering the remaining portion of the Secured Property, subject to the provisions of Section 1.03H (which provisions shall apply in all respects except that any reference therein to Proceeds shall be deemed to refer to the Award), and Grantor will promptly restore, repair or alter the remaining Secured Property, subject to the provisions of Section 1.03H. The provisions of this Section 1.07B(2) shall not apply unless Grantor shall furnish to Beneficiary evidence satisfactory to Beneficiary that the Secured Property, as so restored, reconstructed or altered, and its use would fully comply with all applicable Legal Requirements. The balance of the Award so deposited with Beneficiary, after disbursement in accordance with this Section 1.07B(2), shall be applied to the payment of the Obligations, whether or not due, in such order as Beneficiary shall determine (and, for the avoidance of doubt, so long as no Event of Default has occurred (other than an Event of Default for which Lender, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), no Make-Whole Amount shall be due in connection therewith, as provided in Section 5(c) of the Note). The Award and other sums deposited with Beneficiary, until disbursed or applied as provided in this Section 1.07B(2), may be commingled with the general funds of Beneficiary, shall constitute additional security for the Obligations, and shall not bear interest.

(3) In all cases in which any taking occurs during the last twelve (12) months prior to the Maturity Date, or in Beneficiary's reasonable judgment, Grantor is not proceeding with the repair or restoration in a manner that would entitle Grantor to have the Award disbursed to it, or for any other reason Beneficiary determines, in its reasonable judgment, that Grantor shall not be entitled to the Award pursuant to the terms of this Security Instrument, Beneficiary, without regard to the adequacy of its security hereunder, shall have the right to apply the Award to payment of the Obligations, whether or not due, in such order as Beneficiary shall determine.

1.07C. Reimbursement of Costs. In the case of any taking covered by the provisions of this Section 1.07, Beneficiary (to the extent that Beneficiary has not been reimbursed

therefor by Grantor) shall be entitled, as a first priority, to reimbursement out of any Award for all reasonable costs, fees, and expenses incurred in the determination and collection of the Award.

1.07 D. Existing Obligations. Notwithstanding any taking by Condemnation Proceedings or any application of the Award to the Obligations, Grantor shall continue to pay the monthly installments due pursuant to the Note, as well as all other sums secured by this Security Instrument. If prior to Beneficiary's receipt of the Award, the Secured Property shall have been sold through foreclosure of this Security Instrument or other similar proceeding, Beneficiary shall have the right to receive the Award to the extent that any portion of the Obligations are still unpaid after application of the proceeds of the foreclosure sale or similar proceeding, with interest thereon at the Increased Rate, plus attorneys' fees and other out-of-pocket costs and disbursements actually incurred by Beneficiary in connection with the collection of the Award and in establishing the amount of, and collecting, any deficiency. The application of the Award to the Obligations, whether or not then due or payable, shall not postpone, abate or reduce any of the periodic installments of interest or principal thereafter to become due pursuant to the Note or this Security Instrument until the Obligations are paid and performed in full.

1.08 Leases.

1.08 A. Performance of Lessor's Covenants. Grantor, as lessor, has entered and will enter into leases or licenses with tenants, as lessees or licensees, respectively, for parts or all of the Secured Property (all such leases and licenses are hereinafter referred to individually as a "Lease" and collectively as "Leases" and the lessees or licensees under such Leases are hereinafter referred to individually as a "Lessee" and collectively as "Lessees"). Grantor shall faithfully perform the lessor's covenants under the Leases. Grantor shall neither do, nor neglect to do, nor permit to be done (other than enforcing the terms of such Leases and exercising the lessor's remedies thereunder following a default or event of default on the part of any Lessee in the performance of its obligations pursuant to the Lease), anything which may cause the modification or termination of any of the Leases in violation of the provisions of this Security Instrument, or of the obligations of any Lessee or any other person claiming through such Lessee, or which would reasonably be expected to materially diminish or impair the value of any Lease or the rents provided for therein, or the interest of the lessor or of Beneficiary therein or thereunder. Each Lease shall make provision for the attornment of the Lessee thereunder to any person succeeding to the interest of Grantor as the result of any judicial or nonjudicial foreclosure or transfer in lieu of foreclosure hereunder, such provision to be in form and substance reasonably approved by Beneficiary, provided that nothing herein shall be construed to require Beneficiary to agree to recognize the rights of any Lessee under any Lease following any such foreclosure or transfer in lieu thereof unless Beneficiary shall expressly hereafter agree thereto in writing with respect to a particular Lease.

1.08 B. Notice of Default. Grantor shall give Beneficiary prompt notice of any notice of a material default or of any Event of Default, extension, renewal, expansion, surrender or cancellation given to or received from any Lessee or from any other Person with respect to any Lease affecting the Retail Parcel or the Office Parcel and shall furnish Beneficiary with a copy of each such notice.

1.08C. Representations Regarding Leases. Grantor represents and warrants, with respect to all Leases in existence as of the date hereof, that, except as otherwise disclosed to Beneficiary in writing: (1) all representations made by it in the Leases are true; (2) all Improvements and the leased space demised and let pursuant to each Lease have been completed to the satisfaction of the applicable Lessee; (3) each Lessee is in possession of its leased space, has opened for business (with respect to the Leases affecting the Retail Parcel and Office Parcel) and has commenced payment of Rent under its Lease; (4) all Rents and other charges due and payable under the Leases have been paid; (5) no Rent has been prepaid, except as expressly provided pursuant to the applicable Lease; (6) there is no existing default or breach of any covenant or condition beyond applicable notice and cure periods on the part of lessor or, to Grantor's knowledge, any Lessee, under any Lease; (7) there are no options to purchase all or any portion of the Secured Property contained in any Lease; (8) there are no options to renew, cancel, extend or expand by any Lessee except as stated in the Leases; (9) there are no amendments of or modifications to any Leases except as disclosed in writing to Beneficiary; (10) Grantor (as successor-by-assignment to Kilroy Realty, L.P.) is the absolute owner of each Lease with full right and title to assign the same and the Rents thereunder to Beneficiary; (11) each Lease is valid and in full force and effect; (12) there is no outstanding assignment or pledge thereof or of the Rents due or to become due; (13) to Grantor's knowledge, no Lessee has any defense, set-off or counterclaim against Grantor; (14) no Rents payable pursuant to any Lease have been or will be anticipated, discounted, released, waived, compromised or otherwise discharged, except as may be expressly permitted by such Lease or as provided in a modification entered into in accordance with this Security Instrument; (15) all residential Leases are subject and subordinate to this Security Instrument; and (16) Grantor has delivered to Beneficiary true and correct copies of all of the Leases.

1.08D. Covenants Regarding Leases. Grantor shall not, without the prior written consent of Beneficiary obtained in each instance:

(1) lease to any Person, all or any part of the space in, on or over any of the Premises, except for residential Leases for actual occupancy by the Lessee made in the ordinary course of the business of owning and operating a first-class apartment project in a prudent manner, on Grantor's standard lease form, approved by Beneficiary from time to time (such approval not be unreasonably withheld), without material deviation therefrom;

(2) cancel, terminate or accept a surrender or suffer or permit any cancellation, termination or surrender of any Lease or any guaranty of any Lease except (i) pursuant to a unilateral right of any lessee for which Grantor has no approval or discretion and (ii) with respect to any residential Lease for actual occupancy by the Lessee, canceled, terminated or surrendered, in the ordinary course of business of owning and operating a first class apartment project in a prudent manner;

(3) modify or amend any Lease so as to (i) reduce the term thereof or the Rents payable thereunder, (ii) change any renewal provision contained therein, (iii) otherwise increase any obligation of Grantor thereunder, or (iv) reduce any obligation of Lessee thereunder;

(4) commence any summary proceeding or other action to recover possession of any space demised pursuant to any Lease, other than a proceeding brought in good

faith by reason of a default of any Lessee of which, except with respect to residential Leases, Grantor has provided written notice to Beneficiary;

(5) receive or collect, or permit the receipt or collection of, any Rents for more than one month in advance of the payment due dates; provided, that the forgoing shall not be construed as prohibiting the collection of security deposits equal to one or more months' of Rents under any Lease;

(6) take any other action with respect to any Lease which would reasonably be expected to impair the security of Beneficiary pursuant to this Security Instrument or the Assignment;

(7) extend any Lease other than in accordance with the terms presently provided for therein; except residential leases for actual occupancy by the Lessee extended in the ordinary course of business of owning and operating a first-class apartment project in a prudent manner.

(8) execute any agreement or instrument or create or permit a lien, in each case other than the Loan Instruments, which may be or become superior to any Lease;

(9) suffer or permit to occur any release of liability of any Lessee (other than in connection with the termination of residential Leases in the ordinary course of business of owning and operating a first-class apartment project in a prudent manner) or the accrual of any right in any Lessee to withhold payment of any Rent;

(10) sell, assign, transfer, mortgage, pledge or otherwise dispose of or encumber, whether by merger, consolidation, operation of law or otherwise, any Lease or any Rents;

(11) alter, modify or change the terms of any guaranty of any Lease or consent to the release of any party thereto;

(12) request, consent, agree to, or accept, the subordination of any Lease to any mortgage (other than this Security Instrument) or other encumbrance now or hereafter affecting the Premises; or

(13) consent to the assignment of any Lease or any subletting of the Premises demised pursuant to any Lease, except with respect to any residential Lease for actual occupancy by the Lessee, assigned or sublet in the ordinary course of business of owning and operating a first-class apartment project in a prudent manner.

1.08E. Application of Rents. Grantor shall use and apply all Rents from the Secured Property first to the payment and performance of the Obligations in accordance with the terms of the Loan Instruments, and then to the payment of all Impositions and the then-current or other then-incurred costs and expenses of management, operation, repair, maintenance, preservation, reconstruction and restoration of the Secured Property in accordance with the requirements of this Security Instrument and the obligations of Grantor as the lessor under any Lease. Grantor shall not use any Rents for purposes unrelated to the Secured Property unless and

until all then-current payments of the Obligations, Impositions and such costs and expenses have been paid or provided for and adequate cash reserves have been set aside to ensure the timely future payment of all such items reasonably expected by Grantor to be incurred during the next twelve (12) months.

1.08F. Indemnity Against Unapproved Lease Modifications and Amendments. In the event that Beneficiary or any grantee or assignee of Beneficiary takes title to, or otherwise comes into possession of, the Secured Property and thereafter a Lessee under a Lease attorns to Beneficiary or such other party pursuant to a Subordination, Non-Disturbance and Attornment Agreement entered into by Beneficiary and such Lessee, Grantor hereby indemnifies and holds Beneficiary harmless from and against any and all claims, liabilities, costs and expenses actually incurred by Beneficiary arising out of the enforcement by any Lessee against Beneficiary or any grantee or assignee of Beneficiary, of any affirmative claim, cost or expense, or any defense, abatement or right of set off under any modification or amendment to a Lease which is binding upon Beneficiary and which was entered into by Grantor after the date of this Security Instrument in violation of the requirements of subsection 1.08D hereof.

1.08G. Security Deposits. Grantor shall hold and apply all tenant security deposits in accordance with the terms of the applicable Lease and in compliance with all applicable Legal Requirements. Beneficiary may require at any time following an Event of Default (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing) that Grantor transfer to Beneficiary all tenant security deposits, including any letters of credit securing tenant lease obligations. Beneficiary shall hold such security deposits in accordance with all applicable Legal Requirements.

1.08H. SNDA's. Upon Grantor's request and at Grantor's cost, Beneficiary shall deliver a subordination, non-disturbance and attornment agreement (an "SNDA") with respect any Leases at the Secured Property on Beneficiary's then-current form of SNDA, with such modifications thereto as may be reasonably acceptable to both Beneficiary and the lessee.

1.09 Assignment of Leases, Rents, Income, Profits and Cash Collateral.

1.09A. Assignment; Discharge of Obligations. Grantor hereby unconditionally, absolutely and presently bargains, sells, grants, assigns, releases and sets over unto Beneficiary (1) all Leases and all other tenancies, occupancies, subleases, franchises and concessions of the Land or Improvements or which in any way affect the use or occupancy of all or any part of the Land or Improvements, and any other agreements affecting the use and occupancy of all or any part of the Land or Improvements, in each case, whether now or hereafter existing, and all right, title and interest of Grantor thereunder, including all rights to all security or other deposits, (2) all guarantees of the obligations of any lessee, licensee or other similar party under any of the foregoing, whether now or hereafter existing, and (3) the Rents, regardless of whether the Rents accrue before or after foreclosure or during the full period of redemption. For the aforesaid purpose, Grantor does hereby irrevocably constitute and appoint Beneficiary its attorney-in-fact, in its name, to receive and collect all Rents, as the same accrue, and, out of the amount so collected, Beneficiary, its successors and assigns, are hereby authorized (but not obligated) to pay and discharge the Obligations (including any accelerated Obligations) in such order as Beneficiary may determine and whether due or not, and to pay the remainder, if any, to Grantor, or as otherwise

required by law. Neither this assignment nor any such action shall constitute Beneficiary as a "mortgagee in possession" or otherwise make Beneficiary responsible or liable in any manner with respect to the Secured Property or the use, occupancy, enjoyment or operation of all or any portion thereof, unless and until Beneficiary, in person or by agent, assumes actual possession thereof. Nor shall appointment of a receiver for the Secured Property by any court at the request of Beneficiary or by agreement with Grantor, or the entering into possession of the Secured Property or any part thereof by such receiver, be deemed to make Beneficiary a mortgagee-in-possession or otherwise responsible or liable in any manner with respect to the Secured Property or the use, occupancy, enjoyment or operation of all or any portion thereof. The assignment of all Leases and Rents in this Section 1.09 is intended to be an absolute, unconditional and present assignment from Grantor to Beneficiary and not merely the passing of a security interest. Grantor shall, at any time or from time to time, upon request of Beneficiary, execute and deliver any instrument as may be requested by Beneficiary to further evidence the assignment and transfer to Beneficiary of Grantor's interest in any Lease or Rents. Nothing herein shall in any way limit Beneficiary's remedies or Grantor's Obligations under the Assignment.

1.09B. Entry Onto Secured Property; Lease of Secured Property. Upon the occurrence of an Event of Default (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), Beneficiary, at its option, may enter and take possession of the Secured Property and manage and operate the same as provided in Section 4.01, such management and operation to include the right to enter into Leases and new agreements and to take any action which, in Beneficiary's reasonable judgment, is necessary or proper to conserve the value of the Secured Property. The expenses (including any receiver's fees, attorneys' fees and agent's compensation) actually incurred pursuant to the powers herein contained shall be secured hereby. Beneficiary shall not be liable to account to Grantor for any action taken pursuant hereto other than to account for any Rents actually received by Beneficiary.

1.09C. License to Manage Secured Property. Notwithstanding anything to the contrary contained in Section 1.09A or Section 1.09B, so long as there shall exist no Event of Default hereunder, Grantor shall have the license to manage and operate the Secured Property, including the right to enter into Leases, and collect all Rents as they accrue (but not more than one month in advance).

1.09D. Delivery of Assignments. Grantor shall execute such additional documents as may be reasonably requested from time to time by Beneficiary, to evidence the assignment to Beneficiary or its nominee of the Leases now or hereafter made, such assignment documents to be in form and content reasonably acceptable to Beneficiary. Grantor shall deliver to Beneficiary, within thirty (30) days after Beneficiary's request, which absent an Event of Default shall be made not more often than one time in any twelve (12) month period, a duplicate original or photocopy of each Lease which is at the time of such request outstanding upon the Secured Property.

1.09E. Indemnity. Grantor shall assert no claim or liability related to Beneficiary's exercise of its rights pursuant to this Section 1.09. Grantor expressly waives all such claims and liabilities. Grantor hereby holds Beneficiary harmless from and against any and all claims, liabilities and expenses of any kind or nature against or incurred by Beneficiary arising out of Beneficiary's exercise of its rights pursuant to this Section 1.09, including Beneficiary's

management, operation or maintenance of the Secured Property or the collection and disposition of Rents; provided, however, that nothing herein shall be construed to obligate Grantor to indemnify, defend or hold harmless Beneficiary from and against any of the foregoing which is imposed on or incurred by Beneficiary by reason of Beneficiary's fraud, illegal acts, intentional and willful misconduct or gross negligence.

1.10 Further Assurances.

1.10A. General; Appointment of Attorney-in-Fact. Upon request by Beneficiary, from time to time, Grantor shall prepare, execute and deliver, or cause to be prepared, executed and delivered, to Beneficiary, all instruments, certificates and other documents which may, in the reasonable judgment of Beneficiary, be necessary or reasonably desirable in order to effectuate, complete, perfect or continue and preserve the Obligations and the lien of this Security Instrument. Upon any failure by Grantor to do so, Beneficiary may prepare, execute and record any such instruments, certificates and documents for and in the name of Grantor and Grantor hereby appoints Beneficiary the agent and attorney-in-fact of Grantor for such purposes. This power is coupled with an interest and shall be irrevocable so long as any part of the Obligations remain unpaid or unperformed. Grantor shall reimburse Beneficiary for all reasonable sums expended by Beneficiary in preparing, executing and recording such instruments, certificates and documents and such sums shall be secured by this Security Instrument.

1.10B. Statement Regarding Obligations. Grantor shall, within ten (10) days after request by Beneficiary, but not more often than twice in any twelve (12) month period unless an Event of Default exists, furnish Beneficiary with a written statement, duly acknowledged, setting forth (1) the unpaid principal balance of the Loan and the accrued but unpaid interest thereon, (2) whether or not any setoffs or defenses exist against the payment of such principal or interest, and (3) if such setoffs or defenses exist, the particulars thereof.

1.10C. Additional Security Instruments. Grantor, from time to time and within fifteen (15) days after request by Beneficiary, shall execute, acknowledge and deliver to Beneficiary such chattel mortgages, security agreements or other similar security instruments, in form and substance reasonably satisfactory to Beneficiary, covering all property of any kind whatsoever owned by Grantor or in which Grantor may have any interest which, in the reasonable judgment of Beneficiary, is necessary to the operation and maintenance of the Secured Property or is otherwise a part of the Secured Property. Grantor, from time to time and within fifteen (15) days after request by Beneficiary, shall also execute, acknowledge and deliver any financing statement, renewal, affidavit, certificate, continuation statement, supplementary mortgage or other document as Beneficiary may reasonably request in order to perfect, preserve, continue, extend or maintain the security interest under, and the priority of, this Security Instrument or such chattel mortgage or other security instrument, as a first lien. Grantor shall pay to Beneficiary on demand all reasonable costs and expenses actually incurred by Beneficiary in connection with the preparation, execution, recording, filing and refiling of any such instrument or document, including charges for examining title. Neither a request so made by Beneficiary, nor the failure of Beneficiary to make such a request, shall be construed as a release of such property, or any part thereof, from the lien of this Security Instrument. This covenant and each such mortgage, chattel or other security agreement or instrument, delivered to Beneficiary are cumulative and given as additional security. Grantor shall pay all premiums and related costs in connection with any title

insurance policy or policies in full or partial replacement of the title insurance policy insuring the lien of this Security Instrument.

1.10D. Security Agreement. This Security Instrument shall constitute a security agreement under Article 9 of the Code with respect to the Personal Property covered by this Security Instrument. Pursuant to the applicable Granting Clauses hereof, Grantor has granted Beneficiary a security interest in the Personal Property and in all additions and accessions thereto, substitutions therefor and proceeds thereof for the purpose of securing all Obligations now or hereafter secured by this Security Instrument. The following provisions relate to such security interest:

(1) The Personal Property includes all of Grantor's right, title and interest in all now existing or hereafter acquired or arising equipment, inventory, accounts, chattel paper, instruments, documents, deposit accounts, investment property, letter-of-credit rights, commercial tort claims, supporting obligations and general intangibles now or hereafter used or procured for use on the Premises or otherwise relating to the Premises. For the avoidance of doubt, the Personal Property does not include any of the items set forth on Schedule B of the Certification of Inventory. If Grantor shall at any time acquire a commercial tort claim relating to the Premises, Grantor shall promptly notify Beneficiary in a writing signed by Grantor of the brief details thereof and grant to Beneficiary a security interest therein and in the proceeds thereof.

(2) Grantor hereby irrevocably authorizes Beneficiary at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the collateral as "all assets used or procured for use or otherwise relating to" the Premises or "all assets of the debtor" or words of similar effect, or as being of equal or lesser scope or in greater detail, and to indicate the Premises as defined, or in a manner consistent with the term as defined, in this Security Instrument and (b) contain any other information required by part 5 of Article 9 of the Uniform Commercial Code of the filing office for the sufficiency or filing office acceptance of any initial financing statement or amendment, including whether Grantor is an organization, the type of organization and any organizational identification number issued to Grantor. Grantor agrees to provide any such information to Beneficiary promptly upon request. Grantor also ratifies its authorization for Beneficiary to have filed in any filing office in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof. Grantor shall pay to Beneficiary, within ten (10) days following written demand therefor, any and all reasonable costs and expenses actually incurred by Beneficiary in connection with the filing of any such initial financing statements and amendments, including reasonable attorneys' fees and all disbursements. To the extent not paid within such ten (10) day period, such costs and expenses shall bear interest at the Increased Rate from the date paid by Beneficiary until the date repaid by Grantor and such costs and expenses together with such interest, shall be part of the Obligations and shall be secured by this Security Instrument.

(3) Grantor shall any time and from time to time take such steps as Beneficiary may reasonably request for Beneficiary to obtain "control" of any Personal Property for which control is a required method to perfect or to insure priority of the security interest in such Personal Property granted hereby.

(4) Upon the occurrence of an Event of Default (other than an Event of Default as to which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), Beneficiary shall have the rights and remedies of a secured party under the Code as well as all other rights and remedies available at law or in equity or under this Security Instrument.

(5) From the date of its recording, this Security Instrument shall be effective as a fixture financing statement with respect to the Premises and the goods described herein, which goods are or are to become fixtures related to the Premises. The addresses of Grantor (Debtor) and Beneficiary (Secured Party) are set forth in Section 5.07 of this Security Instrument. This Security Instrument is to be filed for recording with the Recorder of Deeds of the county where the Premises is located. For this purpose, the following information is set forth:

(a) Name of Debtor: KR One Paseo Residential, LLC, a Delaware limited liability company, KR One Paseo Retail, LLC, a Delaware limited liability company, and KR One Paseo Office, LLC, a Delaware limited liability company

(b) Name of Secured Party: New York Life Insurance Company

(c) Debtor's state of formation is Delaware.

(6) If Grantor does not have an organizational identification number and later obtains one, Grantor shall forthwith notify Beneficiary of such organizational identification number.

(7) Terms defined in the Code and not otherwise defined in this Security Instrument have the same meanings in this Section 1.10D as are set forth in the Code. In the event that a term is used in Article 9 of the Code and also in another Article of the Code, the term used in this Section 1.10D is that used in Article 9. The term "control", as used in this Paragraph, has the meaning given in Section 9-104, 9-105, 9-106 or 9-107 of Article 9 of the Code, as applicable.

1.10E. Preservation of Grantor's Existence. Grantor shall do all things necessary to preserve and keep in full force and effect its existence, franchises, rights and privileges under the laws of the state of its formation and of the State, and shall comply with all applicable Legal Requirements. Unless Grantor has provided Beneficiary with at least thirty (30) days' prior written notice thereof, Grantor shall not change its place of business (or if Grantor has more than one place of business, its chief executive office), mailing address or organizational identification number if it has one.

1.10F. Further Indemnities. In addition to any other indemnities contained in the Loan Instruments, Grantor hereby agrees to indemnify and hold Beneficiary harmless from and against all losses, liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including architects', engineers' and attorneys' fees and disbursements which are incurred or asserted against Beneficiary by reason of: (1) the construction of the Improvements, (2) any capital improvements, other work or things, done in, on, under or about the Secured Property or any part thereof, (3) any use, nonuse, misuse, possession, occupation, alteration, repair, condition, operation, maintenance or management of the Secured Property or any part thereof or any street, drive, sidewalk, curb, passageway or space adjacent thereto, (4) any negligence or

willful act or omission on the part of Grantor, any Lessee or any agent, contractor, servant, employee, licensee or invitee of any Lessee or of Grantor, (5) any accident, injury (including death) or damage to any person or property occurring in, on, under or about the Secured Property or any part thereof or in, on, under or about any street, drive, sidewalk, curb, passageway or space adjacent thereto, (6) any default under any Loan Instrument or any Event of Default, (7) any lien or claim arising or alleged to have arisen on or against the Secured Property or any part thereof under any applicable Legal Requirement or any liability asserted against Beneficiary with respect thereto, (8) any tax attributable to the execution, delivery, filing or recording of any Loan Instrument, (9) any contest permitted pursuant to the provisions of this Security Instrument, or (10) the enforcement or attempted enforcement of this indemnity. Grantor's liability pursuant to this Section 1.10F shall be limited (a) with respect to (1) – (5) and (7) – (9) above, to events occurring prior to the foreclosure of this Security Instrument or other transfer of title to the Secured Property in extinguishment in whole or in part of the Loan, and (b) to the extent any of Beneficiary's losses, liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses arise from the gross negligence or willful misconduct of Beneficiary, its agents or employees.

1.10G. Absence of Insurance. The obligations of Grantor under this Security Instrument and the other Loan Instruments shall not in any way be affected by (1) the absence, in any case, of adequate insurance, (2) the amount of the insurance or (3) the failure or refusal of any insurer to perform any obligation required to be performed by it pursuant to any insurance policy affecting the Secured Property. If any claim, action or proceeding is made or brought against Beneficiary by reason of any event as to which Grantor is obligated to indemnify Beneficiary, then, upon demand by Beneficiary, Grantor, at Grantor's sole cost and expense, shall resist or defend such claim, action or proceeding in Beneficiary's name, if necessary, by such attorneys as Beneficiary shall reasonably approve. Notwithstanding the foregoing, Beneficiary may engage its own attorneys, in its discretion, to defend it or to assist in its defense, and Grantor shall pay the fees and disbursements of such attorneys and, if not paid within ten (10) days following written demand therefor, such amounts shall bear interest at the Increased Rate and shall be secured by this Security Instrument.

1.10H. Lost Note. Upon Beneficiary furnishing to Grantor an affidavit stating that the Note has been mutilated, destroyed, lost or stolen and a lost note indemnity, Grantor shall deliver to Beneficiary, in substitution therefor, a new note containing the same terms and conditions as the Note, with a notation thereon of the unpaid principal balance and accrued and unpaid interest thereon. Upon execution and delivery of the replacement note, all references in any of the Loan Instruments to the "Note" shall mean the replacement note.

1.11 Prohibition on Transfers, Liens or Further Encumbrances.

1.11A. Continuing Ownership and Management. Grantor acknowledges that the continuous ownership of the Secured Property and its continuous management and operational control by Grantor are material to the making of the Loan.

1.11B. Prohibition on Transfers, Liens or Further Encumbrances. Except with the prior written consent of Beneficiary, neither Grantor, nor any other Person, may transfer, convey, assign, sell, alienate, mortgage, encumber, pledge, hypothecate, grant a security interest in, or otherwise dispose of (in each instance whether voluntarily or involuntarily, by operation of law or

otherwise, directly or indirectly, and, in each case, also prohibiting the granting of an option or the execution of an agreement relating to any of the foregoing):

(1) all or any part of the Secured Property and/or the Rents, or any interest therein;

(2) any legal or beneficial ownership interest in Grantor or in any of Grantor's constituent entities, whether direct or indirect, and on all levels, whether made directly or through an intermediary, and whether made in one transaction or effected in more than one transaction; or

(3) the direct or indirect control of Grantor.

Without limiting the generality of the foregoing, for purposes of this Section 1.11, a transfer or disposition of the Secured Property (or the Rents, as applicable) or any part thereof or interest therein shall include (a) the change of Grantor's type of organization, jurisdiction of organization or other legal structure, (b) the transfer of the Secured Property or any part thereof or interest therein to a cooperative corporation or association, (c) except as provided in Section 1.11D below, the conversion of all or any part of the Secured Property or interest therein to a condominium form of ownership, (d) any lease for space in any Improvements for purposes other than occupancy by the tenant, (e) any lease for space in the Improvements containing an option to purchase, (f) any conditional sale or any title retention agreement with regard to, all or any part of the Secured Property or the Rents, (g) unless Grantor has provided Beneficiary with at least thirty (30) days prior written notice thereof, any change of Grantor's name or any change of Grantor's organizational identification number if it has one and (h) any division of a limited liability company into multiple entities or series pursuant to Section 18-217 of the Delaware LLC Act with an allocation of Secured Property to any such entity. Any action or event described in this Section 1.11B is herein called a "Transfer" and all Transfers are prohibited without the prior written consent of Beneficiary.

1.11C. Acceleration of Obligations. In the event of a Transfer without the prior written consent of Beneficiary, Beneficiary may, without limiting any other right or remedy available to Beneficiary at law, in equity or by agreement with Grantor, and in Beneficiary's discretion, and without regard to the adequacy of its security, accelerate the maturity of the Note and require the payment of all then existing Obligations, including the Make-Whole Amount provided in Section 4.06. The giving of consent by Beneficiary to a Transfer in any one or more instances shall not limit or waive the need for such consent in any other or subsequent instances.

1.11D. Condominium Conversion. Notwithstanding clause (b) of Section 1.11B, Beneficiary shall have the right to implement a condominium regime with respect to the Residential Parcel, provided that (i) no Event of Default has occurred (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted in writing a cure), (ii) all documents required in connection with said conversion have been reviewed and approved by Beneficiary in Beneficiary's reasonable discretion, (iii) no condominium units are sold or listed for sale while any portion of the Obligations remains outstanding and (iv) no Leases are impacted in any way. In connection with such condominium conversion of the Residential Parcel, Beneficiary shall have the right to require (a) any modifications or amendments to the Loan Instruments as

Beneficiary reasonably deems necessary or desirable, (b) a collateral assignment of Grantor's interest under any condominium declaration, (c) undated resignation letters from all directors of the condominium association to be held by Beneficiary until the Obligations have been repaid in full, (d) voting proxies in favor of Beneficiary from all directors of the condominium association, (e) a date down and modification endorsement to Beneficiary's title insurance policy in connection with recording of the condominium documents and (f) such other documentation or instruments that Beneficiary reasonably deems necessary in connection with the condominium conversion. Grantor shall pay all of Beneficiary's reasonable costs and expenses in connection with such condominium conversion including, without limitation, all of Beneficiary's reasonable attorneys' fees.

1.12 Expenses. Promptly after Beneficiary's demand therefor, Grantor shall pay Beneficiary for all costs and expenses, including attorneys' fees and expenses and costs of obtaining evidence of title, actually incurred by Beneficiary in connection with any action, suit, legal proceeding, claim or dispute (a) arising under or in connection with the performance of any rights or obligations under any Loan Instrument or affecting the Obligations or the Secured Property, (b) involving any insurance proceeds or condemnation awards with respect to the Secured Property, (c) to protect the security hereof, or (d) of any other kind or nature in which Beneficiary is made a party relating to the Secured Property or the Loan, or appears as a party, including those related to the estate of an insolvent or decedent or any bankruptcy, receivership, or other insolvency under any chapter of the Bankruptcy Code (Title 11 of the United States Code), as amended, or any other insolvency proceeding or any exercise of the power of sale or judicial foreclosure as set forth in this Security Instrument. If the Obligations are referred to attorneys for collection, foreclosure or any cause set forth in Article 3, Grantor shall pay all costs and expenses actually incurred by Beneficiary, including attorneys' fees and expenses, all costs of collection, litigation costs and costs (which may be estimated as to items to be expended after completion of any foreclosure or other action) of procuring title insurance policies, whether or not obtained, Torrens certificates and similar assurances with respect to title and value as Beneficiary may deem necessary together with all statutory costs, with or without the institution of an action or proceeding. All costs and expenses described in this Section 1.12, with interest thereon at the Increased Rate from the date paid by Beneficiary to the date paid by Grantor, shall be paid by Grantor within ten (10) days follow written demand therefor, and shall be secured by this Security Instrument.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES

Grantor represents and warrants:

2.01 Warranty of Title. Grantor (a) lawfully owns and holds title to the Land and Improvements, in fee simple, subject to no mortgage, lien, charge or other encumbrance, except for Permitted Encumbrances, (b) has full power and lawful authority to grant, bargain, sell, convey, assign, release, pledge, set over, transfer and mortgage the Secured Property as set forth herein, (c) lawfully owns and holds all of its right, title and interest in and to the Personal Property subject to no mortgage, lien, charge or other encumbrance, except for Permitted Encumbrances, and (d) does warrant and will defend the title to the Secured Property against all claims and demands whatsoever.

2.02 Ownership of Additional or Replacement Improvements and Personal Property. All Improvements and Personal Property hereafter affixed, placed or used by Grantor on the Secured Property shall be owned by Grantor free from all mortgages, liens, charges or other encumbrances, other than Permitted Encumbrances.

2.03 No Pending Material Litigation or Proceeding; No Hazardous Materials.

2.03A. Proceedings Affecting Grantor. Except as set forth in Exhibit B of that certain Certification of No Material Change and No Damage dated as of the date hereof delivered by Grantor to Beneficiary, there are no actions, suits, investigations or proceedings of any kind pending or, to the best knowledge and belief of Grantor, threatened in writing, against or affecting Grantor, or the Guarantor, or against any shareholder (provided, however, that, Grantor makes no representations with respect to shareholders of a publicly traded entity on a nationally recognized U.S. stock exchange), general partner or member of Grantor or the Guarantor, or the business, operations, properties or assets of Grantor or any shareholder (provided, however, that, Grantor makes no representations with respect to the business, operations, properties or assets of shareholders of a publicly traded entity on a nationally recognized U.S. stock exchange), general partner or member of Grantor or the Guarantor, or before or by any Governmental Agency, which would reasonably be expected to result in any material adverse change in the business, operations, properties or assets or in the condition, financial or otherwise, of Grantor or the Guarantor or any general partner or member of Grantor or the Guarantor, or in the ability of Grantor to pay or otherwise perform the Obligations. To the best knowledge and belief of Grantor, no default exists with respect to any judgment, order, writ, injunction, decree, demand, rule or regulation of any Governmental Agency, which would reasonably be expected to materially and adversely affect the business, operations, properties or assets or the condition, financial or otherwise, of Grantor or the Guarantor or any general partner or member of Grantor or the ability of Grantor to pay or otherwise perform the Obligations.

2.03B. Proceedings Affecting Secured Property. There are no actions, suits, investigations or proceedings of any kind pending, or, to the best knowledge and belief of Grantor, threatened in writing, against or affecting the Secured Property (including any attempt or written threat by any Governmental Agency to condemn or rezone all or any portion of the Secured Property) that would have a material adverse effect on the Secured Property, or involving the validity, enforceability or priority of the Loan Instruments or enjoining or preventing or threatening to enjoin or prevent the use and occupancy of the Secured Property or the performance by Grantor of the Obligations, and there are no rent controls, governmental moratoria or environmental controls (other than those generally imposed by federal, state or local law) presently in existence or, to the best knowledge and belief of Grantor, threatened in writing, affecting the Secured Property.

2.03C. Reserved.

2.03D. Reserved.

2.04 Valid Organization, Good Standing and Qualification of Grantor; Other Organizational Information. Each Grantor is a duly and validly organized and existing limited liability company in good standing under the laws of the jurisdiction of its organization, and is

duly licensed or qualified and in good standing in all other jurisdictions where its ownership or leasing of property or the nature of the business transacted by it makes such qualification necessary, and is entitled to own its properties and assets and to carry on its business, all as, and in the places where, such properties and assets are now owned or operated or such business is now conducted. Grantor has paid all franchise and similar taxes in the jurisdiction in which the Secured Property is located and in all of the jurisdictions in which it is so qualified, insofar as such taxes are due and payable at the date of this Security Instrument, except for any such taxes the validity of which are being contested in good faith and for which proper reserves have been set aside on the books of Grantor. Grantor's exact legal name is that indicated on the signature page hereof. Grantor is an organization of the type, and is organized in the jurisdiction, as set forth in the first paragraph of this Security Instrument. Section 5.07 accurately sets forth Grantor's place of business or, if Grantor has more than one place of business, its chief executive office as well as Grantor's mailing address if different.

2.05 Authorization; No Legal Restrictions on Performance. The execution and delivery by Grantor of the Loan Instruments and its compliance with the terms and conditions of the Loan Instruments have been duly and validly authorized by all necessary corporate, partnership, membership or other applicable action by Grantor and its constituent entities and the Loan Instruments are valid and enforceable obligations of Grantor in accordance with the terms thereof, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Neither the execution and delivery by Grantor of the Loan Instruments, nor the consummation of the transactions contemplated by the Loan Instruments, nor compliance by Grantor with the terms and conditions thereof will (A) conflict with or result in a breach of, or constitute a default under, any of the terms, obligations, covenants or conditions or provisions of (1) any corporate charter or bylaws, partnership agreement, limited liability company operating agreement, or other organizational or qualification document, restriction, indenture, mortgage, deed of trust, pledge, bank loan or credit agreement, or any other agreement or instrument to which Grantor is now a party or by which Grantor or its properties may be bound or affected, or (2) to the best knowledge and belief of Grantor, any judgment, order, writ, injunction, decree or demand of any Governmental Agency, or (B) result in (1) the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or asset of Grantor pursuant to the terms or provisions of any of the foregoing or (2) the violation of any Legal Requirement applicable to Grantor or any Guarantor. Grantor is not in default in the performance, observance or fulfillment of any of the terms, obligations, covenants or conditions contained in any indenture or other agreement creating, evidencing or securing the Obligations or pursuant to which Grantor is a party or by which the Grantor or its properties may be bound or affected, such that such default would have a material adverse effect on the Secured Property or Grantor's operation thereof. In addition, (a) the Obligations incurred by Grantor and the granting of this Security Instrument and of the security interest, rights, and/or lien in and to the Secured Property in connection with the Loan are not made or incurred with the intent to hinder, delay, or defraud any present or future creditor of Grantor; (b) Grantor has not received less than reasonably equivalent value in exchange for incurring the Obligations and/or the granting of this Security Instrument and of the security interest, rights, and/or lien in and to the Secured Property in connection with

the Loan; (c) Grantor is solvent as of the date hereof, and Grantor will not become insolvent as a result of incurring the Obligations and/or the granting of this Security Instrument and of the security interest, rights, and/or lien in and to the Secured Property in connection with the Loan; (d) Grantor has not and does not intend to incur, and Grantor does not believe that it will incur, debts that would be beyond Grantor's ability to pay as such debts mature; and (e) Grantor is not granting this Security Instrument and the security interest, rights, and/or lien in and to the Secured Property and/or incurring the Obligations to or for the benefit of an insider (as defined in 11 U.S.C. § 101(31)), under an employment contract and other than in the ordinary course of business.

2.06 Compliance With Laws. Grantor has, to the best knowledge and belief of Grantor, complied with all applicable Legal Requirements with respect to the conduct of its business and ownership of its properties. Except for any documents executed in connection with the closing of the Loan, no governmental orders, permissions, consents, approvals or authorizations are required to be obtained, and no registrations or declarations are required to be filed in connection with the execution, delivery or performance by Grantor of its obligations under the Loan Instruments.

2.07 Tax Status. Grantor has filed all United States income tax returns and all state and municipal tax returns which are required to be filed, and has paid, or made provision for the payment of, all taxes which have become due pursuant to such returns or pursuant to any assessment received by Grantor. The United States income tax liability of Grantor has been finally determined by the Internal Revenue Service and satisfied for all taxable years up to and including the taxable year ending 2022.

2.08 Absence of Foreign or Enemy Status; Absence of Blocked Persons; Foreign Corrupt Practices Act. Neither the Loan, nor Grantor's use of the proceeds thereof, will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. Grantor is and shall remain in compliance with the requirements of (a) all applicable anti-money laundering laws and regulations, including without limitation, the USA Patriot Act of 2001, as amended, and (b) Executive Order 13224 of September 23, 2001 "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (66 Fed. Reg. 49079 (2001)) (the "Order") and other similar requirements contained in the rules and regulations of the Office of Foreign Assets Control, Department of the Treasury ("OFAC") and in any enabling legislation or other executive orders or regulations in respect thereof (the Order and such other rules regulations, legislation or orders are referred to hereinafter, collectively, as the "Orders"). Without limiting the generality of the foregoing, but subject to the provision below regarding Minority Investors (as defined below), neither Grantor, nor any direct or indirect owner of Grantor (A) is listed on the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to the Order and/or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders, (B) is the subject of any sanctions administered or enforced by OFAC or the U.S. Department of State, the United Nations Security Council, the European Union, or Her Majesty's Treasury, or other relevant sanctions authority (collectively, "Sanctions") or is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, (C) is or will become a "blocked person" described in Section 1 of the Order or (D) knowingly engages or will engage in any dealings or transactions, or is or will be otherwise associated, with any such blocked person. No part of the proceeds of the Loan will be used, directly or indirectly, or loaned, contributed or otherwise be made available to any Person (I) to fund or facilitate any activities of or business or transaction with any blocked

person or any activities or business in any sanctioned country, or in any other manner that would result in a violation of any Sanctions, or (II) for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the Foreign Corrupt Practices Act of 1977, as amended. Grantor shall promptly notify Beneficiary should Grantor become aware of any information which would render untrue any of the representations, warranties or covenants set forth in this Section 2.08.

Grantor does not make the representation set forth in Section 2.08 above with respect to Minority Investors.

"Minority Investor" means any indirect owner of Grantor or Guarantor that does not directly or indirectly (i) control Grantor or Guarantor or (ii) alone or together with its affiliates own more than a ten percent (10%) ownership interest in Grantor or Guarantor.

2.09 Federal Reserve Board Regulations. No part of the proceeds of the Loan will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve Grantor in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute any of the value of the consolidated assets of Grantor and its subsidiaries, if any, and Grantor does not have any present intention that margin stock will constitute any of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

2.10 Investment Company Act and Public Utility Holding Company Act. Neither Grantor, nor any subsidiary of Grantor, if any, is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Interstate Commerce Act, as amended, or the Federal Power Act as amended.

2.11 ERISA.

2.11A. Neither Grantor nor any entity that holds a direct or indirect interest in Grantor (provided, however, that, Grantor makes no representations or covenants with respect to shareholders of a publicly traded entity on a nationally recognized U.S. stock exchange) (a "Constituent Entity") is or shall be (i) an employee benefit plan within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974 (" ERISA") regardless of whether such plan is actually subject to ERISA, (ii) a plan to which Internal Revenue Code Section 4975 applies, or (iii) an entity the underlying assets of which include ERISA "plan assets" by reason of a plan's investment in the entity (e.g., insurance company general or separate account; bank commingled fund).

2.11B. Transactions by or with Grantor and/or Guarantor are not and will not be subject to any Legal Requirements regulating investments of and fiduciary obligations with respect to an employee benefit plan (within the meaning of Section 3(3) of ERISA), regardless of whether such plan is actually subject to ERISA.

2.11C. Any liability or obligation that Grantor (or any person or entity that holds a direct or indirect interest in Grantor, or any other affiliate of Grantor, with which Grantor may share such liability, provided, however, that Grantor makes no representations or covenants with respect to shareholders of a publicly traded entity on a nationally recognized U.S. stock exchange) may have in respect of an employee benefit plan as defined in Section 3(3) of ERISA regardless of whether such plan is actually subject to ERISA has been and shall continue to be satisfied in full.

2.12 Management of Secured Property. As of the date hereof, (a) each of the Retail Parcel and the Office Parcel is managed by Grantor, (b) there is no property management agreement in place that affects either the Retail Parcel or the Office Parcel (provided, however, that there are leasing agreements that affect such parcels), and (c) there are no management fees payable to Grantor in connection with the applicable Grantor's self-management of the Retail Parcel or the Office Parcel, as applicable.

ARTICLE 3

DEFAULTS

3.01 Events of Default. The existence of any of the following circumstances shall be deemed an "Event of Default" pursuant to this Security Instrument, without cure or grace period unless expressly provided herein:

3.01A. if Grantor fails to pay any portion of the Obligations as and when the same shall become due and payable as provided in the Loan Instruments; or

3.01B. if Grantor fails to perform or observe any other term, provision, covenant or agreement in the Loan Instruments other than as described in the other clauses of this Section 3.01 and such failure continues for thirty (30) days following written notice to Grantor from Beneficiary; provided, however, if any such failure is reasonably susceptible of cure, but not within a thirty (30) day period, then Grantor shall be permitted up to an additional sixty (60) days to cure such violation, provided that Grantor commences a cure within such initial thirty (30) day period and thereafter diligently and continuously pursues such cure; or

3.01C. if any representation, warranty, certification, financial statement or other information made or furnished at any time pursuant to the terms of the Loan Instruments or otherwise, by or on behalf of Grantor, any Guarantor or any other Person liable for the Obligations, shall prove to be materially false; provided, however, if (i) Grantor made a good faith, unintentional misrepresentation, warranty, certification or statement, (ii) Beneficiary has not relied on such misrepresentation, warranty, certification or statement to its detriment, (iii) there is no failure by Grantor to timely pay any sum of money when due under the Loan Instruments, and (iv) the underlying facts or situation that rendered such representation inaccurate or untrue can be remedied to Beneficiary's reasonable satisfaction within thirty (30) days following the earlier to occur of the discovery of such misrepresentation by Grantor or written notice from Beneficiary to Grantor of such misrepresentation and Grantor actually remedies said underlying facts or situation so as to remedy such falsehood on a going forward basis prior to the expiration of said thirty (30) day period, then such misrepresentation or other falsehood shall not be deemed to be an Event of Default; or

3.01D. if Grantor shall:

(1) apply for, consent to or acquiesce in the appointment of a receiver, trustee or liquidator of Grantor or of all or any part of Grantor's assets or the Secured Property or any interest in any part thereof (the term "acquiesce" includes the failure to file a petition or motion to vacate or discharge any order, judgment or decree providing for such appointment within ten (10) days after the appointment); or

(2) commence a voluntary case or other proceeding in bankruptcy, or admit in writing its inability to pay its debts as they come due; or

(3) make a general assignment for the benefit of creditors; or

(4) file a petition or an answer seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under any present or future bankruptcy code or any other statute or law relating to bankruptcy, insolvency or other relief for debtors; or

(5) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy, reorganization or insolvency case or proceeding; or

3.01E. if a court of competent jurisdiction enters an order for relief against Grantor under any present or future bankruptcy code or any other statute or law relating to bankruptcy, insolvency or other relief for debtors, which order shall continue unstayed and in effect for any period of sixty (60) consecutive days; or

3.01F. other than at Beneficiary's request, if a court of competent jurisdiction enters an order, judgment or decree adjudicating Grantor insolvent, approving a petition seeking reorganization or arrangement of Grantor or appointing a receiver, custodian, trustee or liquidator of Grantor or of all or any part of Grantor's assets or the Secured Property or any interest in any part thereof, and such order, judgment or decree shall continue unstayed and in effect for any period of ninety (90) consecutive days; or

3.01G. other than to or as directed by Beneficiary, if Grantor assigns or purports to assign the whole or any part of the Rents arising from the Secured Property or any part thereof without the prior written consent of Beneficiary; or

3.01H. if a Transfer shall occur in violation of the Loan Instruments without the prior written consent of Beneficiary; or

3.01I. if Grantor shall be in default beyond any applicable notice and cure period pursuant to (i) any other mortgage or security instrument affecting Grantor or all or any part of the Secured Property or (ii) any other agreement affecting Grantor or any substantial part of its assets or all or any part of the Secured Property and, with respect to this clause (ii) only, such default shall have a material adverse effect on the Secured Property or Grantor's operation thereof; or

3.01J. if any mechanic's, laborer's or materialman's lien, federal tax lien, broker's lien or other lien affecting the Secured Property or any part thereof (subject to the Permitted Encumbrances and Grantor's rights to contest in accordance with Section 1.05K hereof) is not discharged, by payment, bonding, order of a court of competent jurisdiction or otherwise, within thirty (30) days after Grantor receives notice thereof from the lienor or from Beneficiary; or

3.01K. if any of the events described in Section 3.01(D), Section 3.01(E) and/or Section 3.01(F) shall occur in respect of any Guarantor; or

3.01L. if a default by any Guarantor shall occur under any guaranty, indemnity agreement, or other instrument which it has executed in connection with the Loan and such default continues for thirty (30) days following written notice from Beneficiary, provided that such thirty (30) day grace period shall not apply to a monetary default or a default pursuant to Section 3.01(K) or Section 3.01(M); or

3.01M. if any Guarantor shall contest, repudiate or purport to revoke any guaranty, indemnity agreement or other instrument which it has executed in connection with the Loan for any reason or if any such guaranty, indemnity or other instrument shall cease to be in full force and effect as to the Guarantor (other than as a result of actions of Beneficiary) or shall be judicially declared null and void as to the Guarantor, or if any Guarantor shall be liquidated, dissolved or wound-up; or

3.01N. if Grantor consummates a transaction which would cause the Loan Instruments, including this Security Instrument or the Note, or Beneficiary's exercise of its rights under any Loan Instrument to constitute a nonexempt prohibited transaction under ERISA or result in a violation of a state statute regulating governmental plans, subjecting Beneficiary to liability for a violation of ERISA, the Internal Revenue Code, a state statute, or other similar law.

Notwithstanding any provision of the Loan Instruments to the contrary, in no event shall a default under that certain Guaranty Agreement dated as of the date hereof made by Kilroy Airport Imperial Co., a California limited partnership, and the other guarantors named therein constitute a default or Event of Default under the Loan Instruments.

ARTICLE 4 REMEDIES

4.01 Acceleration, Foreclosure, etc. Upon the happening of any Event of Default, Beneficiary may, at its sole option, declare the entire unpaid balance of the Obligations, including, the Make-Whole Amount and any other prepayment charges, if any, due pursuant to any Loan Instrument, immediately due and payable without notice or demand, provided, however, simultaneously with the occurrence of an Event of Default under Section 3.01(D), 3.01(E) or 3.01(F), and without the necessity of any notice or other action by the Beneficiary, all Obligations shall automatically become and be due and payable, without notice or demand. In addition, upon the occurrence of any Event of Default (other than an Event of Default for which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing), Beneficiary may, at its sole option, without further delay, undertake any one or more of the following or exercise any other remedies available to it under applicable law or equity:

4.01A. Foreclosure. Subject to and in accordance with applicable law, institute an action, judicial or otherwise, to foreclose this Security Instrument, or take such other action as may be allowed at law or in equity, for the enforcement hereof and realization on the Secured Property or any other security which is herein or elsewhere provided for, or proceed thereon through power of sale or to final judgment and execution thereon for the entire unpaid balance of the Obligations, including interest at the rate specified in the Loan Instruments to the date of the Event of Default and thereafter at the Increased Rate, and all other sums secured by this Security Instrument, including all attorneys' fees and expenses, costs of suit and other collection costs, interest at the Increased Rate on any judgment obtained by Beneficiary from and after the date of any sale of the Secured Property (which may be sold in one parcel or in such parcels, manner or order as Beneficiary shall elect) until actual payment is made of the full amount due Beneficiary pursuant to the Loan Instruments, any law, usage or custom to the contrary notwithstanding.

4.01B. Partial Foreclosure. Beneficiary shall have the right to foreclose the lien hereof to satisfy payment and performance of any part of the Obligations from time to time. If an Event of Default exists as to the payment of any part of the Obligations, as an alternative to the right of foreclosure to satisfy payment of the Obligations after acceleration thereof, to the extent permitted by applicable law, Beneficiary may institute partial foreclosure proceedings ("Partial Foreclosure") with respect to the portion of the Obligations as to which the Event of Default exists, as if under a full foreclosure, and without declaring the entire unpaid balance of the Obligations due. If Beneficiary institutes a Partial Foreclosure, Beneficiary may sell, from time to time, such part or parts of the Secured Property as Beneficiary, in its discretion, deems appropriate, and may make each such sale subject to the continuing lien of this Security Instrument for the remainder, from time to time, of the Obligations. No Partial Foreclosure, if so made, shall in any manner affect the remainder, from time to time, of the Obligations or the priority of this Security Instrument. As to such remainder, this Security Instrument and the lien hereof shall remain in full force and effect as though no foreclosure sale had been made pursuant to the provisions of this Section 4.01B. Notwithstanding the filing of any Partial Foreclosure or the entry of a decree of sale therein, Beneficiary may elect, at any time prior to any Partial Foreclosure, to discontinue such Partial Foreclosure and the acceleration of the Obligations by reason of any Event of Default upon which such Partial Foreclosure was predicated, and to proceed with full foreclosure proceedings. Beneficiary may commence a Partial Foreclosure, from time to time, as to any part of the Obligations without exhausting the right of full foreclosure or Partial Foreclosure for any other part of the Obligations as to which such Partial Foreclosure shall not have occurred.

4.01C. Entry. To the extent not prohibited by applicable law, Beneficiary personally, or by its agents or attorneys, may enter all or any part of the Secured Property, and may exclude Grantor, its agents and servants wholly therefrom without liability for trespass, damages or otherwise. To the extent not prohibited by applicable law, Grantor shall surrender possession of the Secured Property to Beneficiary on demand after the happening of any Event of Default. Thereafter, Beneficiary may use, operate, manage and control the Secured Property and conduct the business thereof, either personally or by its superintendents, managers, agents, servants, attorneys or receivers. Upon each such entry, Beneficiary, at the expense of Grantor from time to time, either by purchase, repairs or construction, may maintain and restore the Secured Property, may complete the construction of any construction work that has not yet been completed and in the course of such completion may make such changes in the contemplated or completed improvements as Beneficiary may deem desirable and may insure the same. At the expense of

Grantor, Beneficiary may make, from time to time, all necessary or desirable repairs, renewals and replacements and such alterations, additions, betterments and improvements thereto and thereon as Beneficiary may deem advisable. In each of the circumstances described in this Section 4.01C, Beneficiary shall have the right to manage and operate the Secured Property and to carry on the business thereof and exercise all rights and powers of Grantor with respect thereto, either in the name of Grantor or otherwise as Beneficiary shall deem best.

4.01D. Collection of Rents, etc. Beneficiary may collect and receive all Rents. Beneficiary may deduct, from the monies so collected and received, all expenses of conducting the business of the Secured Property and of all maintenance, repairs, renewals, replacements, alterations, additions, betterments and improvements and amounts necessary to pay for Impositions, insurance, taxes and assessments, liens or other charges upon the Secured Property or any part thereof, as well as reasonable compensation for the services of Beneficiary and for all attorneys, agents, clerks, servants, and other employees engaged and employed by Beneficiary. After such deductions and the establishment of all reasonable reserves, Beneficiary shall apply all such monies to the payment of the unpaid Obligations. Beneficiary shall account only for Rents actually received by Beneficiary.

4.01E. Receivership. Beneficiary may have a receiver appointed to enter into possession of the Secured Property, collect the Rents therefrom and apply the same as the court may approve. Unless prohibited by applicable law, Beneficiary may have a receiver appointed, as a matter of right without notice and without the necessity of proving either the inadequacy of the security provided by this Security Instrument or the insolvency of Grantor or any other Person who may be legally or equitably liable to pay the Obligations. Grantor and each such Person, presently and prospectively, waive such proof and consent to the appointment of such receiver. If Beneficiary or any receiver collects the Rents, the monies so collected shall not be substituted for payment of the Obligations, nor can they be used to cure an Event of Default, without the prior written consent of Beneficiary. Beneficiary shall not be liable to account for Rents not actually received by Beneficiary.

4.01F. Specific Performance. To the extent not prohibited by applicable law, Beneficiary may institute an action for specific performance of any covenant contained herein or in aid of the execution of any power herein granted.

4.01G. Recovery of Sums Required to be Paid. Beneficiary may, from time to time, take action to recover any sum or sums which constitute a part of the Obligations as such sums shall become due, without regard to whether or not the remainder of the Obligations shall be due, and without prejudice to the right of Beneficiary thereafter to bring an action of foreclosure or any other action for each Event of Default existing from time to time.

4.01H. Other Remedies. Beneficiary may take all actions permitted under the Uniform Commercial Code of the State and may take any other action, or pursue any other right or remedy, as Beneficiary may have under applicable law, and Grantor does hereby grant such rights to Beneficiary.

4.01I. Power of Sale. Beneficiary may cause any or all of the Secured Property to be sold under the power of sale granted by this Security Instrument or any of the other Loan

Instruments in any manner permitted by applicable law. For any sale under the power of sale granted by this Security Instrument, Trustee or Beneficiary must record and give all notices required by law and then, upon the expiration of such time as is required by law, may sell the Secured Property, and all estate, right, title, interest, claim and demand of Trustor therein, and all rights of redemption thereof, at one or more sales, as an entirety or in parcels, with such elements of real and/or personal property (and, to the extent permitted by applicable law, may elect to deem all of the Secured Property to be real property for purposes thereof), and at such time or place and upon such terms as Trustee and Beneficiary may determine and shall execute and deliver to the purchaser or purchasers thereof a deed or deeds conveying the property sold, but without any covenant or warranty, express or implied, and the recitals in the deed or deeds of any facts affecting the regularity or validity of the sale will be conclusive against all persons. In the event of a sale, by foreclosure or otherwise, of less than all of the Secured Property, this Security Instrument shall continue as a lien and security interest on the remaining portion of the Secured Property.

(1) Subject to the provisions or other requirements of law, the following provisions shall apply to any sale or sales of the Secured Property under or by virtue of this Section 4.01 whether made under the power of sale herein granted or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale:

(a) Trustee, at the request of Beneficiary, may conduct any number of sales from time to time. The power of sale set forth herein shall not be exhausted by any one or more such sales as to any part of the Secured Property which shall not have been sold, nor by any sale which is not completed or is defective in Trustee's or Beneficiary's opinion, until the Obligations shall have been paid in full.

(b) Any sale may be postponed or adjourned by public announcement at the time and place appointed for such sale or for such postponed or adjourned sale without further notice.

(c) After each sale, Trustee, or an officer of any court empowered to do so, shall execute and deliver to the purchaser or purchasers at such sale a good and sufficient instrument or instruments granting, conveying, assigning and transferring all right, title and interest of Trustor in and to the property and rights sold and shall receive the proceeds of said sale or sales and apply the same as herein provided. Trustee is hereby appointed the true and lawful attorney-in-fact of Trustor, which appointment is irrevocable and shall be deemed to be coupled with an interest, in Trustor's name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the property and rights so sold, and for that purpose Trustee may execute all necessary instruments of conveyance, assignment, transfer and delivery, and may substitute one or more persons with like power, Trustor hereby ratifying and confirming all that said attorney or such substitute or substitutes shall lawfully do by virtue thereof. Nevertheless, Trustor, if requested by Trustee or Beneficiary, shall ratify and confirm any such sale or sales by executing and delivering to Trustee or such purchaser or purchasers all such instruments as may be advisable, in Trustee's or Beneficiary's judgment, for the purposes as may be designated in such request.

(d) Any and all statements of fact or other recitals made in any of the instruments referred to in subsection (c) of this Section given by Trustee and/or Beneficiary

as to nonpayment of the Obligations, or as to the occurrence of any Event of Default, or as to Beneficiary having declared all or any of the Obligations to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and of the property or rights to be sold having been duly given, or as to the refusal, failure or inability to act of Trustee, or as to the appointment of any substitute or successor Trustee, or as to any other act or thing having been duly done by Trustor, Beneficiary, or by such Trustee, shall be taken as conclusive and binding against all persons as to evidence of the truth of the facts so stated and recited. Trustee and/or Beneficiary may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale so held, including the posting of notices and the conduct of sale, but in the name and behalf of Trustee or Beneficiary, as applicable.

(e) The receipt of Trustee for the purchase money paid at any such sale, or the receipt of any other person authorized to receive the same, shall be sufficient discharge therefor to any purchaser of any property or rights sold as aforesaid, and no such purchaser, or its representatives, grantees or assigns, after paying such purchase price and receiving such receipt, shall be bound to see to the application of such purchase price of any part thereof upon or for any trust or purpose of this Security Instrument or, in any manner whatsoever, be answerable for any loss, misapplication or non-application of any such purchase money, or part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

(f) Any such sale or sales shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Trustor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Trustor and any and all persons claiming or who may claim the same, or any part thereof or any interest therein, by, through or under Trustor to the fullest extent permitted by applicable law.

(g) Upon any such sale or sales, Beneficiary may bid for and acquire the Secured Property and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting against the Obligations the amount of the bid made therefor, after deducting therefrom the expenses of the sale, the cost of any enforcement proceeding hereunder and any other sums which Trustee or Beneficiary is authorized to deduct under the terms hereof, to the extent necessary to satisfy such bid.

(h) In the event that Trustor, or any person claiming by, through or under Trustor, shall transfer or refuse or fail to surrender possession of the Secured Property after any sale thereof, then Trustor, or such person shall be deemed a tenant at sufferance of the purchaser at such sale, subject to eviction by means of forcible entry and detainer proceedings, or subject to any other right or remedy available hereunder or under applicable law.

(i) Upon any such sale, it shall not be necessary for Trustee, Beneficiary or any public officer acting under execution or order of court to have present or constructively in its possession any of the Secured Property.

(j) In the event of any sale referred to in this Section, the entire Obligations, if not previously due and payable, immediately thereupon shall, notwithstanding anything to the contrary herein or in the other Loan Instruments, become due and payable.

(k) In the event a foreclosure hereunder shall be commenced by Trustee at the request of Beneficiary, Trustee or Beneficiary may at any time before the sale of the Secured Property abandon the sale, and may institute suit for the collection of the Obligations and for the foreclosure of this Security Instrument, or in the event that Trustee or Beneficiary should institute a suit for collection of the Obligations, and for the foreclosure of this Security Instrument, Beneficiary may at any time before the entry of final judgment in said suit dismiss the same and sell or require Trustee to sell the Secured Property in accordance with the provisions of this Security Instrument.

4.02 No Election of Remedies. Beneficiary may, in its discretion, exercise all or any of the rights and remedies provided herein or in the other Loan Instruments, or which may be provided by statute, law, equity or otherwise, in such order and manner and from time to time, as Beneficiary shall elect without impairing Beneficiary's lien, or rights pursuant to any of the Loan Instruments and without affecting the liability of any Person for the Obligations.

4.03 Beneficiary's Right to Release, etc. Beneficiary may, in its discretion, from time to time, release (for such consideration as Beneficiary may require) any part of the Secured Property (A) without notice to, or the consent, approval or agreement of any other party in interest, (B) without, as to the remainder of the Secured Property, in any way impairing or affecting the validity or the lien of this Security Instrument or any of the other Loan Instruments, or the priority thereof and (C) without releasing Grantor from any liability for any of the Obligations. Beneficiary may accept, by assignment, pledge or otherwise, any other property in place of any part of the Secured Property as Beneficiary may require without being accountable for so doing to any other lienor or other Person. To the extent permitted by law, neither Grantor, nor the holder of any lien or encumbrance affecting the Secured Property or any part thereof shall have the right to require Beneficiary to marshal assets.

4.04 Beneficiary's Right to Remedy Defaults, etc. If Grantor defaults in the performance of any of the covenants or agreements contained in this Security Instrument or any of its other obligations under the other Loan Instruments, or if any action or proceeding is commenced which affects Beneficiary's interest in the Secured Property or any part thereof, including, but not limited to, eminent domain, code enforcement, or proceedings of any nature whatsoever under any federal or state law, whether now existing or hereafter enacted or amended, relating to bankruptcy, insolvency, arrangement, reorganization or other form of debtor relief, then Beneficiary may, but without obligation to do so and without releasing Grantor from any obligation hereunder, cure such defaults, make such appearances, disburse such sums and/or take such other action as Beneficiary deems necessary or appropriate to protect Beneficiary's interest, including disbursement of attorneys' fees, entry upon the Secured Property to make repairs, payment of Impositions or insurance premiums or otherwise cure the default in question or protect the security of the Secured Property, and payment, purchase, contest or compromise of any encumbrance, charge or lien encumbering the Secured Property. Grantor further agrees to pay all expenses incurred by Beneficiary (including fees and disbursements of counsel) pursuant to this Section 4.04, including those incident to the curing of any default and/or the protection of the rights of Beneficiary hereunder, and enforcement or collection of payment of the Note or any future advances whether by judicial or nonjudicial proceedings, or in connection with any bankruptcy, insolvency, arrangement, reorganization or other debtor relief proceeding of Grantor, or otherwise. Any amounts disbursed by Beneficiary pursuant to this Section 4.04 shall be additional

indebtedness of Grantor secured by this Security Instrument as of the date of disbursement and shall bear interest at the Increased Rate from such date until paid by Grantor in full. All such amounts shall be payable by Grantor immediately without demand. Nothing contained in this Section 4.04 shall be construed to require Beneficiary to incur any expense, make any appearance, or take any other action and any action taken by Beneficiary pursuant to this Section 4.04 shall be without prejudice to any other rights or remedies available to Beneficiary pursuant to any Loan Instrument or at law or in equity.

4.05 Waivers. Grantor waives and releases (A) all benefits that might accrue to Grantor by virtue of any present or future laws exempting the Secured Property, or any part of the proceeds arising from any sale of the Secured Property, from attachment, levy or sale under execution, or providing for any stay of execution, exemption from civil process or extension of time; (B) all benefits that might accrue to Grantor from requiring valuation or appraisal of any part of the Secured Property levied or sold on execution of any judgment recovered for the Obligations; (C) all notices not herein or in any other Loan Instrument specifically required as a result of Grantor's default or of Beneficiary's exercise, or election to exercise, any option pursuant to any of the Loan Instruments; and (D) all rights of redemption to the extent that Grantor may lawfully waive same. At no time will Grantor insist upon, plead or in any manner whatsoever claim or take any benefit or advantage of any stay or extension or moratorium law or any exemption from execution or sale of the Secured Property or any part thereof, whenever enacted, now or at any time hereafter in force, which may affect the covenants or terms of performance of the Loan Instruments. Similarly, Grantor will not claim, take or insist upon any benefit or advantage of any law now or hereafter in force providing for the valuation or appraisal of the Secured Property or any part thereof, prior to any sale or sales thereof which may be made pursuant to any provision hereof, or pursuant to the decree, judgment or order of any court of competent jurisdiction. After any such sale or sales, to the extent permitted by law, Grantor shall not claim or exercise any right under any law or laws heretofore or hereafter enacted to redeem the property so sold or any part thereof. Grantor waives all benefits or advantages of any such law or laws, and covenants not to hinder, delay or impede the execution of any power herein granted or delegated to Beneficiary. Grantor shall suffer and permit the execution of every such power as though no such law or laws had been made or enacted. To the extent permitted by law, the Secured Property may be sold in one parcel, as an entirety, or in such parcels, manner or order as Beneficiary in its discretion may decide. To the extent permitted by law, neither Grantor nor the holder of any lien or encumbrance affecting the Secured Property or any part thereof may require Beneficiary to marshal assets.

4.06 Prepayment. Grantor shall pay the Make-Whole Amount pursuant to the terms of the Note for prepayment of the Obligations if for any reason (including the acceleration of the due date of the Obligations by Beneficiary following the occurrence of an Event of Default (other than an Event of Default which Beneficiary, in its sole discretion, has accepted a cure in writing or otherwise waived in writing) any of such Obligations shall be due and payable or paid prior to the Maturity Date, whether or not such payment is made prior to or at any sale held pursuant to or by virtue of this Article 4. Beneficiary has relied on Grantor's creditworthiness and its agreement to repay the Obligations in strict accordance with the terms set forth in the Loan Instruments, and would not make the Loan without the promises by Grantor to make all payments due pursuant to the Loan Instruments and not to prepay all or any part of the principal balance of the Note prior to the final maturity date thereof, except on the terms expressly set forth herein and in the Note. Therefore, any prepayment of the Note other than as permitted therein or in this Security

Instrument, whether occurring as a voluntary prepayment by Grantor or occurring upon an acceleration of the Note by Beneficiary or otherwise, will prejudice Beneficiary's ability to meet its obligations and to earn the return on the funds advanced to Grantor, which Beneficiary intended and expected to earn when it made the Loan, and will also result in other losses and additional expenses to Beneficiary. In consideration of Beneficiary making the Loan at the interest rate and for the term set forth in the Note, except as otherwise expressly provided in the Loan Instruments, Grantor expressly waives all rights it may have under applicable law to prepay, without charge or premium, all or any part of the Note, either voluntarily or upon an acceleration of the Note by Beneficiary, including an acceleration upon the making or suffering by Grantor of any transfer or disposition prohibited by Section 1.11. If a prepayment of all or any part of the principal balance of the Note is made by or on behalf of Grantor as a result of (a) an Event of Default (which Event of Default shall be presumed to be, and conclusively shall be deemed to be a willful default and a deliberate attempt on Grantor's part to avoid payment of the Make-Whole Amount), (b) the exercise by Grantor or any other person of any right of redemption, (c) any prepayment of the Loan in connection with a foreclosure or similar proceeding or a foreclosure judgment, or (d) any other prepayment not permitted by the Loan Instruments, then Grantor shall pay to Beneficiary the Make-Whole Amount computed, to the extent not prohibited by applicable law, as if Grantor had elected to prepay the Loan, as provided in Section 5(b) of the Note, on the date of such Event of Default, exercise or action, as applicable. If such Event of Default, exercise or action occurs during the Closed Period, then, to the extent not prohibited by applicable law, the Make-Whole Amount shall be equal to the greater of (a) ten percent (10%) of the principal balance of this Note then unpaid or (b) the Make-Whole Amount, as calculated in the manner set forth in Section 5(b) above. The obligation to pay the Make-Whole Amount shall be secured by this Security Instrument and the other Loan Instruments. Grantor shall pay the Make-Whole Amount without prejudice to the right of Beneficiary to collect any other amounts due pursuant hereto or to declare a default hereunder. Nothing herein shall be construed as permitting any partial prepayment of the Obligations, except with Beneficiary's prior written consent thereto obtained in each instance.

ARTICLE 5
MISCELLANEOUS

5.01 Non-Waiver. The failure of Beneficiary to insist upon strict performance of any term of this Security Instrument or any other Loan Instrument shall not be deemed to be a waiver of any term of this Security Instrument or any other Loan Instrument. Grantor shall not be relieved of its obligation to pay and perform the Obligations, at the time and in the manner provided in the Loan Instruments, by reason of (A) a failure by Beneficiary to take any action to foreclose this Security Instrument or otherwise enforce any of the provisions of this Security Instrument or of any other Loan Instrument (regardless of whether or not Grantor has requested Beneficiary to do so), (B) the release, regardless of consideration, of the whole or any part of the Secured Property or any other security for the Obligations, or (C) any agreement or stipulation between Beneficiary and any subsequent owner or owners of the Secured Property or any other Person extending the time of payment or otherwise modifying or supplementing the terms of this Security Instrument or any other Loan Instrument, without first having obtained the consent of Grantor. Grantor shall pay and perform the Obligations at the time and in the manner provided in this Security Instrument and the other Loan Instruments as so extended, modified or supplemented, unless expressly released and discharged by Beneficiary. Regardless of consideration, and without the necessity for any notice to or consent by the holder of any subordinate lien, encumbrance, right, title or

interest in or to the Secured Property, Beneficiary may release any Person at any time liable for the payment or performance of the Obligations, or any part thereof, or any part of the security held for the Obligations, and may extend the time of such payment or performance or otherwise modify the terms of any Loan Instrument, including a modification of the interest rate payable on the principal balance of the Note, without in any manner impairing or affecting any of the Loan Instruments or the lien thereof or the priority of this Security Instrument, as so extended and modified, as security for the Obligations over any such subordinate lien, encumbrance, right, title or interest. Beneficiary may resort for the payment and performance of the Obligations to any other security held by Beneficiary in such order and manner as Beneficiary, in its discretion, may elect. Beneficiary may take action to require payment and performance of the Obligations, or any part thereof, or to enforce any term of this Security Instrument, without prejudice to the right of Beneficiary thereafter to foreclose this Security Instrument. In addition to the rights and remedies stated in this Security Instrument, Beneficiary may exercise every additional right and remedy now or hereafter afforded by law or in equity. Each right of Beneficiary pursuant to this Security Instrument shall be separate, distinct and cumulative, and no such right shall be given effect to the exclusion of any other. No act of Beneficiary shall be construed as an election to proceed pursuant to any one provision of this Security Instrument to the exclusion of any other provision.

5.02 Sole Discretion of Beneficiary. Whenever pursuant to this Security Instrument or in any other Loan Instrument (A) Beneficiary exercises any right to approve or disapprove or to give or withhold its consent, (B) any arrangement or term is to be satisfactory to Beneficiary, or (C) any other decision or determination is to be made by Beneficiary, Beneficiary may give or withhold such approval or consent, determine whether or not such arrangement or term is satisfactory, and make all other decisions or determinations, in Beneficiary's sole and absolute discretion, and Beneficiary's decision shall be final and conclusive except where this Security Instrument expressly provides to the contrary. If Grantor shall seek the consent or approval of Beneficiary pursuant to this Security Instrument and Beneficiary shall fail or refuse to give such consent or approval, Grantor shall not be entitled to any damages for any withholding of such approval or consent by Beneficiary. Grantor's sole remedy shall be an action for injunctive or declaratory relief, which remedy shall be available only in those cases where Beneficiary has expressly agreed not to unreasonably withhold its consent or approval.

5.03 Legal Tender. Grantor shall pay all payments of principal, interest or other amounts required or provided for herein in lawful money of the United States of America at the time of payment, at the above described office of Beneficiary or at such other place as Beneficiary may from time to time designate.

5.04 No Merger or Termination. If both the lessor's and Lessee's estates under any Lease or any portion thereof which constitutes a part of the Secured Property shall at any time become vested in one owner, this Security Instrument and the lien created hereby shall not be destroyed or terminated by the application of the doctrine of merger and in such event, Beneficiary shall continue to have and enjoy all of its rights and privileges as to the separate estates. In addition, the foreclosure of this Security Instrument shall not destroy or terminate any Lease or sublease then existing and created by Grantor, whether by application of the law of merger or as a matter of law or otherwise, unless Beneficiary or any purchaser at any sale related to such foreclosure shall so elect. No act by or on behalf of Beneficiary or any such purchaser shall constitute a

termination of any Lease or sublease, unless Beneficiary or such purchaser shall give written notice thereof to the related Lessee or sublessee.

5.05 Discontinuance of Actions. If Beneficiary shall enforce any right pursuant to this Security Instrument by foreclosure, sale, entry or otherwise and discontinue or abandon such enforcement for any reason or any such proceedings shall have been determined adversely, then, in each such case, Grantor and Beneficiary shall be restored to their former positions and rights hereunder, and the Secured Property shall remain subject to the lien of this Security Instrument.

5.06 Headings. The headings of the Sections and other subdivisions of this Security Instrument are for the convenience of reference only, are not to be considered a part hereof, and shall not limit or otherwise affect any of the terms hereof.

5.07 Notice to Parties. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Instrument shall be given in writing and shall be effective for all purposes sent by (a) hand delivery, with proof of attempted delivery; (b) certified or registered United States mail, return receipt requested, postage prepaid; or (c) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery, with an email copy to Beneficiary at the address set forth below, addressed to the parties as follows (or at such other address of which either Grantor or Beneficiary may hereafter notify the other in writing):

Grantor:

KR One Paseo Residential, LLC
c/o Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Taylor Friend; Lauren Stadler
Email: Taylor.Friend@kilroyrealty.com; lstadler@kilroyrealty.com
Phone: (310) 481-8574; (310) 481-8582

KR One Paseo Retail, LLC
c/o Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Taylor Friend; Lauren Stadler
Email: Taylor.Friend@kilroyrealty.com; lstadler@kilroyrealty.com
Phone: (310) 481-8574; (310) 481-8582

KR One Paseo Office, LLC
c/o Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Taylor Friend; Lauren Stadler
Email: Taylor.Friend@kilroyrealty.com; lstadler@kilroyrealty.com

Phone: (310) 481-8574; (310) 481-8582

with a copy to:

Allen Matkins Leck Gamble Mallory & Natsis LLP
865 S. Figueroa Street, Suite 2800
Los Angeles, California 90017-2543
Attention: Marc D. Young
Email: myoung@allenmatkins.com
Phone: (213) 955-5619

Beneficiary:

New York Life Insurance Company
c/o New York Life Real Estate Investors
51 Madison Avenue
New York, New York 10010-1603
Attn: Senior Director – Loan Management
Loan No. 374-1311

with a copy to:

New York Life Insurance Company
Office of the General Counsel
51 Madison Avenue
New York, New York 10010-1603
Attn: Vice President – Real Estate Section

with an email copy to:

REI_Servicing@nylinvestors.com

A party receiving a notice which does not comply with the technical requirements for notice under this Section may elect to waive any deficiencies and treat the notice as having been properly given. A notice shall be deemed to have been given: (a) in the case of hand delivery, at the time of delivery; (b) in the case of registered or certified mail, when delivered or the first attempted delivery on a Business Day; or (c) in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day; provided however, no notice to Beneficiary shall be deemed given and effective pursuant to the foregoing clauses (a), (b) and (c) unless a copy of such notice was also sent to Beneficiary at Beneficiary's specified email address above or at such other email address of which Beneficiary may hereafter notify Grantor of in writing. Notice for any party may be given by its respective counsel. Additionally, notice from Beneficiary may also be given by Beneficiary's servicer and Grantor shall be entitled to rely on any notice given by Beneficiary's servicer as if it had been sent by Beneficiary. The failure to provide a courtesy copy of any notice herein shall not void the effectiveness of such notice to Grantor.

5.08 Successors and Assigns Included In Parties. Subject to the provisions of Section 1.11, each reference herein to Grantor or Beneficiary shall mean and include, the heirs, legal representatives, successors and assigns of such Person. All covenants and agreements contained in this Security Instrument by or on behalf of Grantor shall bind Grantor's heirs, legal representatives, successors and assigns and shall inure to the benefit of Grantor's permitted successors and assigns, and all covenants and agreements by or on behalf of Beneficiary shall bind and inure to the benefit of Beneficiary's successors and assigns.

5.09 Changes and Modifications. This Security Instrument may only be changed or modified by an agreement in writing, signed by both Grantor and Beneficiary.

5.10 Applicable Law. This Security Instrument shall be construed and enforced according to the law of the State, other than such law with respect to conflicts of laws.

5.11 Invalid Provisions to Affect No Others. The unenforceability or invalidity of any provision or provisions of this Security Instrument as to any Persons or circumstances shall not render that provision or those provisions unenforceable or invalid as to any other Persons or circumstances, and all provisions hereof, in all other respects, shall remain valid and enforceable.

5.12 Usury Savings Clause. Grantor and Beneficiary intend to conform strictly to the usury laws now or hereafter in force in the State and all interest payable pursuant to the Note, this Security Instrument or any other Loan Instrument, unless exempt from such laws, shall be subject to reduction to the amount equal to the maximum non-usurious amount allowed pursuant to such usury laws as now or hereafter construed by the courts having jurisdiction over such matters. The aggregate of all interest (whether designated as interest, service charges, points or otherwise) contracted for, chargeable or receivable pursuant to the Note, this Security Instrument or any other Loan Instrument shall under no circumstances exceed the maximum legal interest rate which Beneficiary may charge under applicable law from time to time. Any interest in excess of the maximum amount permitted by law shall be deemed a mistake and shall be canceled automatically and, if theretofore paid, Beneficiary shall, at its option, either rebate such interest to Grantor or credit such interest to the principal amount of the Obligations, or if all such principal has been repaid, Beneficiary shall rebate such excess to Grantor.

5.13 No Statute of Limitations. To the full extent permitted by law, Grantor hereby waives the pleading of any statute of limitations as a defense to any or all of the Obligations.

5.14 Late Charges. If Grantor fails to pay, when due, without regard to any grace period, any installment of interest or principal, any payment due pursuant to Section 1.04 or any deposit or reserve due pursuant to this Security Instrument or any other Loan Instrument, Grantor shall pay to Beneficiary (unless waived by Beneficiary) the Late Charge as defined and described in the Note. Each such Late Charge, if not previously paid, shall, at the option of Beneficiary, be added to and become part of the succeeding monthly payment to be made pursuant to the Note, and shall be secured by this Security Instrument. Any such Late Charge shall be in addition to any fees and charges of any agents or attorneys which Beneficiary is entitled to employ on any default hereunder whether authorized herein or by law. Grantor acknowledges that any default in the payment of any installment of principal or interest due under the Note or any other payment required hereunder will result in loss and additional expenses to Beneficiary in servicing the indebtedness secured hereby, handling such delinquent payments and meeting its other financial obligations, and that the extent of such loss and additional expense is extremely difficult and impractical to ascertain. Accordingly, Grantor acknowledges that such Late Charge is a reasonable estimate of such loss and expenses.

5.15 WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, GRANTOR WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION OR PROCEEDING (A) BROUGHT BY GRANTOR,

BENEFICIARY OR ANY OTHER PERSON RELATING TO (I) THE OBLIGATIONS OR ANY UNDERSTANDINGS OR PRIOR DEALINGS BETWEEN GRANTOR AND BENEFICIARY OR (II) THE LOAN INSTRUMENTS, OR (B) TO WHICH BENEFICIARY IS A PARTY.

5.16 Continuing Effectiveness. This Security Instrument shall secure all advances made pursuant to the Loan Instruments, all rearrangements and renewals of the Obligations and all extensions as to the time of payment thereof, whether or not such advances, rearrangements, renewals or extensions are evidenced by new promissory notes or other instruments hereafter executed and irrespective of whether filed or recorded. The execution of this Security Instrument shall not impair or affect any other security which may be given to secure the payment of the Obligations, and all such additional security shall be considered as cumulative. The taking of additional security, execution from time to time of partial releases as to the Secured Property or any extension of time of payment of the Obligations shall not diminish the force, effect or lien of this Security Instrument, and shall not affect or impair the liability of any maker, surety or endorser for the payment of the Obligations.

5.17 Time of Essence. Time is of the essence as to Grantor's performance of each provision of this Security Instrument, the Note and the other Loan Instruments. Grantor agrees that where, by the terms of this Security Instrument, the Note or any other Loan Instrument, a day is named or a time is fixed for the payment of any sum of money or the performance of any obligation by Grantor, the day and/or time stated enters into the consideration and is of the essence of the whole contract.

5.18 Reserved.

5.19 Non-Business Days. If any payment required hereunder or under any other Loan Instrument becomes due on a day that is not a Business Day, then such payment shall be due and payable on the immediately preceding Business Day.

5.20 Single Purpose Entity. Grantor represents, warrants and covenants that at all times since its formation and thereafter:

(A) Each of Grantor and any SPE Principal, does not own and will not own, either directly or indirectly, any asset or property other than (i) with respect to Grantor, the Secured Property and incidental personal property necessary for the ownership or operation of the Secured Property and (ii) with respect any SPE Principal, the general partnership or managing member interest in Grantor, as applicable.

(B) Each of Grantor and any SPE Principal, has not engaged in and will not engage in any business other than (i) with respect to Grantor, the ownership, management and operation of the Secured Property and (ii) with respect to any SPE Principal, the ownership of the general partnership or managing member interest in Grantor, as applicable, and each of Grantor and any SPE Principal, will conduct and operate its business as presently conducted and operated.

(C) Unless Grantor is a corporation or Acceptable Delaware LLC, has and shall have an SPE Principal as its only general partner or managing member.

(D) Each of Grantor and any SPE Principal has not entered and will not enter into any contract or agreement with any affiliate of Grantor, any constituent party of Grantor or any affiliate of any constituent party, except upon terms and conditions that are intrinsically fair, commercially reasonable and substantially similar to those that would be available on an arms-length basis with unaffiliated third parties.

(E) Each of Grantor and any SPE Principal has not incurred and will not incur any indebtedness, secured or unsecured, direct or indirect, absolute or contingent (including guaranteeing any obligation), other than, with respect to Grantor (i) the Obligations and (ii) trade and operational debt incurred in the ordinary course of business with trade creditors in amounts as are normal and reasonable under the circumstances provided that such debt is paid within sixty (60) days of the date it is incurred. No indebtedness other than the Obligations may be secured (subordinate or pari passu) by the Secured Property.

(F) Each of Grantor and any SPE Principal has not made and will not make any loans or advances to any third party (including any affiliate, constituent party or any affiliate of any constituent party), and have not and will not acquire obligations or securities of its affiliates or any constituent party.

(G) Each of Grantor and any SPE Principal has been, is and intends to remain solvent and each of Grantor and any SPE Principal has and will pay its own debts and liabilities from its assets (to the extent of such funds and assets and in no event shall the constituent members of Grantor be required to make a contribution to satisfy this item (G)), as the same shall become due.

(H) Each of Grantor and any SPE Principal has done or caused to be done and will do or cause to be done all things necessary to observe organizational formalities and preserve its existence, and each of Grantor and any SPE Principal has not and will not, nor has Grantor or any SPE Principal permitted nor will Grantor, nor any SPE Principal, permit any of its constituent parties, to amend, modify or otherwise change the partnership certificate, partnership agreement, articles of incorporation, bylaws, articles of organization, operating agreement, trust agreement or other organizational document of Grantor or any SPE Principal or such constituent party in a manner which would result in a breach of any of the representations, warranties or covenants set forth in this Section 5.20 or in a manner that would otherwise adversely affect Grantor's and any SPE Principal's single purpose status.

(I) Each of Grantor and any SPE Principal has and will maintain all of its books, records, financial statements and bank accounts separate from those of its affiliates, any constituent party and any other Person; provided, however, Grantor or any SPE Principal may include its financial statements as part of a consolidated financial statement if such statements contain a notation that makes clear that Grantor or such SPE Principal is a separate entity and that the assets and credit of Grantor or such SPE Principal are not available to satisfy liabilities of any other Person and that the assets and credit of such other Person are not available to satisfy liabilities of Grantor or such SPE Principal; each of Grantor and any SPE Principal, has and will file its own tax returns as required by applicable state and federal law, except to the extent that Grantor is treated as a "disregarded entity" for tax purposes and is not required to file tax returns under

applicable law; each of Grantor and such SPE Principal has maintained and shall maintain its books, records, resolutions and agreements as official records.

(J) Each of Grantor and any SPE Principal has been and will be, and at all times has and will hold itself out to the public as, a legal entity separate and distinct from any other entity (including any affiliate of Grantor or such SPE Principal, any constituent party of Grantor or such SPE Principal, or any affiliate of any constituent party), has corrected and will correct any known misunderstanding regarding its status as a separate entity, has conducted and will conduct business in its own name, has not identified and shall not identify itself or any of its affiliates as a division or part of the other and has maintained and shall maintain and utilize separate stationery, invoices and checks; provided, however, that this Section 5.20(J) shall not apply as among the Grantors.

(K) Other than each Grantor's liability for the obligations of the other Grantors hereunder, each of Grantor and any SPE Principal has not assumed or guaranteed and will not assume or guaranty the debts of any other Person, has not held and will not hold itself out to be responsible for the debts of any other Person, and has not and will not otherwise pledge its assets for the benefit of any other Person or hold out its credit as being available to satisfy the obligations of any other Person.

(L) Each of Grantor and any SPE Principal has maintained and intends to maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations (to the extent there exists sufficient cash flow from the Secured Property to do so and in no event shall the constituent members of Grantor be required to make a contribution to satisfy this item (L)).

(M) Neither Grantor nor any SPE Principal, nor any of their respective constituent parties has caused or will cause or permit the dissolution, winding up, liquidation, consolidation or merger in whole or in part, of Grantor or any SPE Principal, or the division of Grantor or SPE Principal into multiple entities or series pursuant to Section 18-217 of the Delaware LLC Act; and neither Grantor nor any SPE Principal, nor any of their respective constituent parties has disposed or will dispose of all or substantially all of the assets of Grantor or any SPE Principal and has not changed and will not change Grantor's or any SPE Principal's legal structure.

(N) Each of Grantor and any SPE Principal has not commingled and will not commingle the funds and other assets of Grantor or any SPE Principal, with those of any affiliate or constituent party or any other Person other than another Grantor.

(O) Each of Grantor and any SPE Principal have maintained and will maintain its assets in such a manner that it will not be costly or difficult to segregate, ascertain or identify its individual assets from those of any affiliate or constituent party, or any other Person other than another Grantor.

(P) Each of Grantor and any SPE Principal does not and will not hold itself out to be responsible for the debts or obligations of any other Person except with respect to another Grantor.

(Q) Each of Grantor and any SPE Principal does and shall continue to (i) allocate fairly and reasonably any overhead and expense for office space shared with any

affiliated Person, (ii) pay any liabilities, including salaries of its employees, out of its own funds and not from funds of any affiliated Person and/or (iii) maintain a sufficient number of employees (which may be zero) in light of its contemplated business operations. Nothing in this item Q shall require any direct or indirect owner of Grantor or any other Person to make any additional capital contributions or loans to such Grantor.

(R) Each of Grantor and any SPE Principal, shall not violate or cause to be violated the assumptions made with respect to Grantor and any SPE Principal, and their respective direct or indirect constituent entities in any opinion letter pertaining to substantive consolidation delivered to Beneficiary in connection with the Loan, if any.

(S) Within the same time frame set forth in this Security Instrument or any other applicable Loan Instrument for the delivery of annual financial statements, Grantor shall deliver to Beneficiary a certification executed by an officer of Grantor certifying to Beneficiary that, as of such date, Grantor and any SPE Principal, complies with the provisions of Section 5.20 of this Security Instrument.

(T) Grantor's limited liability company agreement, limited partnership agreement or articles of incorporation, as applicable, shall contain the provisions set forth in Section 5.20(A)-(S) of this Security Instrument and, unless Grantor is a corporation or an Acceptable Delaware LLC, its sole general partner or managing member, as applicable, shall be an SPE Principal that is a corporation or an Acceptable Delaware LLC with articles of incorporation or a limited liability company agreement, as applicable, that contains the provisions set forth in Section 5.20(A)-(S) of this Security Instrument. So long as any Obligations are outstanding, none of such instruments shall be amended, altered or changed without the prior written consent of Beneficiary.

(U) In the event that Grantor or any SPE Principal is a corporation or an Acceptable Delaware LLC, it shall at all times cause there to be at least one duly appointed director or manager, as applicable (an "Independent Manager") of Grantor or such SPE Principal. The Independent Manager shall be satisfactory to Beneficiary, and must be a natural person employed by, or an entity owned and controlled by a nationally recognized corporate service provider and shall not at the time of initial appointment, nor at any time during the preceding five (5) years have been: (1) a stockholder, director, officer, employee, partner, attorney or counsel of Grantor any SPE Principal, or any affiliate of Grantor or any SPE Principal; (2) a customer, supplier or other person who derives more than ten percent (10%) of its purchases or revenues from its activities with Grantor or any SPE Principal or any affiliate of Grantor or any SPE Principal; (3) a Person or other entity controlling or under common control with any such stockholder, partner, customer, supplier or other Person; or (4) a member of the immediate family of any such stockholder, director, officer, employee, partner, customer, supplier or other Person. As used in this paragraph, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management, policies or activities of a Person or entity, whether through ownership of voting securities, by contract or otherwise. The affirmative vote or written consent of the Independent Manager shall be required for the Grantor and any SPE Principal to approve or take any Material Action. No termination or change of the Independent Manager shall be made without giving Beneficiary at least five (5) Business Days prior written notice, which notice shall include a copy of a resume for such proposed replacement Independent Manager that reflects that such

individual meets the requirements contained herein; provided further, that Beneficiary shall have the right to object to the appointment of said replacement and in the event of such objection, the proposed replacement shall not be admitted. Notwithstanding the foregoing, any current Independent Manager that receives notice of the termination of its duties shall provide a copy of said notice to Beneficiary within five (5) days of receipt thereof. To the fullest extent permitted by applicable law, and notwithstanding any duty otherwise existing at law or in equity, the Independent Manager shall consider only the interests of Grantor and any SPE Principal (including their respective creditors) and the members, partners or shareholders of Grantor and any SPE Principal, as applicable ("Constituent Owners"), in acting or otherwise voting on any Material Actions or matters provided for in Grantor's such SPE Principal's organizational documents (which such fiduciary duties to the Constituent Owners, Grantor and any SPE Principal (including their respective creditors), in each case, shall be deemed to apply solely to the extent of their respective economic interests in such entity, exclusive of (x) all other interests (including, without limitation, all other interests of the Constituent Owners), (y) the interests of other affiliates of the Constituent Owners or of Grantor or any SPE Principal, as applicable, and (z) the interests of any group of affiliates of which the Constituent Owners or Grantor or any SPE Principal, as applicable, is a part)). Regardless of the solvency of Grantor or any SPE Principal, the Independent Manager shall owe duties to protect creditors in the enforcement of their contractual rights, including all remedies. Other than as provided above, the Independent Manager shall not have any fiduciary duties to any Constituent Owners, any directors or managers of Grantor or any SPE Principal, as applicable, or any other Person, provided, however, that the foregoing shall not eliminate the implied contractual covenant of good faith and fair dealing under applicable law. To the fullest extent permitted by applicable law, an Independent Manager shall not be liable to Grantor, any SPE Principal or any Constituent Owner or any other Person for breach of contract or breach of duties (including fiduciary duties), unless such Independent Manager acted in bad faith or engaged in willful misconduct. All other matters as to the Independent Manager shall be set forth in the organizational documents of Grantor or SPE Principal, as applicable, and shall be satisfactory to Beneficiary.

5.21 Tax Search Fee. Grantor shall pay to Beneficiary at closing a one-time estimated fee of \$180.00 per property and \$24.60 per tax parcel for annual tax searches. If such fee is insufficient to cover the cost of Beneficiary's tax search firm, Grantor shall pay the balance of such to Beneficiary on the Payment Date (as defined in the Cash Management Agreement) following notice from Beneficiary.

5.22 Actions of Trustee. The Trustee shall be protected in acting upon any notice, request, consent, demand, statement, note or other paper or document believed by Trustee to be genuine and to have been signed by the party or parties purporting to sign or step taken or omitted, nor for any mistake of law or fact, nor for anything which Trustee may do or refrain from doing in good faith nor generally shall a Trustee have any accountability hereunder except as provided by applicable law and except for Trustee's own individual gross negligence or willful default.

5.23 Trustee as Attorney. The Trustee may act hereunder and may sell and convey the Secured Property as herein provided although the Trustee has been, may now be or may hereafter be, an attorney or agent of the Beneficiary, in respect of any matter or business whatsoever.

5.24 Substitution of Trustee. Beneficiary shall be entitled to remove, substitute, or add a Trustee or Trustees, at its option, with or without cause or notice, by instrument duly executed, acknowledged and recorded with the applicable land records, and thereupon such additional or successor Trustee or Trustees, without any further act, deed or conveyance, shall become vested with all the estates, property, title, rights, powers, privileges, discretion, trusts, duties and obligations of his or their co-trustees, or predecessor or predecessors in the trust hereunder with like effect as if originally named as Trustee or Trustees hereunder; exercise of said power, no matter how often, shall not be an exhaustion thereof.

5.25 California Rider. The Rider attached hereto is fully incorporated into this Security Instrument.

5.26 Joint and Several. The obligations of each Grantor under this Security Instrument are joint and several. Each Grantor agrees if such Grantor's joint and several liability hereunder would, but for the application of this sentence, be unenforceable under applicable law, such joint and several liability shall be valid and enforceable to the maximum extent that would not cause such joint and several liability to be unenforceable under applicable law, and such joint and several liability shall be deemed to have been automatically amended accordingly at all relevant times.

5.27 Counterparts. This Security Instrument may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

[Signature page to follow]

IN WITNESS WHEREOF, Grantor has executed this Security Instrument as of the date first above written.

GRANTOR:

KR ONE PASEO RESIDENTIAL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

KR ONE PASEO RETAIL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

[Signatures continued on the following page]

KR ONE PASEO OFFICE, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend

Name: Jon Taylor Friend

Title: SVP, Treasurer

By: /s/ Lauren N. Stadler

Name: Lauren N. Stadler

Title: SVP, Corporate Counsel

ACKNOWLEDGEMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Los Angeles)

On July 17, 2023, before me, Crystal Rofeim, a Notary Public, personally appeared Jon Taylor Friend, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature /s/ Crystal Rofeim

ACKNOWLEDGEMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)

County of Los Angeles)

On July 17, 2023, before me, Crystal Rofeim, a Notary Public, personally appeared Lauren N. Stadler, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature /s/ Crystal Rofeim

EXHIBIT A
LAND

PARCEL A (MULTIFAMILY):

LOT 4 OF ONE PASEO, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF NO. 16151, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY, DECEMBER 1, 2016.

EXCEPTING THEREFROM ALL OIL RIGHTS ON HEREIN DESCRIBED PROPERTY TO BE RESERVED BY THE GRANTOR HER HEIRS AND ASSIGNS, FOREVER, AND FURTHER THAT THE SAID GRANTOR, HER HEIRS OR ASSIGNS AGREE TO PAY A REASONABLE COMPENSATION TO THE SAID GRANTEE OR THEIR ASSIGNS, SHOULD THE GRANTOR, HER HEIRS OR ASSIGNS, ENTER THE HEREIN DESCRIBED LAND FOR THE PURPOSE OF DIGGING OR DRILLING FOR OIL, AS RESERVED IN DEED FROM TILLIE M. LACY, ALSO KNOWN AS TILLIE WATERS LACY TO MEAD-HASKELL COMPANY, DATED JULY 29, 1919 RECORDED JULY 29, 1919 IN BOOK 789, PAGE 78 OF DEEDS.

APN: 304-070-64

PARCEL B (OFFICE):

PARCEL(S) 1 AND 2 OF PARCEL MAP NO. 21585, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL OIL RIGHTS ON HEREIN DESCRIBED PROPERTY TO BE RESERVED BY THE GRANTOR HER HEIRS AND ASSIGNS, FOREVER, AND FURTHER THAT THE SAID GRANTOR, HER HEIRS OR ASSIGNS AGREE TO PAY A REASONABLE COMPENSATION TO THE SAID GRANTEE OR THEIR ASSIGNS, SHOULD THE GRANTOR, HER HEIRS OR ASSIGNS, ENTER THE HEREIN DESCRIBED LAND FOR THE PURPOSE OF DIGGING OR DRILLING FOR OIL, AS RESERVED IN DEED FROM TILLIE M. LACY, ALSO KNOWN AS TILLIE WATERS LACY TO MEAD-HASKELL COMPANY, DATED JULY 29, 1919 RECORDED JULY 29, 1919 IN BOOK 789, PAGE 78 OF DEEDS.

APN: 304-070-65 AND 304-070-066

PARCEL C (RETAIL):

PARCEL 3 OF PARCEL MAP NO. 21585, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL OIL RIGHTS ON HEREIN DESCRIBED PROPERTY TO

BE RESERVED BY THE GRANTOR HER HEIRS AND ASSIGNS, FOREVER, AND FURTHER THAT THE SAID GRANTOR, HER HEIRS OR ASSIGNS AGREE TO PAY A REASONABLE COMPENSATION TO THE SAID GRANTEE OR THEIR ASSIGNS, SHOULD THE GRANTOR, HER HEIRS OR ASSIGNS, ENTER THE HEREIN DESCRIBED LAND FOR THE PURPOSE OF DIGGING OR DRILLING FOR OIL, AS RESERVED IN DEED FROM TILLIE M. LACY, ALSO KNOWN AS TILLIE WATERS LACY TO MEAD-HASKELL COMPANY, DATED JULY 29, 1919 RECORDED JULY 29, 1919 IN BOOK 789, PAGE 78 OF DEEDS.

APN: 304-070-67

Exhibit A-2

RIDER

STATE SPECIFIC PROVISIONS

1.01 Principles of Construction. In the event of any inconsistencies between the terms and conditions of this Rider and the other terms and conditions of this Security Instrument, the terms and conditions of this Rider shall control and be binding.

1.02 Assignment of Leases and Rents. Section 1.09A of this Security Instrument entitled "Assignment; Discharge of Obligations" is hereby deleted in its entirety and the following is substituted therefor: This Security Instrument constitutes a present, absolute assignment of the Leases and Rents from Grantor to Beneficiary all as more specifically set forth in the Assignment of Leases and Rents dated the date hereof and intended to be recorded herewith. The Leases and Rents are hereby absolutely and irrevocably assigned by Grantor to Beneficiary. Beneficiary is hereby granted and assigned by Grantor the right to enter the Secured Property for the purpose of enforcing its right in the Leases and Rents. Nevertheless, subject to the terms of this Section 1.09A, Beneficiary grants to Grantor a revocable license to operate and manage the Secured Property and to collect receive, retain, use and enjoy Rents. At any time during the continuance of an Event of Default, the license granted to Grantor herein may be revoked by Beneficiary, and Beneficiary may enter upon the Secured Property, and collect, retain and apply the Rents toward payment of the Obligations in accordance with this Security Instrument. Upon the cure of such Event of Default, Grantor's license shall be reinstated upon confirmation by Beneficiary that such Event of Default has been cured. The foregoing assignment shall be fully operative without any further action on the part of either party and the Beneficiary shall be entitled to the Leases and Rents whether or not the Beneficiary takes possession of the Secured Property or any part thereof. In addition to the other rights and remedies set forth herein, if an Event of Default occurs, may exercise (or cause the Trustee to exercise) its rights under this Section or otherwise provided under applicable law (including, but not limited to, under Section 2938 of the California Civil Code).

1.03 Security Agreement. Section 1.10D of this Security Instrument is hereby deleted and the following is substituted therefor: This Security Instrument is both a real property deed of trust and a "security agreement" within the meaning of the Uniform Commercial Code of the State of California and is being recorded as a fixture filing. With respect to said fixture filing, (i) the debtor is Grantor, and Grantor's name and address appear in the first paragraph of this Security Instrument, and (ii) the secured party is Beneficiary, and Beneficiary's name and address appear in the first paragraph of this Security Instrument. The Secured Property includes both real and personal property and all other rights and interests, whether tangible or intangible in nature, of Grantor in the Secured Property, including, but not limited to, the Leases and Rents and all proceeds thereof and all fixtures.

1.03A This Security Instrument constitutes a fixture filing under the fixture filing provisions of the UCC, Sections 9-313 and 9-402(6) as enacted and under the equivalent statutes in the State of California, as amended or recodified from time to time.

1.03B With respect to fixtures, Beneficiary or Trustee may elect to treat same as either real property or personal property and proceed to exercise such rights and remedies applicable to the categorization so chosen. Beneficiary may proceed against the items of

real property and any items of Secured Property separately or together in any order whatsoever, without in any way affecting or waiving Beneficiary's rights and remedies under the Uniform Commercial Code, this Security Instrument. Grantor acknowledges and agrees that Beneficiary's rights and remedies under this Security Instrument shall be cumulative and shall be in addition to every other right and remedy now or hereafter existing at law, in equity, by statute or by agreement of the parties.

1.03C Additional Remedies. The following is hereby added as Section 4.01I to this Security Instrument:

Grantor expressly agrees that to the extent provided in the Note, upon an Event of Default and acceleration of the principal balance of the Note because of such violation, Grantor will pay the Make-Whole Amount as and when required pursuant to the terms of the Note in connection with such prepayment, if any, as described in this Security Instrument and the Note. Grantor expressly acknowledges that Grantor has received adequate consideration for the foregoing agreement.

1.04 Remedies Not Exclusive; Waiver. Trustee and Beneficiary shall have all powers, rights and remedies under applicable law whether or not specifically or generally granted or described in this Security Instrument. Nothing contained herein shall be construed to impair or to restrict such powers, rights and remedies or to preclude any procedures or process otherwise available to trustees or beneficiaries under deeds of trust in the State of California. Trustee and Beneficiary, and each of them, shall be entitled to enforce the payment and performance of any indebtedness or obligations secured hereby and to exercise all rights and powers under this Security Instrument or other agreement or any laws now or hereafter in force, notwithstanding the fact that some or all of the indebtedness and obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Security Instrument nor its enforcement, whether by court action or pursuant to the power of sale or other powers contained herein, shall prejudice or in any manner affect Trustee's or Beneficiary's right to realize upon or enforce any other rights or security now or hereafter held by Trustee or Beneficiary. Trustee and Beneficiary, and each of them, shall be entitled to enforce this Security Instrument and any other rights or security now or hereafter held by Beneficiary or Beneficiary in such order and manner as they or either of them may in their absolute discretion determine but in accordance with the terms hereof. No remedy herein conferred upon or reserved to Trustee or Beneficiary is intended to be exclusive of any other remedy contained herein or by law provided or permitted, but each shall be cumulative and in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. Every power or remedy given by this Security Instrument or any other Loan Instrument to Trustee or Beneficiary, or to which either of them may be otherwise entitled, may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by Trustee or Beneficiary, and either of them may pursue inconsistent remedies. By exercising or by failing to exercise any right, option or election hereunder, Beneficiary shall not be deemed to have waived any provision hereof or to have released Grantor from any of the obligations secured hereby unless such waiver or release is in writing and signed by Beneficiary. The waiver by Beneficiary of Grantor's failure to perform or observe any term, covenant or condition referred to or contained herein to be performed or observed by Grantor shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent failure of Grantor to perform or observe the same or

any other such term, covenant or condition referred to or contained herein, and no custom or practice which may develop between Grantor and Beneficiary during the term hereof shall be deemed a waiver of or in any way affect the right of Beneficiary to insist upon the performance by Grantor of the obligations secured hereby in strict accordance with the terms hereof or any other Loan Instrument.

1.05 Power of Sale.

1.05A Should Beneficiary elect to foreclose by exercise of the power of sale contained herein, Beneficiary shall notify Trustee and shall, if required, deposit with Trustee the original or a certified copy of this Security Instrument, and such other documents, receipts and evidences of expenditures made and secured hereby as Trustee may require. Upon receipt of such notice from Beneficiary, Trustee shall cause to be recorded and delivered to Grantor such notice as may then be required by law and by this Security Instrument. Trustee shall, without demand on Grantor, after lapse of such time as may then be required by law and after recordation of such notice of default and after notice of sale has been given as required by law, sell the Secured Property at the time and place of sale fixed by it in said notice of sale, either as a whole or in separate lots or parcels or items as Trustee shall deem expedient, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States payable at the time of sale. Trustee shall deliver to the purchaser or purchasers at such sale its good and sufficient deed or deeds conveying the Secured Property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including, without limitation, Grantor, Trustee or Beneficiary, may purchase at such sale, and Grantor hereby covenants to warrant and defend the title of such purchaser or purchasers.

1.05B After deducting all costs, fees and expenses of Trustee and of Beneficiary under this Security Instrument, including, without limitation, costs of evidence of title and reasonable attorneys' fees of Trustee or Beneficiary in connection with a sale as provided in subparagraph 1.06A above, Trustee shall apply the proceeds of such sale (a) first, to the payment of all reasonable sums expended by Beneficiary under the terms of this Security Instrument and any of other Loan Instrument and not yet repaid, together with interest on such sums at the Increased Rate, (b) second, to the payment of the unpaid balance of the Obligations or the "Indebtedness" (as such term is defined in the Note), (c) third, to the payment of all other sums then secured hereby, and (d) fourth, the remainder, if any, to the person or persons legally entitled thereto.

1.05C The acknowledgment of the receipt of the purchase money, contained in any deed or conveyance executed as aforesaid, shall be sufficient discharge from all obligations to see to the proper application of the consideration therefor.

1.05D Grantor hereby expressly waives any right which it may have to direct the order in which any of the Secured Property shall be sold in the event of any sale or sales pursuant hereto.

Grantor hereby requests that every notice of default and every notice of sale be given in accordance

with the provisions of Section 5.07 hereof except as otherwise required by statute. Grantor may, from time to time, change the address to which notice of default and sale hereunder shall be sent in accordance with the provisions of Section 5.07 hereof.

The provisions of this Security Instrument with respect to notices of sale are intended to comply with the provisions of California Civil Code Sections 2924 through and including 2924h (the "Subject Statute"). In the event the requirement for any notice under the Subject Statute shall be eliminated, or the prescribed manner of notice is modified by future amendment to the Subject Statute, the requirement for such particular notice shall be stricken from, or modified in, this Security Instrument in conformity with such amendment. Without limiting Beneficiary's obligation to comply with the provisions of Section 5.07, the manner herein prescribed for any notice, to be given by Trustee, shall not be deemed exclusive, but such notice or notices may be posted, served, filed or given in any other manner which may be permitted by applicable law. Further, in relation to this Security Instrument and the exercise of any power of sale by Trustee hereunder, if the Subject Statute shall be amended or modified to require any other additional notice or the posting, filing, serving, or giving thereof, or any statute hereafter enacted shall require any other notice or the posting, filing, serving, or giving thereof, Trustee or the person selected by him is hereby authorized and empowered by Grantor to give such notice or make such posting, filing, serving, or giving thereof; provided, however, that Grantor waives such other additional notice or the posting, filing, serving, or giving thereof to the full extent Grantor may lawfully so do.

1.06 Right Of Rescission. Beneficiary may from time to time rescind any notice of default or notice of sale before any Trustee's sale in accordance with the laws of the State of California. The exercise by Beneficiary of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring, or impair the right of Beneficiary to execute and deliver to Trustee, as above provided, other declarations or notices of default to satisfy the obligations of this Security Instrument or secured hereby, nor otherwise affect any provision, covenant or condition of this Security Instrument or any other Loan Instrument or any of the rights, obligations or remedies of Trustee or Beneficiary hereunder or thereunder.

1.07 Full Reconveyance. Upon written request of Beneficiary stating that all sums secured hereby have been paid, upon surrender to Trustee of a certified copy of this Security Instrument for cancellation and retention, and upon payment of its fees, Trustee shall fully reconvey, without warranty, the entire remaining Secured Property then held hereunder. The recitals in such reconveyance of any matters of facts shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

1.08 Surety Waiver. Grantor waives, to the extent permitted by law, any rights, defenses and benefits that may be derived from Sections 2787 to 2855, inclusive, of the California Civil Code and all other suretyship and guaranty defenses Grantor would otherwise have under the laws of California.

1.09 Additional Waivers.

Grantor has read and hereby approves this Security Instrument, the other Loan

Instruments and all other agreements and documents relating thereto. Grantor acknowledges that it has been represented by counsel of its choice to review this Security Instrument, the other Loan Instruments and all other documents relating thereto and said counsel has explained and Grantor understands the provisions thereof, or that Grantor has voluntarily declined to retain such counsel.

Except as otherwise set forth in this Security Instrument or the Loan Instruments, Grantor hereby expressly waives diligence, demand, presentment, protest and notice of every kind and nature whatsoever (unless as otherwise required under this Security Instrument) and waives any right to require Beneficiary to enforce any remedy against any guarantor, endorser or other person whatsoever prior to the exercise of its rights and remedies hereunder or otherwise. Except as otherwise set forth in this Security Instrument or the Loan Instruments and to the extent not prohibited by applicable law, Grantor waives any right to require Beneficiary to: (i) give notice of the terms, time and place of any public or private sale of any real or personal property security for the Obligations or other guaranty of the Obligations; or (ii) pursue any other remedy in Beneficiary's power whatsoever.

Until all Obligations shall have been paid in full, Grantor: (i) shall subordinate any right of subrogation to any of the rights of Beneficiary against any guarantor, maker or endorser; (ii) waives any right to enforce any remedy which Beneficiary now has or may hereafter have against any other guarantor, maker or endorser; and (iii) waives any benefit of, and any other right to participate in, any collateral security for the Obligations or any guaranty of the Obligations now or hereafter held by Beneficiary.

1.10 Additional Insurance Provisions. Beneficiary hereby notifies Grantor of the provisions of Section 2955.5(a) of the California Civil Code, which reads as follows:

"No lender shall require a borrower, as a condition of receiving or maintaining a loan secured by real property, to provide hazard insurance coverage against risks to the improvements on that real property in an amount exceeding the replacement value of the improvements on the property."

This disclosure is being made by Beneficiary to Grantor pursuant to Section 2955.5(b) of the California Civil Code. Grantor hereby acknowledges receipt of this disclosure and acknowledges that this disclosure has been made by Beneficiary before execution of any guaranty, note or security document evidencing or securing the Loan.

1.11 Resolution of Disputes.

1.11A WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY LAW, GRANTOR AND BENEFICIARY EACH HEREBY AGREES TO, AND DOES, WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THE LOAN, THIS SECURITY INSTRUMENT OR ANY OTHER LOAN INSTRUMENT OR INSTRUMENT RELATING TO THE LOAN, THE SECURED PROPERTY OR ANY DEALINGS BETWEEN GRANTOR AND BENEFICIARY RELATING TO THE SUBJECT MATTER OF ANY OF THE FOREGOING. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES (EACH

A "DISPUTE", AND COLLECTIVELY, ANY OR ALL, THE " DISPUTES") OF ANY KIND WHATSOEVER THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THE LOAN, THIS SECURITY INSTRUMENT OR ANY OTHER DOCUMENT OR INSTRUMENT RELATING TO THE LOAN, THE SECURED PROPERTY OR ANY DEALINGS BETWEEN GRANTOR AND BENEFICIARY RELATING TO THE SUBJECT MATTER OF THE FOREGOING, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, ANTITRUST CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON-LAW OR STATUTORY CLAIMS. GRANTOR AND BENEFICIARY EACH ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTERING INTO THIS SECURITY INSTRUMENT AND ALL OTHER AGREEMENTS AND INSTRUMENTS PROVIDED FOR HEREIN, AND THAT EACH WILL CONTINUE TO BE BOUND BY AND RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. GRANTOR AND BENEFICIARY EACH FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH LEGAL COUNSEL OF ITS OWN CHOOSING, OR HAS HAD AN OPPORTUNITY TO DO SO, AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS HAVING HAD THE OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS, OR MODIFICATIONS TO THIS SECURITY INSTRUMENT OR ANY OTHER AGREEMENT OR DOCUMENT ENTERED INTO BETWEEN GRANTOR AND BENEFICIARY IN CONNECTION WITH THIS SECURITY INSTRUMENT.

Grantor hereby agrees that this Security Instrument constitutes a written consent to waiver of trial by jury pursuant to the provisions of California Code of Civil Procedure Section 631 and Grantor does hereby constitute and appoint Beneficiary its true and lawful attorney-in-fact solely for the purpose set forth in this sentence, which appointment is coupled with an interest, and Grantor does hereby authorize and empower Beneficiary, in the name, place and stead of Grantor, to file this Security Instrument with the clerk or judge of any court of competent jurisdiction as statutory written consent to waiver of trial by jury.

1.11B Consent to Judicial Reference. If and to the extent that Section 1.12A immediately above is determined by a court of competent jurisdiction to be unenforceable or is otherwise not applied by any such court, Grantor and Beneficiary each hereby consents and agrees that (a) any and all Disputes shall be heard by a referee in accordance with the general reference provisions of California Code of Civil Procedure Section 638, sitting without a jury in the County of Los Angeles, California, (b) such referee shall hear and determine all of the issues in any Dispute (whether of fact or of law), including issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8, including without limitation, entering restraining orders, entering temporary restraining orders, issuing temporary and permanent injunctions and appointing receivers, and shall report a statement of decision, provided that, if during the course of any Dispute, Grantor or Beneficiary desires to seek such a "provisional remedy" but a referee has not been appointed, or is otherwise unavailable to hear the request for such

provisional remedy, then Grantor or Beneficiary may apply to the Superior Court of the county in which the Secured Property is located, for such provisional relief, and (c) pursuant to California Code of Civil Procedure Section 644, judgment may be entered upon the decision of such referee in the same manner as if the Dispute had been tried directly by a court. Grantor and Beneficiary shall use their respective commercially reasonable and good faith efforts to agree upon and select such referee, provided that such referee must be a retired California state or federal judge, and further provided that if Grantor and Beneficiary cannot agree upon a referee, the referee shall be appointed by the Presiding Judge of the Superior Court of Los Angeles County, California. Grantor and Beneficiary each acknowledges that this consent and agreement is a material inducement to enter into this Security Instrument and all other Loan Instruments, and that each will continue to be bound by and to rely on this consent and agreement in their related future dealings. Grantor and Beneficiary shall share the cost of the referee and reference proceedings equally; provided that, the referee may award out-of-pocket attorneys' fees and reimbursement of the referee and reference proceeding fees and costs to the prevailing party, whereupon all referee and reference proceeding fees and charges will be payable by the non-prevailing party (as so determined by the referee). Grantor and Beneficiary further warrants and represents that it has reviewed this consent and agreement with legal counsel of its own choosing, or has had an opportunity to do so, and that it knowingly and voluntarily gives this consent and enters into this Security Instrument having had the opportunity to consult with legal counsel. This consent and agreement is irrevocable, meaning that it may not be modified either orally or in writing, and this consent and agreement shall apply to any subsequent amendments, renewals, supplements, or modifications to this Security Instrument or any other agreement or document entered into between Grantor and Beneficiary in connection with this Security Instrument. In the event of litigation, this Security Instrument may be filed as evidence of either of Grantor's or Beneficiary's or both of their consent and agreement to have any and all Disputes heard and determined by a referee under California Code of Civil Procedure Section 638. Notwithstanding anything to the contrary contained herein, Grantor and Beneficiary acknowledge and agree that this provision shall have no application to any non-judicial foreclosure of all or any portion of the Secured Property whether pursuant to the provisions of the Loan Instruments or applicable law.

1.11C Not Applicable to Non-Judicial Foreclosures/Realization on Collateral. Notwithstanding anything to the contrary, Grantor and Beneficiary understand, acknowledge and agree that (i) the provisions of Section 1.12 shall have no application to any non-judicial foreclosure and/or private (i.e., non-judicial) sale under the California Commercial Code, California Civil Code or California Code of Civil Procedure or other applicable law as to all or any portion of the Secured Property whether pursuant to the provisions of the Security Instruments or applicable law; provided, however, in the event Grantor contests the same, then the provisions of Section 1.12 shall apply to any Dispute arising therefrom (but not the non-judicial foreclosure proceeding, which may remain pending), and (ii) the provisions of Section 1.12 shall not be deemed to be a waiver by, or a limitation upon, the rights of Beneficiary to proceed with a non-judicial foreclosure or private sale under the California Commercial Code, California Civil Code or California Code of Civil Procedure or other applicable law as a permitted remedy hereunder or under applicable law.

1.11D CCP Section 726.5. In the event that any portion of the Secured Property is determined to be 'environmentally impaired' (as 'environmentally impaired' is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an 'affected parcel' (as 'affected parcel' is defined in California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting Beneficiary's or Trustee's rights and remedies under this Security Instrument, Beneficiary may elect to exercise its right under California Code of Civil Procedure Section 726.5(a) to (1) waive its lien on such environmentally impaired or affected portion of the Secured Property and (2) exercise (i) the rights and remedies of an unsecured creditor, including reduction of its claim against Grantor to judgment, and (ii) any other rights and remedies permitted by law. For purposes of determining Beneficiary's right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), Grantor shall be deemed to have willfully permitted or acquiesced in a release or threatened release of hazardous materials, within the meaning of California Code of Civil Procedure Section 726.5(d)(1), if the release or threatened release of hazardous materials was knowingly or negligently caused or contributed to by any lessee, occupant or user of any portion of the Secured Property and Grantor knew or should have known of the activity by such lessee, occupant or user which caused or contributed to the release or threatened release. All costs and expenses, including, but not limited to, attorneys' fees, actually incurred by Beneficiary in connection with any action commenced under this Section, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Secured Property is environmentally impaired, plus interest thereon at the Increased Rate from the date which is ten (10) days after demand thereof until paid, shall be added to the indebtedness secured by this Security Instrument and shall be due and payable to Beneficiary upon its demand made at any time following the conclusion of such action.

1.12 CCP Section 1265.225(a). Grantor hereby unconditionally and irrevocably waives all rights of a property owner under Section 1265.225(a) of the California Code of Civil Procedure or any successor statute providing for the allocation of condemnation proceeds between a property owner and a lien holder.

1.13 Beneficiary and Trustee Rights. Notwithstanding anything to the contrary contained in this Security Instrument, and without limitation of any other rights and remedies of Beneficiary or Trustee, Beneficiary and Trustee shall have each and all of the rights and remedies under California Civil Code Section 2929.5 and California Code of Civil Procedure Sections 564, 726.5 and 736. Without limiting any of the remedies provided in the Loan Instruments, Grantor acknowledges and agrees that certain provisions of the Loan Instruments and the Environmental Indemnity are environmental provisions, as that term is defined in Section 736(f)(2) of the California Code of Civil Procedure, made by the Grantor relating to the real property security, and that Grantor's failure to comply with the terms of such environmental provisions is a breach of contract such that Beneficiary shall have the remedies provided under Section 736 of the California Code of Civil Procedure ("Section 736") for the recovery of damages and for the enforcement thereof. Pursuant to Section 736, Beneficiary's action for recovery of damages or enforcement of such environmental provisions shall not constitute an action within the meaning of Section 726(a) of the California Code of Civil Procedure or constitute a money judgment for a deficiency, or a deficiency or a deficiency judgment within the meaning of Sections 580a, 580b, or 726(b) of the California Code of Civil Procedure. Grantor agrees that Beneficiary will have the same right,

power and authority to enter and inspect the Secured Property as is granted to the secured lender under Section 2929.5 of the California Civil Code, and that Beneficiary will have the right to appoint a receiver to enforce this right to enter and inspect the Secured Property to the extent such authority is provided under California law, including, without limitation, the authority given to the secured lender under Section 564(c) of the California Code of Civil Procedure.

1.14 Waiver of Right of Offset. Notwithstanding anything contained herein to the contrary, no portion of the Obligations shall be or be deemed to be offset or compensated by all or any part of any claim, cause of action, counterclaim, or cross-claim, whether liquidated or unliquidated, that Grantor may have or claim to have against Beneficiary. Grantor hereby waives, to the fullest extent permitted by applicable law, the benefits of California Code of Civil Procedure Section 431.70.

1.15 Commercial Purposes. Grantor represents and warrants to Beneficiary that the Loan is for commercial purposes, and not for personal, household or consumer purposes. Grantor hereby waives, to the fullest extent permitted by applicable law, the benefits of California Civil Code Sections 2924.5, 2924.6, 2937, 2948.5, 2954.8, and 2954.9.

1.16 Environmental Indemnity; Separate Obligations. Notwithstanding anything to the contrary, in no event shall this Security Instrument be deemed or construed to secure any obligations or liabilities arising out of the Environment Indemnity.

**KILROY REALTY, L.P.,
(Guarantor)**

in favor of

**NEW YORK LIFE INSURANCE COMPANY
(Lender)**

GUARANTY

Dated: As of July 20, 2023

GUARANTY

This GUARANTY ("**Guaranty**") is executed as of July 20, 2023 by **KILROY REALTY, L.P.**, a Delaware limited partnership, having an address at c/o Kilroy Realty Corporation, 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 ("**Guarantor**") for the benefit of **NEW YORK LIFE INSURANCE COMPANY**, a New York mutual insurance company having an address at 51 Madison Avenue, New York, New York 10010 ("**Lender**").

W I T N E S S E T H:

WHEREAS, pursuant to that certain Promissory Note, dated of even date herewith, executed by KR One Paseo Residential, LLC, KR One Paseo Retail, LLC, KR One Paseo Office, LLC, each a Delaware limited liability company (collectively, "**Borrower**") and payable to the order of Lender in the original principal amount of \$375,000,000.00 (together with all renewals, modifications, increases and extensions thereof, the "**Note**"), Borrower has become indebted, and may from time to time be further indebted, to Lender with respect to a loan ("**Loan**") which is secured by the lien and security interest of a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, of even date herewith (the "**Security Instrument**"), and further evidenced, secured or governed by other instruments and documents executed in connection with the Loan (together with the Note and Security Instrument, the "**Loan Instruments**"); and

WHEREAS, Lender is not willing to make the Loan, or otherwise extend credit, to Borrower unless Guarantor unconditionally guarantees payment and performance to Lender of the Guaranteed Obligations (as herein defined); and

WHEREAS, Guarantor is the owner of an interest in Borrower, and Guarantor will directly benefit from Lender's making the Loan to Borrower.

NOW, THEREFORE, as an inducement to Lender to make the Loan to Borrower, and to extend such additional credit as Lender may from time to time agree to extend under the Loan Instruments, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

ARTICLE I

NATURE AND SCOPE OF GUARANTY

1.1 Guaranty of Obligation. Guarantor hereby irrevocably and unconditionally guarantees to Lender and its successors and assigns the payment and performance of the Guaranteed Obligations as and when the same shall be due and payable, whether by lapse of time, by acceleration of maturity or otherwise. Guarantor hereby irrevocably and unconditionally covenants and agrees that it is liable for the Guaranteed Obligations as a primary obligor and that it shall fully perform each and every term and provision hereof.

1.2 Definition of Guaranteed Obligations. As used herein, the term "**Guaranteed Obligations**" means:

- (i) any and all losses, claims, damages, costs, expenses and/or liabilities, including, without limitation, attorneys' fees and expenses, incurred by Lender arising out of, relating to or in connection with, any one or more of the following:
- (a) fraud, material misrepresentation, gross negligence or willful misconduct or any material misstatement of a fact by Borrower or Guarantor or any of their affiliates, agents or representatives in connection with the Loan;
 - (b) the collection or application by Borrower, its affiliates, agents or representatives of any insurance proceeds, condemnation proceeds, trust funds or Rents or other proceeds of the Secured Property in a manner which is in violation of the Loan Instruments, including, without limitation, the failure to deposit or cause to be deposited all rents and revenue from the Secured Property into the Clearing Account in accordance with that certain Cash Management and Pledge Agreement dated as of the date hereof by and among Borrower, Lender and Manager;
 - (c) the misappropriation or application in violation of the Loan Instruments or the Leases at the Secured Property by Borrower, its affiliates, agents or representatives, of any tenant security deposit, tenant letter of credit or other tenant deposits related to the Secured Property;
 - (d) any failure to pay charges for labor or materials that results in liens on any portion of any of the Secured Property, except to the extent that (1) such liens are being contested in accordance with the terms of the Loan Instruments, (2) Borrower provides to Lender written notice thirty (30) days after Borrower has knowledge of said lien certifying to Lender in said notice that the cash flow from the Secured Property at the time of said notice is not sufficient to pay the charges resulting in said lien, or (3) funds are held by Lender pursuant to the Loan Instruments expressly to pay said charges and Lender failed to make such amounts available to pay such charges when required under the Loan Instruments;
 - (e) any default with respect to Borrower's covenant to pay Impositions or insurance premiums pursuant to the Loan Instruments, or with respect to Borrower's covenant to obtain the insurance expressly required by the Loan Instruments, including without limitation, Terrorism Insurance, except to the extent (1) sums sufficient to pay the Impositions or insurance premiums in question had been reserved under the Loan Instruments prior to the applicable delinquency date for the Impositions or insurance premiums in question and Lender failed to pay such Impositions or insurance premiums when required hereunder or (2) Borrower provides to Lender written notice thirty (30) days prior to the date such Impositions or premiums, as the case may be, are required to be paid certifying to Lender in said notice that the cash flow from the Secured Property during the last twelve (12) month period is not sufficient to pay said Impositions or premiums, as the case may

be, when due, together with evidence reasonably satisfactory to Lender, of said insufficiency;

- (f) any physical waste of the Secured Property committed by Borrower or its agents (such damages to include, without limitation, all out-of-pocket repair costs actually incurred by Lender) except to the extent that Borrower provides to Lender written notice thirty (30) days after Borrower has knowledge that said waste has occurred certifying to Lender in said notice that the cash flow from the Secured Property at the time of said notice is not sufficient to pay the costs and expenses required to prevent said waste, together with evidence reasonably satisfactory to Lender, of said insufficient cash flow from the Secured Property;
- (g) any default occurs under the Section 5.20 of the Security Instrument;
- (h) any transfer tax, including deed stamps, intangible taxes, and any tax on the making and/or recording of the Security Instrument, the Note or any of the other Loan Instruments (whether due upon the making of the same or upon Lender's exercise of its remedies under the Loan Instruments), or any other amounts in the nature of transfer taxes;
- (i) any criminal acts of Borrower, Guarantor, any affiliate of Borrower or Guarantor, or any of their respective agents or representatives, resulting in the seizure, forfeiture or loss of the Secured Property;
- (j) Borrower's failure to deposit with Lender the Subsequent Cash Reserve Deposit (as defined in that certain Reserve Agreement dated of even date herewith by and between Borrower and Lender (the "**Reserve Agreement**")) pursuant to and in accordance with the Reserve Agreement, which failure shall continue for ten (10) Business Days following written notice thereof by Lender to Borrower, which damages shall include without limitation, an amount equal to the required Subsequent Cash Reserve Deposit;
- (k) any failure by Borrower or Guarantor to make the charitable contributions required pursuant to that certain Settlement Agreement dated as of September 9, 2015 by and among Kilroy Realty Corporation, Guarantor, Donohue Schriber Realty Group and Del Mar Highlands Town Center Associates II, LLP, as amended by that First Amendment to Settlement Agreement dated January 30, 2017;
- (l) any default (i) by "Declarant" under that certain Declaration of Covenants, Conditions and Restrictions and Affordable Housing Agreement (One Paseo) dated as of September 19, 2016 and recorded on December 13, 2016 with the San Diego County, California Recorder as Document No. 2016-0682968 or (ii) by "Trustor" under that certain Deed of Trust (One Paseo) dated September 19, 2016 and recorded on December 13, 2016 with the San

Diego County, California Recorder as Document No. 2016-0682969, as assumed by KR One Paseo Residential, LLC; and

- (ii) all outstanding principal, interest and other Obligations, including the Make-Whole Amount:
- (a) if there shall be a violation of Section 1.11 of the Security Instrument; provided that there shall be no liability for failure to perform administrative requirements (such as a provision of notice) if the underlying transfer is permitted but for the satisfaction of the administrative requirements and such administrative requirements are satisfied within ten (10) Business Days of written notice to Borrower of the same; and/or
 - (b) in the event that (1) any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by, consented to or acquiesced in by Borrower or Guarantor and/or if any proceeding for the dissolution, liquidation or receivership of Borrower or Guarantor shall be instituted by Borrower or Guarantor and/or (2) Borrower or Guarantor shall be the subject of any petition or proceeding for an involuntary bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law and/or the subject of any liquidation, dissolution, receivership or other similar proceeding, in which Borrower or Guarantor colludes with, or otherwise assists, the petitioning party or solicits or causes to be solicited petitioning creditors; and/or
 - (c) Borrower, Guarantor or any Significant Borrower Party shall, after an Event of Default and in connection with any enforcement action or exercise or assertion of any right or remedy by or on behalf of Lender under or in connection with the Loan Instruments, asserts a defense, seeks judicial intervention or injunctive or other equitable relief of any kind or asserts in a pleading filed in connection with a judicial proceeding any defense against Lender or any right in connection with any security for the Loan which the court in such action or proceeding determines pursuant to a final, non-appealable judgment is without merit (in respect of a defense) or unwarranted (in respect of a request for judicial intervention or injunctive or other equitable relief); and/or
 - (d) if there shall be a substantive consolidation of Borrower or any SPE Principal with any other person or entity; and/or
 - (e) if the Security Instrument or any of the other Loan Instruments are deemed fraudulent conveyances or preferences or are otherwise deemed void pursuant to any principles limiting the rights of creditors, whether such claims, demands or assertions are made under the United States Bankruptcy Code (as amended or replaced from time to time), including, without

limitation, under Sections 544, 547 or 548 thereof, or under any applicable state fraudulent conveyance statutes or similar laws; and/or

- (f) Borrower or Guarantor or any of their respective affiliates asserts a one action rule, election of remedies or any similar defense or claim in connection with any foreclosure proceeding or any other action taken by Lender to enforce its remedies under the Loan Instruments.

As used herein, "**Significant Borrower Party**" means all of the following; (a) a direct owner of Borrower, (b) any person or entity which owns, directly or indirectly, a controlling interest in Borrower or otherwise controls, directly or indirectly, the management of Borrower and (c) any person or entity which owns at least a 25% indirect ownership interest in Borrower

1.3 Nature of Guaranty. This Guaranty is an irrevocable, absolute, continuing guaranty of payment and performance and not a guaranty of collection. This Guaranty may not be revoked by Guarantor and shall continue to be effective with respect to any Guaranteed Obligations arising or created after any attempted revocation by Guarantor and after (if Guarantor is a natural person) Guarantor's death (in which event this Guaranty shall be binding upon Guarantor's estate and Guarantor's legal representatives and heirs). The fact that at any time or from time to time the Guaranteed Obligations may be increased or reduced shall not release or discharge the obligation of Guarantor to Lender with respect to the Guaranteed Obligations. This Guaranty may be enforced by Lender and any subsequent Lender of the Note and shall not be discharged by the assignment or negotiation of all or part of the Note.

1.4 Guaranteed Obligations Not Reduced by Offset. The Guaranteed Obligations and the liabilities and obligations of Guarantor to Lender hereunder shall not be reduced, discharged or released because or by reason of any existing or future offset, claim or defense of Borrower, or any other party, against Lender, or any other party, or against payment of the Guaranteed Obligations, whether such offset, claim or defense arises in connection with the Guaranteed Obligations (or the transactions creating the Guaranteed Obligations) or otherwise.

1.5 Payment By Guarantor. If all or any part of the Guaranteed Obligations shall not be punctually paid when due, whether at demand, maturity, acceleration or otherwise, Guarantor shall, within ten (10) Business Days following demand by Lender, and without presentment, protest, notice of protest, notice of non-payment, notice of intention to accelerate the maturity, notice of acceleration of the maturity, or any other notice whatsoever, pay in lawful money of the United States of America, the amount due on the Guaranteed Obligations to Lender at Lender's address as set forth herein. Such demand(s) may be made at any time coincident with or after the time for payment of all or part of the Guaranteed Obligations, and may be made from time to time with respect to the same or different items of Guaranteed Obligations. Such demand shall be deemed made, given and received in accordance with the notice provisions hereof.

1.6 No Duty To Pursue Others. It shall not be necessary for Lender (and Guarantor hereby knowingly, freely, irrevocably and unconditionally waives any rights which Guarantor may have to require Lender), in order to enforce the obligations of Guarantor hereunder, first to (i) institute suit or exhaust its remedies against Borrower or others liable on the Loan or the Guaranteed Obligations or any other Person, (ii) enforce Lender's rights against any collateral

which shall ever have been given to secure the Loan, (iii) enforce Lender's rights against any other guarantors of the Guaranteed Obligations, (iv) join Borrower or any others liable on the Guaranteed Obligations in any action seeking to enforce this Guaranty, (v) exhaust any remedies available to Lender against any collateral which shall ever have been given to secure the Loan, or (vi) resort to any other means of obtaining payment of the Guaranteed Obligations. Lender shall not be required to mitigate damages or take any other action to reduce, collect or enforce the Guaranteed Obligations.

1.7 Waivers. Guarantor hereby agrees to the provisions of the Loan Instruments and knowingly, freely, irrevocably and unconditionally waives notice of (i) any loans or advances made by Lender to Borrower, (ii) acceptance of this Guaranty, (iii) any amendment or extension of the Note, the Security Instrument or any other Loan Instruments, (iv) the execution and delivery by Borrower and Lender of any other loan or credit agreement or of Borrower's execution and delivery of any promissory notes or other documents arising under the Loan Instruments or in connection with the Secured Property, (v) the occurrence of any breach by Borrower or an Event of Default (as defined in the Security Instrument), (vi) Lender's transfer or disposition of the Guaranteed Obligations, or any part thereof, (vii) sale or foreclosure (or posting or advertising for sale or foreclosure) of any collateral for the Guaranteed Obligations, (viii) protest, proof of non-payment or default by Borrower, or (ix) any other action at any time taken or omitted by Lender, and, generally, all demands and notices of every kind in connection with this Guaranty, the Loan Instruments, any documents or agreements evidencing, securing or relating to any of the Guaranteed Obligations and the obligations hereby guaranteed. In addition, and without limiting any other waivers or provisions set forth in this Guaranty, Guarantor hereby knowingly, freely, irrevocably and unconditionally waives and relinquishes all rights, remedies and defenses accorded by applicable law to guarantors and sureties, and agrees not to assert or to otherwise take advantage of any such rights, remedies or defenses. Without limiting the generality of the foregoing or of any other waivers or provisions set forth in this Guaranty, Guarantor hereby knowingly, freely, irrevocably and unconditionally waives and relinquishes (A) any defense arising because of an election made by Lender under Federal Bankruptcy Code ("**FBC**") Section 1111(b)(2) or based on any borrowing or grant of a security interest under FBC Section 364, (B) the defense of statute of limitations in any action for the collection of any indebtedness or the performance of any of Borrower's obligations under the Loan Instruments and (C) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons, or the failure of Lender to file or enforce a claim against the estate (in administration, bankruptcy, or any other proceeding) of any other person or persons.

1.8 Payment of Expenses. In the event that Guarantor should breach or fail to timely perform any provisions of this Guaranty, Guarantor shall, immediately upon demand by Lender, pay Lender all costs and expenses (including, without limitation, court costs and attorneys' fees and disbursements) incurred by Lender in the enforcement hereof or the preservation of Lender's rights hereunder. Any such amounts not paid to Lender within ten (10) Business Days following Lender's written demand therefor shall bear interest at the Increased Rate (as such term is defined in the Note) from the date of such demand until the date such amounts are paid in full by Borrower. The covenants contained in this Section shall survive the payment and performance of the Guaranteed Obligations.

1.9 Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Lender must refund or restore any payment, or any part thereof, received by Lender in satisfaction of the Guaranteed Obligations, as set forth herein, any prior release or discharge from the terms of this Guaranty given to Guarantor by Lender shall be without effect, and this Guaranty shall remain in full force and effect. It is the intention of Borrower and Guarantor that Guarantor's obligations hereunder shall not be discharged except by Guarantor's performance of such obligations and then only to the extent of such performance.

1.10 Waiver of Subrogation, Reimbursement and Contribution. Notwithstanding anything to the contrary contained in this Guaranty, Guarantor hereby unconditionally and irrevocably waives, releases and abrogates any and all rights it may now or hereafter have under any agreement, at law or in equity (including, without limitation, any law subrogating the Guarantor to the rights of Lender), to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Obligations for any payment made by Guarantor under or in connection with this Guaranty or otherwise.

1.11 Financial Reporting. Guarantor will keep and maintain complete and accurate books and records of Guarantor's earnings and financial condition and, without expense to Lender, will furnish to Lender, within one hundred twenty (120) days after the end of each fiscal year and within forty-five (45) days after the end of each fiscal quarter of Guarantor (including the fiscal year during which the Loan is closed and including, as to quarterly statements, the fiscal quarter for which annual financial statements are also due), annual or quarterly, as applicable, financial statements reflecting Guarantor's financial position for the immediately preceding year or quarter, as applicable, all prepared and certified by an independent certified public accountant reasonably satisfactory to Lender, and in accordance with generally accepted accounting principles, consistently applied, including: (i) a balance sheet of Guarantor, (ii) a statement of cash flows of Guarantor and (iii) a profit and loss statement of Guarantor. Notwithstanding the foregoing, provided no Event of Default has occurred (other than an Event of Default for which Lender, in its sole discretion, has accepted a cure in writing), the quarterly and annual financial statements may be unaudited and prepared and certified by any officer or other authorized party of Guarantor. Notwithstanding the foregoing, Lender acknowledges and agrees that the quarterly and annual consolidated financial statements of Guarantor are publicly disclosed and such statements (which shall be in the form of a Form 10-Q and a Form 10-K) shall be acceptable as long as Lender receives the same from Guarantor in accordance with the terms of this Section 1.11 and said statements show the information required herein above.

1.12 Borrower. The term "**Borrower**" as used herein shall include any new or successor corporation, association, partnership (general or limited), limited liability company, joint venture, trust or other individual or organization formed as a result of any merger, reorganization, sale, transfer, devise, gift or bequest of Borrower or any interest in Borrower. Nothing set forth herein, however, shall constitute a consent by Lender to any merger, reorganization, sale, transfer, devise, gift, or bequest of Borrower or any interest in Borrower, nor shall anything set forth herein diminish or affect in any manner whatsoever any of the obligations or liabilities of Borrower under the Loan Instruments.

1.13 Recourse Limitations Do Not Apply. It is understood and agreed that the limitations of liability provided in the Note and any other Loan Instruments shall not apply with respect to the Guarantor solely as to the Guaranteed Obligations and that, notwithstanding anything to the contrary in the Note or any other Loan Instrument, Lender shall have full and personal recourse against the assets of the Guarantor solely as to the Guaranteed Obligations and such limitations shall not apply for purposes of enforcing this Guaranty.

1.14 Guarantor's Claims Against Borrower. Guarantor shall file in any bankruptcy or other proceeding in which the filing of claims is required by law all claims which Guarantor may have against Borrower relating to any indebtedness of Borrower to Guarantor and will assign to Lender all rights of Guarantor thereunder. If Guarantor does not file any such claim, Lender, as attorney-in-fact for Guarantor, is hereby authorized to do so in the name of Guarantor or, in Lender's discretion, to assign the claim to a nominee and to cause proof of claim to be filed in the name of Lender's nominee. The foregoing power of attorney is coupled with an interest and cannot be revoked. Lender or its nominee shall have the sole right to accept or reject any plan proposed in such proceeding and to take any other action which a party filing a claim is entitled to do. Without limiting the provisions of Section 4.2 hereof, in all such cases, whether in administration, bankruptcy or otherwise, the person or persons authorized to pay such claim shall pay to Lender the amount payable on such claim and, to the full extent necessary for that purpose, Guarantor hereby assigns to Lender all of Guarantor's rights to any such payments or distributions to which Guarantor would otherwise be entitled; provided, however, that Guarantor's obligations hereunder shall not be satisfied except to the extent that Lender receives cash by reason of any such payment or distribution. If Lender receives anything hereunder other than cash, the same shall be held as collateral for amounts due under this Guaranty.

1.15 Financial Covenants. Guarantor hereby covenants and agrees that, after giving effect to this Guaranty and the obligations of Guarantor (contingent or otherwise) evidenced by this Guaranty and the other Loan Instruments, Guarantor (a) will maintain property and assets which, when fairly valued, exceed Guarantor's obligations, liabilities (including contingent liabilities) and debts, and (b) will have property and assets sufficient to satisfy and repay such obligations, liabilities and debts, each of (a) and (b), as determined by Lender.

ARTICLE II

EVENTS AND CIRCUMSTANCES NOT REDUCING OR DISCHARGING GUARANTOR'S OBLIGATIONS

Guarantor hereby consents and agrees to each of the following, and agrees that Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives any common law, equitable, statutory or other rights (including without limitation rights to notice) which Guarantor might otherwise have as a result of or in connection with any of the following:

2.1 Modifications. Any renewal, extension, increase, modification, alteration or rearrangement of all or any part of the Guaranteed Obligations, the Note, the Security Instrument, the other Loan Instruments, or any other document, instrument, contract or

understanding between Borrower and Lender, or any other parties, pertaining to the Guaranteed Obligations or any failure of Lender to notify Guarantor of any such action.

2.2 Adjustment. Any adjustment, indulgence, forbearance or compromise that might be granted or given by Lender to Borrower or Guarantor.

2.3 Condition of Borrower or Guarantor. The insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of power of Borrower, Guarantor or any other party at any time liable for the payment of all or part of the Guaranteed Obligations; or any dissolution of Borrower or Guarantor, or any sale, lease or transfer of any or all of the assets of Borrower or Guarantor, or any changes in the shareholders, partners or members of Borrower or Guarantor; or any reorganization of Borrower or Guarantor.

2.4 Invalidity of Guaranteed Obligations. The invalidity, illegality or unenforceability of all or any part of the Guaranteed Obligations, or any document or agreement executed in connection with the Guaranteed Obligations, for any reason whatsoever, including without limitation the fact that (i) the Guaranteed Obligations, or any part thereof, exceeds the amount permitted by law, (ii) the act of creating the Guaranteed Obligations or any part thereof is ultra vires, (iii) the officers or representatives executing the Note, the Security Instrument or the other Loan Instruments or otherwise creating the Guaranteed Obligations acted in excess of their authority, (iv) the Guaranteed Obligations violate applicable usury laws, (v) the Borrower has valid defenses, claims or offsets (whether at law, in equity or by agreement) which render the Guaranteed Obligations wholly or partially uncollectible from Borrower, (vi) the creation, performance or repayment of the Guaranteed Obligations (or the execution, delivery and performance of any document or instrument representing part of the Guaranteed Obligations or executed in connection with the Guaranteed Obligations, or given to secure the repayment of the Guaranteed Obligations) is illegal, uncollectible or unenforceable, or (vii) the Note, the Security Instrument or any of the other Loan Instruments have been forged or otherwise are irregular or not genuine or authentic, it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other Person be found not liable on the Guaranteed Obligations or any part thereof for any reason.

2.5 Release of Obligors. Any full or partial release of the liability of Borrower on the Guaranteed Obligations, or any part thereof, or of any co-guarantors, or any other Person or entity now or hereafter liable, whether directly or indirectly, jointly, severally, or jointly and severally, to pay, perform, guarantee or assure the payment of the Guaranteed Obligations, or any part thereof, it being recognized, acknowledged and agreed by Guarantor that Guarantor may be required to pay the Guaranteed Obligations in full without assistance or support of any other party, and Guarantor has not been induced to enter into this Guaranty on the basis of a contemplation, belief, understanding or agreement that other parties will be liable to pay or perform the Guaranteed Obligations, or that Lender will look to other parties to pay or perform the Guaranteed Obligations.

2.6 Other Collateral. The taking or accepting of any other security, collateral or guaranty, or other assurance of payment, for all or any part of the Guaranteed Obligations.

2.7 Release of Collateral. Any release, surrender, exchange, subordination, deterioration, waste, loss or impairment (including without limitation negligent, willful, unreasonable or unjustifiable impairment) of any collateral, property or security at any time existing in connection with, or assuring or securing payment of, all or any part of the Guaranteed Obligations and any application of any collateral, property or security to the Guaranteed Obligations in any order or manner as Lender may determine in its discretion.

2.8 Care and Diligence. The failure of Lender or any other party to exercise diligence or reasonable care in the preservation, protection, enforcement, sale or other handling or treatment of all or any part of such collateral, property or security, including but not limited to any neglect, delay, omission, failure or refusal of Lender (i) to take or prosecute any action for the collection of any of the Guaranteed Obligations or (ii) to foreclose, or initiate any action to foreclose, or, once commenced, prosecute to completion any action to foreclose upon any security therefor, or (iii) to take or prosecute any action in connection with any instrument or agreement evidencing or securing all or any part of the Guaranteed Obligations.

2.9 Unenforceability. The fact that any collateral, security, security interest or lien contemplated or intended to be given, created or granted as security for the repayment of the Guaranteed Obligations, or any part thereof, shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other security interest or lien, it being recognized and agreed by Guarantor that Guarantor is not entering into this Guaranty in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectability or value of any of the collateral for the Guaranteed Obligations.

2.10 Offset. The Note, the Guaranteed Obligations and the liabilities and obligations of the Guarantor to Lender hereunder shall not be reduced, discharged or released because of or by reason of any existing or future right of offset, claim or defense of Borrower, or any other party, against Lender, or any other party, or against payment of the Guaranteed Obligations, whether such right of offset, claim or defense arises in connection with the Guaranteed Obligations (or the transactions creating the Guaranteed Obligations) or otherwise.

2.11 Merger. The reorganization, merger or consolidation of Borrower into or with any other corporation or entity.

2.12 Preference. Any payment by Borrower to Lender is held to constitute a preference under bankruptcy laws, or for any reason Lender is required to refund such payment or pay such amount to Borrower or someone else.

2.13 Other Actions Taken or Omitted. Any other action taken or omitted to be taken with respect to the Loan Instruments, the Guaranteed Obligations, or the security and collateral therefor, whether or not such action or omission prejudices Guarantor or increases the likelihood that Guarantor will be required to pay the Guaranteed Obligations pursuant to the terms hereof, it is the unambiguous and unequivocal intention of Guarantor that Guarantor shall be obligated to pay the Guaranteed Obligations when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or un contemplated, and whether or not otherwise or particularly described herein, which obligation shall be deemed satisfied only upon the full and final payment and satisfaction of the Guaranteed Obligations.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

To induce Lender to enter into the Loan Instruments and extend credit to Borrower, Guarantor represents, warrants and covenants to Lender as follows:

3.1 Benefit. Guarantor is the owner of an interest in Borrower, and has received, or will receive, direct or indirect benefit from the making of this Guaranty with respect to the Guaranteed Obligations.

3.2 Familiarity and Reliance. Guarantor is familiar with, and has independently reviewed books and records regarding the financial condition of the Borrower and is familiar with the value of any and all collateral intended to be created as security for the payment of the Note or Guaranteed Obligations; however, Guarantor is not relying on such financial condition or the collateral as an inducement to enter into this Guaranty.

3.3 No Representation By Lender. Neither Lender nor any other party has made any representation, warranty or statement to Guarantor in order to induce the Guarantor to execute this Guaranty.

3.4 Guarantor's Financial Condition. The most recent financial statement of Guarantor heretofore delivered to Lender are true and correct in all material respects, have been prepared and certified by an independent certified public accountant in accordance with generally accepted accounting principles and fairly present the financial condition of Guarantor as of the date thereof. No material adverse change has occurred in Guarantor's financial condition since the date of such financial statements. As of the date hereof, and after giving effect to this Guaranty and the contingent obligation evidenced hereby, Guarantor is, and will be, solvent, and has and will have assets which, fairly valued, exceed Guarantor's obligations, liabilities (including contingent liabilities) and debts, and has and will have property and assets sufficient to satisfy and repay Guarantor's obligations and liabilities. In addition, (a) the Guaranteed Obligations incurred by Guarantor in connection with the Loan (and any other obligations incurred by Guarantor in connection with the Loan) are not made or incurred with the intent to hinder, delay, or defraud any present or future creditor of Guarantor; (b) Guarantor has not received less than reasonably equivalent value in exchange for incurring the Guaranteed Obligations in connection with the Loan (and any other obligations incurred by Guarantor in connection with the Loan); (c) Guarantor is solvent as of the date hereof, and Guarantor will not become insolvent as a result of incurring the Guaranteed Obligations in connection with the Loan (and any other obligations incurred by Guarantor in connection with the Loan); (d) Guarantor is not engaged, and Guarantor is not about to engage, in business or a transaction for which any property remaining with Guarantor is an unreasonably small capital; (e) Guarantor has not and does not intend to incur, and Guarantor does not believe that it will incur, debts that would be beyond Guarantor's ability to pay as such debts mature; and (f) Guarantor is not incurring the Guaranteed Obligations (or any other obligations incurred by Guarantor in connection with the Loan) to or for the benefit of an insider (as defined in 11 U.S.C. § 101(31)), under an employment contract and other than in the ordinary course of business.

3.5 Legality. The execution, delivery and performance by Guarantor of this Guaranty and the consummation of the transactions contemplated hereunder do not, and will not, contravene or conflict with any law, statute or regulation whatsoever to which Guarantor is subject or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or result in the breach of, any indenture, mortgage, charge, lien, or any contract, agreement or other instrument to which Guarantor is a party or which may be applicable to Guarantor. This Guaranty is a legal and binding obligation of Guarantor and is enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights.

3.6 Survival. All representations and warranties made by Guarantor herein shall survive the execution hereof.

3.7 Review of Documents. Guarantor has examined the Note and all of the Loan Instruments.

3.8 Litigation. There are no proceedings pending or, so far as Guarantor knows, threatened before any court or administrative agency which would affect the authority of Guarantor to enter into, or the validity or enforceability of this Guaranty or which if decided adversely to Guarantor would materially adversely affect the financial condition of Guarantor.

3.9 Tax Returns. Guarantor has filed all required federal, state and local tax returns and has paid all taxes as shown on such returns as they have become due. No claims have been assessed and are unpaid with respect to such taxes.

3.10 Blocked Person. Guarantor is and shall remain in compliance with the requirements of (a) all applicable anti-money laundering laws and regulations including, without limitation, the USA Patriot Act of 2001, as amended and (b) Executive Order 13224 of September 23, 2001 "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism" (66 Fed. Reg. 49079 (2001)) (the "**Order**") and other similar requirements contained in the rules and regulations of the Office of Foreign Assets Control, Department of the Treasury ("**OFAC**") and in any enabling legislation or other executive orders or regulations in respect thereof (the Order and such other rules regulations, legislation or orders are referred to hereinafter, collectively, as the "**Orders**"). Without limiting the generality of the foregoing, neither Guarantor, nor any direct or indirect owner of Guarantor (other than shareholders of a publicly traded entity on a nationally recognized U.S. stock exchange) that (i) is listed on the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to the Order and/or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders, (ii) is the subject of any sanctions administered or enforced by OFAC or the U.S. Department of State, the United Nations Security Council, the European Union, or Her Majesty's Treasury, or other relevant sanctions authority (collectively, "**Sanctions**") or is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, (iii) is or will become a "blocked person" described in Section 1 of the Order or (iv) knowingly engages or will engage in any dealings or transactions, or is or will be otherwise associated, with any such blocked person. Guarantor shall promptly notify Lender should Guarantor become aware of any

information which would render untrue any of the representations, warranties or covenants set forth in this Section 3.10.

ARTICLE IV

SUBORDINATION OF CERTAIN INDEBTEDNESS

4.1 Subordination of All Guarantor Claims. As used herein, the term "Guarantor Claims" shall mean all debts and liabilities of Borrower to Guarantor, whether such debts and liabilities now exist or are hereafter incurred or arise, or whether the obligations of Borrower thereon be direct, contingent, primary, secondary, several, joint and several, or otherwise, and irrespective of whether such debts or liabilities be evidenced by note, contract, open account, or otherwise, and irrespective of the Person or Persons in whose favor such debts or liabilities may, at their inception, have been, or may hereafter be created, or the manner in which they have been or may hereafter be acquired by Guarantor. The Guarantor Claims shall include without limitation all rights and claims of Guarantor against Borrower (arising as a result of subrogation or otherwise) as a result of Guarantor's payment of all or a portion of the Guaranteed Obligations. Upon the occurrence of an Event of Default or the occurrence of an event of which Guarantor has knowledge that would, with the giving of notice or the passage of time, or both, constitute an Event of Default, Guarantor shall not receive or collect, directly or indirectly, from Borrower or any other party any amount upon the Guarantor Claims.

4.2 Claims in Bankruptcy. Until such time as the Loan is indefeasibly paid in full, in the event of receivership, bankruptcy, reorganization, arrangement, debtor's relief, or other insolvency proceedings involving Guarantor as debtor, Lender shall have the right to prove its claim in any such proceeding so as to establish its rights hereunder and receive directly from the receiver, trustee or other court custodian dividends and payments which would otherwise be payable upon Guarantor Claims. Guarantor hereby assigns such dividends and payments to Lender. Should Lender receive, for application upon the Guaranteed Obligations, any such dividend or payment which is otherwise payable to Guarantor, and which, as between Borrower and Guarantor, shall constitute a credit upon the Guarantor Claims, then upon payment to Lender in full of the Guaranteed Obligations, Guarantor shall become subrogated to the rights of Lender to the extent that such payments to Lender on the Guarantor Claims have contributed toward the liquidation of the Guaranteed Obligations, and such subrogation shall be with respect to that proportion of the Guaranteed Obligations which would have been unpaid if Lender had not received dividends or payments upon the Guarantor Claims.

4.3 Payments Held in Trust. In the event that, notwithstanding anything to the contrary in this Guaranty, Guarantor should receive any funds, payment, claim or distribution which is prohibited by this Guaranty, Guarantor agrees to hold in trust for Lender an amount equal to the amount of all funds, payments, claims or distributions so received, and agrees that it shall have absolutely no dominion over the amount of such funds, payments, claims or distributions so received except to pay them promptly to Lender, and Guarantor covenants promptly to pay the same to Lender.

4.4 Liens Subordinate. Guarantor agrees that any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the

Guarantor Claims shall be and remain inferior and subordinate to any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Guaranteed Obligations, regardless of whether such encumbrances in favor of Guarantor or Lender presently exist or are hereafter created or attach. Without the prior written consent of Lender, until such time as the Loan is indefeasibly paid in full, Guarantor shall not (i) exercise or enforce any creditor's right it may have against Borrower, or (ii) foreclose, repossess, sequester or otherwise take steps or institute any action or proceedings (judicial or otherwise, including without limitation the commencement of, or joinder in, any liquidation, bankruptcy, rearrangement, debtor's relief or insolvency proceeding) to enforce any liens, mortgages, deeds of trust, security interests, collateral rights, judgments or other encumbrances on assets of Borrower held by Guarantor. Nothing set forth in this Section 4.4 is intended or shall be construed as the permitting of or the granting by Lender of its consent to the creation or existence of any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets or the Secured Property.

ARTICLE V

MISCELLANEOUS

5.1 Waiver. No failure to exercise, and no delay in exercising, on the part of Lender, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right. The rights of Lender hereunder shall be in addition to all other rights provided by law. No modification or waiver of any provision of this Guaranty, nor consent to departure therefrom, shall be effective unless in writing and no such consent or waiver shall extend beyond the particular case and purpose involved. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand.

5.2 Notices. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Instrument shall be given in writing and shall be effective for all purposes sent by (a) hand delivery, with proof of attempted delivery; (b) certified or registered United States mail, return receipt requested, postage prepaid; or (c) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery, with an email copy to Lender at the address set forth below, addressed to the parties as follows (or at such other address of which either Guarantor or Lender may hereafter notify the other in writing):

Guarantor:

Kilroy Realty, L.P.
c/o Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064
Attention: Taylor Friend; Lauren Stadler
Email: Taylor.Friend@kilroyrealty.com; lstadler@kilroyrealty.com

with a copy to:

Allen Matkins Leck Gamble Mallory & Natsis LLP
865 S. Figueroa Street, Suite 2800
Los Angeles, California 90017-2543
Attention: Marc D. Young
Email: myoung@allenmatkins.com

Lender:

New York Life Insurance Company
c/o New York Life Real Estate Investors
51 Madison Avenue
New York, New York 10010-1603
Attn: Senior Director - Loan Management
Loan No.: 374-1311

with a copy to:

New York Life Insurance Company
Office of the General Counsel
51 Madison Avenue
New York, New York 10010-1603
Attn: Vice President - Real Estate Section
Loan No.: 374-1311

with an email copy to:

REI_Servicing@nylinvestors.com

A party receiving a notice which does not comply with the technical requirements for notice under this Section may elect to waive any deficiencies and treat the notice as having been properly given. A notice shall be deemed to have been given: (a) in the case of hand delivery, at the time of delivery; (b) in the case of registered or certified mail, when delivered or the first attempted delivery on a Business Day; or (c) in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day; provided however, no notice to Lender shall be deemed given and effective pursuant to the foregoing clauses (a), (b) and (c) unless a copy of such notice was also sent to Lender at Lender's specified email address above or at such other email address of which Lender may hereafter notify Guarantor of in writing. Notice for any party may be given by its respective counsel. Additionally, notice from Lender may also be given by Lender's servicer and Guarantor shall be entitled to rely on any notice given by Lender's servicer as if it had been sent by Lender. The failure to provide a courtesy copy of any notice herein shall not void the effectiveness of such notice to Guarantor.

5.3 Governing Law. This Guaranty shall be governed by and construed in accordance with the laws of the State in which the real property encumbered by the Security Instrument is located and the applicable laws of the United States of America and, in connection with any action or proceeding arising out of or relating to this Guaranty, Guarantor hereby submits to the jurisdiction of any court of competent jurisdiction located in such State.

5.4 Invalid Provisions. If any provision of this Guaranty is held to be illegal, invalid, or unenforceable under present or future laws effective during the term of this Guaranty, such provision shall be fully severable and this Guaranty shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Guaranty, and the remaining provisions of this Guaranty shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Guaranty, unless such continued effectiveness of this Guaranty, as modified, would be contrary to the basic understandings and intentions of the parties as expressed herein.

5.5 Amendments. This Guaranty may be amended only by an instrument in writing executed by the party or an authorized representative of the party against whom such amendment is sought to be enforced.

5.6 Parties Bound; Assignment; Joint and Several. This Guaranty shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives; provided, however, that Guarantor may not, without the prior written consent of Lender, assign any of Guarantor's rights, powers, duties or obligations hereunder. If Guarantor consists of more than one Person, the obligations and liabilities of each such Person shall be joint and several.

5.7 Headings. Section headings are for convenience of reference only and shall in no way affect the interpretation of this Guaranty.

5.8 Recitals. The recital and introductory paragraphs hereof are a part hereof, form a basis for this Guaranty and shall be considered prima facie evidence of the facts and documents referred to therein.

5.9 Counterparts. To facilitate execution, this Guaranty may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature of, or on behalf of, each party, or that the signature of all Persons required to bind any party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this Guaranty to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, each of the parties hereto. Any signature page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature pages.

5.10 Rights and Remedies. If Guarantor becomes liable for any indebtedness owing by Borrower to Lender, by endorsement or otherwise, other than under this Guaranty, such liability shall not be in any manner impaired or affected hereby and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy.

5.11 Other Defined Terms. Any capitalized term utilized herein shall have the meaning as specified in the Security Instrument, unless such term is otherwise specifically defined herein.

5.12 Entirety. THIS GUARANTY EMBODIES THE FINAL, ENTIRE AGREEMENT OF GUARANTOR AND LENDER WITH RESPECT TO GUARANTOR'S GUARANTY OF THE GUARANTEED OBLIGATIONS AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF. THIS GUARANTY IS INTENDED BY GUARANTOR AND LENDER AS A FINAL AND COMPLETE EXPRESSION OF THE TERMS OF THIS GUARANTY, AND NO COURSE OF DEALING BETWEEN GUARANTOR AND LENDER, NO COURSE OF PERFORMANCE, NO TRADE PRACTICES, AND NO EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE SHALL BE USED TO CONTRADICT, VARY, SUPPLEMENT OR MODIFY ANY TERM OF THIS GUARANTY AGREEMENT. THERE ARE NO ORAL AGREEMENTS BETWEEN GUARANTOR AND LENDER.

5.13 Waiver of Right To Trial By Jury. GUARANTOR HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS GUARANTY, THE NOTE, THE MORTGAGE, OR THE OTHER LOAN INSTRUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY GUARANTOR, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY GUARANTOR.

5.17 Other Waivers. Guarantor understands and acknowledges that if Lender forecloses judicially or nonjudicially against any real property security for the Note, that foreclosure could impair or destroy any ability that Guarantor may have to seek reimbursement, contribution or indemnification from Borrower or others based on any right Guarantor may have of subrogation, reimbursement, contribution or indemnification for any amounts paid by Guarantor under this Guaranty. Guarantor further understands and acknowledges that in the absence of this provision, the potential impairment or destruction of Guarantor's rights, if any, may entitle Guarantor to assert a defense to this Guaranty based on California Code of Civil Procedure ("CCP") Section 580d as interpreted in Union Bank vs. Gradsky. By executing this Guaranty, Guarantor freely, irrevocably and unconditionally: (a) waives and relinquishes that defense, and agrees that Guarantor will be fully liable under this Guaranty, even though Lender may foreclose judicially or nonjudicially against any real property security for the Note; (b) agrees that Guarantor will not assert that defense in any action or proceeding that Lender may commence to enforce this Guaranty; (c) acknowledges and agrees that the rights and defenses waived by Guarantor under this Guaranty include any right or defense that Guarantor may have or be entitled to assert based upon or arising out of any one or more of the following: (i) CCP Sections 580a (which if Guarantor had not given this waiver, would otherwise limit Guarantor's liability after any nonjudicial foreclosure sale to the difference between the obligations for which Guarantor is liable and the fair market value of the

property or interests sold at such nonjudicial foreclosure sale rather than the actual proceeds of such sale), 580b and 580d (which if Guarantor had not given this waiver, would otherwise limit Lender's right to recover a deficiency judgment with respect to purchase money obligations and after any nonjudicial foreclosure sale, respectively), or 726 (which, if Guarantor had not given this waiver, among other things, would otherwise require Lender to exhaust all of its security before a personal judgment may be obtained for a deficiency); or (ii) Civil Code Section 2848; and (d) acknowledges and agrees that Lender is relying on this waiver in making the Loan, and that this waiver is a material part of the consideration that Lender is receiving for making the Loan. Guarantor further hereby waives: (i) any and all benefits and defenses under California Civil Code Section 2810 and agrees that by doing so Guarantor shall be liable even if Borrower had no liability at the time of execution of the Note, the Security Instruments, or any other Loan Instrument, or thereafter ceases to be liable; (ii) any and all benefits and defenses under California Civil Code Section 2809 and agrees that by doing so the Guarantor's liability may be larger in amount and more burdensome than that of Borrower; (iii) all rights to require the Lender to pursue any other remedy it may have against Borrower, or any member of Borrower, including any and all benefits under California Civil Code Sections 2845, 2849 and 2850; (iv) any rights, defenses and benefits that may be derived from Sections 2787 to 2855, inclusive, of the California Civil Code or comparable provisions of the laws of any other jurisdiction and further waives all other suretyship defenses Guarantor would otherwise have under the laws of California or any other jurisdiction; and (v) without limiting the generality of the foregoing, any and all benefits under California Civil Code Sections 2815, 2819, 2822, 2839, 2846, 2847, 2848, 2899 and 3433. WITHOUT LIMITING THE FOREGOING, GUARANTOR WAIVES ALL RIGHTS AND DEFENSES THAT GUARANTOR MAY HAVE BECAUSE THE BORROWER'S DEBT AND THE ENVIRONMENTAL OBLIGATIONS ARE, OR IF ALL OF ANY PORTION OF THE BORROWER'S OBLIGATIONS ARE EVER DEEMED, SECURED BY REAL PROPERTY (INCLUDING, WITHOUT LIMITATION, ANY WAIVERS PURSUANT TO CALIFORNIA CIVIL CODE SECTION 2856). THIS MEANS, AMONG OTHER THINGS:

(a) LENDER MAY COLLECT FROM GUARANTOR WITHOUT FIRST FORECLOSING ON ANY REAL OR PERSONAL PROPERTY COLLATERAL PLEDGED BY BORROWER; AND

(b) IF LENDER FORECLOSES ON ANY REAL PROPERTY COLLATERAL PLEDGED BY BORROWER:

(a) THE AMOUNT OF THE DEBT MAY BE REDUCED ONLY BY THE PRICE FOR WHICH THAT COLLATERAL IS SOLD AT THE FORECLOSURE SALE, EVEN IF THE COLLATERAL IS WORTH MORE THAN THE SALE PRICE; AND

(b) LENDER MAY COLLECT FROM GUARANTOR EVEN IF LENDER, BY FORECLOSING ON THE REAL PROPERTY COLLATERAL, HAS DESTROYED ANY RIGHT GUARANTOR MAY HAVE TO COLLECT FROM BORROWER.

THIS IS AN UNCONDITIONAL AND IRREVOCABLE WAIVER OF ANY RIGHTS AND DEFENSES GUARANTOR HAS BECAUSE BORROWER'S DEBT IS, OR BECAUSE BORROWER'S OBLIGATIONS MAY BE DEEMED, SECURED BY REAL PROPERTY.

THESE RIGHTS AND DEFENSES INCLUDE, BUT ARE NOT LIMITED TO, ANY RIGHTS OR DEFENSES BASED UPON CCP SECTIONS 580a, 580b, 580d, OR 726.

[Signature Page follows]

EXECUTED as of the day and year first above written.

GUARANTOR:

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

By: Kilroy Realty Corporation, a Maryland corporation, its General Partner

By:	<u>/s/ Jon Taylor Friend</u>
Name:	<u>Jon Taylor Friend</u>
Title:	<u>SVP, Treasurer</u>

By:	<u>/s/ Lauren N. Stadler</u>
Name:	<u>Lauren N. Stadler</u>
Title:	<u>SVP, Corporate Counsel</u>

NEW YORK LIFE INSURANCE COMPANY
51 MADISON AVENUE
NEW YORK, NEW YORK 10010

July 20, 2023

KR One Paseo Residential, LLC
KR One Paseo Retail, LLC
KR One Paseo Office, LLC
c/o Kilroy Realty Corporation
12200 West Olympic Blvd., Suite 200
Los Angeles, California 90064
Attention: Taylor Friend and Lauren Stadler

Re: Loan No. 374-1311 ("**Loan**") from New York Life Insurance Company ("**Lender**") to KR One Paseo Residential, LLC, KR One Paseo Retail, LLC and KR One Paseo Office, LLC, each a Delaware limited liability company (collectively, "**Borrower**"), evidenced by that certain Promissory Note dated of even date herewith from Borrower in favor of Lender (as the same may be amended, modified, split or restated, the "**Note**") and secured by, among other documents and collateral, the Mortgage (as defined below)

Ladies and Gentlemen:

In connection with the Loan and in accordance with your request, this is to advise you that:

1.0 Definitions. All capitalized terms used in this letter agreement and not defined shall have the respective meanings ascribed to them in the Mortgage. As used herein, the following terms shall have the following definitions:

"**Acceptable Delaware LLC**" means a limited liability company formed under Delaware law which (a) has at least one springing member, which, upon the dissolution of all of the members of the limited liability company or the withdrawal or the disassociation of all of the members from such limited liability company, shall immediately become the sole member of such limited liability company, and (b) has a duly appointed independent director and (c) otherwise meets Lender's criteria applicable to such entities. The proposed transferee must provide customary Delaware opinions with respect to any Acceptable Delaware LLC relating to its status and rights as a single member Delaware limited liability company, in form and substance and from Delaware counsel reasonably acceptable to Lender.

"**Actual DCR**" means, for any period, a fraction, the numerator of which shall equal the actual net operating income of the Secured Property for such period, and the denominator of which shall equal the aggregate of the interest for such period with respect to the indebtedness due pursuant to the Loan Instruments. Such calculation shall be as reasonably determined by Lender.

"**Allocated Loan Amounts**" means the allocation of the Loan to the Office Parcel and the Retail Parcel as set forth on Exhibit B attached hereto.

"**AML**" is defined in Section 4.1(g).

"**Closing Date**" means the date of this letter agreement.

"**Controlled Affiliates**" means an entity that controls, is controlled by or is under common control with another entity.

"**Guarantor Loan Instruments**" is defined in Section 5.0(c).

"**Kilroy Merger**" is defined in Section 6.0.

"**Make-Whole Amount**" has the meaning ascribed to said term in the Note.

"**Mortgage**" means that certain Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated of even date herewith from Borrower, as grantor, to Chicago Title Insurance Company, as trustee, for the benefit of Lender, as beneficiary, as may be, from time to time, amended, modified, or restated.

"**New Guarantor**" is defined in Section 4.1(j).

"**Non-Recourse Guaranty**" means that certain Guaranty of even date herewith from Guarantor for the benefit of Lender, as the same may be amended or modified from time to time.

"**NYL Loan**" is defined in Section 4.1(i)(i).

"**Office Parcel**" means the portion of the Secured Property currently being utilized as an office building and legally described on Exhibit A-1 attached hereto.

"**Permissible Undisclosed Indirect Owners of the Proposed Transferee**" means any indirect owner of the proposed transferee that either (1) is a shareholder of an Upstream Owner that is a publicly traded entity on a nationally recognized U.S. stock exchange or (2) (i) does not directly or indirectly control the proposed transferee and (ii) neither individually, nor together with its Controlled Affiliates, owns (A) in the case of a U.S. citizen or entity, a twenty-five percent (25%) or greater direct or indirect ownership interest in the proposed transferee and (B) in the case of a non-U.S. citizen or entity, a

ten percent (10%) or greater direct or indirect ownership interest in the proposed transferee.

"Permitted Corporate Rentals" shall mean Leases to one or more lessees of residential units not exceeding, in the aggregate, five percent (5%) or more of the total number residential units in the Improvements for purposes of corporate housing (or such greater amount as may be reasonably approved by Lender in writing).

"Post Kilroy Merger Organizational Chart" is defined in Section 6.0(d).

"Post Transfer Organizational Chart" is defined in Section 5.0(f).

"Projected DY" means for any period, a fraction, expressed as a percentage, the numerator of which shall equal the projected net operating income of the Secured Property, and the denominator of which shall equal the then remaining outstanding principal balance of the Loan. Such calculation shall be as reasonably determined by Lender.

"Proposed Transferee Organizational Chart" is defined in Section 4.1(h)(vi).

"Remaining Parcel" means the portion(s) of the Secured Property that would remain after the Release of the Release Parcel.

"Required Documentation" is defined in Section 4.2.

"Release" is defined in Section 7.0.

"Release Parcel" is defined in Section 7.0.

"Reserve Agreement" means that certain Reserve Deposit Agreement dated of even date herewith between Borrower and Lender, as may be amended from time to time.

"Retail Parcel" means the portion of the Secured Property currently being utilized for retail purposes and legally described on Exhibit A-2 attached hereto.

"SPE Principal" means the special purpose entity that is the general partner of the transferee Borrower, if transferee Borrower is a limited partnership, or the managing member of transferee Borrower, if transferee Borrower is a limited liability company (other than an Acceptable Delaware LLC, for which no SPE Principal shall be required). In all cases, SPE Principal must be either an Acceptable Delaware LLC or a corporation, that is a special purpose entity satisfying the requirements of the Mortgage.

"Special Delaware Opinions" means customary Delaware opinions relating to single purpose/bankruptcy matters, satisfactory to Lender, with respect to each Acceptable Delaware LLC (relating to, among other things, Borrower's continued existence and authority to file a bankruptcy petition).

"Upstream Owner" means any person or entity having a direct or indirect legal, beneficial or other ownership interest in Borrower (e.g., if Borrower is a limited liability company, and one of Borrower's members is a limited partnership, whose partner is a corporation, then such limited partnership, corporation and the shareholders of such corporation would each be an Upstream Owner).

2.0 Monthly Escrows for Taxes and Insurance Premiums. Lender agrees to waive the obligations and requirements imposed upon Borrower by Section 1.04 (Escrow Payments) of the Mortgage for the payment to Lender each month of tax and insurance deposits on the condition that:

- (a) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure (or otherwise waived in Lender's sole discretion),
- (b) Borrower pays all Impositions before they become delinquent,
- (c) Borrower pays all insurance premiums at least ten (10) days before the expiration date or lapse of any policy or policies required under the Mortgage,
- (d) Borrower promptly submits to Lender's Real Estate Department receipts evidencing the payment of such Impositions prior to delinquency and receipts evidencing the timely payment of such insurance premiums, and
- (e) the Actual DCR for the preceding 12-month period is at least 1.25x.

This Section 2.0 shall continue in effect and constitute a consent and waiver only so long as (a) the conditions set forth in this Section 2.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing consent and waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 2.0 shall be null and void.

3.0 Reserves for Capital Improvements and Maintenance. Lender agrees to waive Borrower's obligations under Section 4(a) of the Reserve Agreement to make monthly reserve deposits for capital improvements and maintenance and the annual administrative fee in connection therewith on the condition that:

- (a) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure (or otherwise waived in Lender's sole discretion),

- (b) Borrower maintains the Secured Property in good condition and repair, as reasonably determined by Lender (for the avoidance of doubt, to Lender's knowledge, the Secured Property is in good condition and repair as of the Closing Date), and
- (c) the Actual DCR for the preceding 12 month period is at least 1.25x.

This Section 3.0 shall continue in effect and constitute a consent and waiver only so long as (a) the conditions set forth in this Section 3.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing consent and waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 3.0 shall be null and void.

4.0 One Time Right of Transfer.

4.1 Transfer Conditions. Notwithstanding the provisions of Section 1.11 of the Mortgage, Lender agrees to allow Borrower to transfer or sell the entire Secured Property one time, and one time only, provided that Lender receives at least thirty (30) days prior written notice of the proposed sale or transfer together with the Required Documentation (as hereinafter defined) and that at the time of the sale or transfer:

- (a) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure (or otherwise waived in Lender's sole discretion), and no event has occurred and is continuing which, with the giving of notice or lapse of time, or both, would constitute an Event of Default;
- (b) Lender is paid a fee equal to one percent (1%) of the then outstanding principal balance of the Loan;
- (c) the proposed transferee and/or its principal(s) has (i) experience, acceptable to Lender, in Lender's reasonable discretion, in owning and operating properties similar to the Secured Property and of similar size, scale and asset classes as the Secured Property and (ii) creditworthiness and financial capacity acceptable to Lender in Lender's reasonable discretion;
- (d) taking into account any permitted prepayment hereunder that will be made in connection with the proposed transfer, the loan to value ratio for the Loan, as reasonably determined by Lender, is not greater than 55% from the Closing Date through (and including) September 9, 2028 and 53% thereafter, and the Projected DY is not less than 10% from the Closing Date through (and including) September 9, 2028 and 10.5% thereafter;

- (e) the proposed transferee and, unless the proposed transferee is an Acceptable Delaware LLC, its general partner(s) or managing member(s), each is a newly formed, bankruptcy remote, single purpose entity, the sole real property and material asset of which is or will be the Secured Property (or in the case of a general partner or managing member, its interest in the proposed transferee) and which satisfies Lender's requirements for an single purpose, bankruptcy remote entity, including, without limitation, Lender's requirements with respect to an independent director or manager, as applicable; unless the proposed transferee is an Acceptable Delaware LLC, the proposed transferee must have a general partner or managing member which is a corporation or an Acceptable Delaware LLC; if the proposed transferee is an Acceptable Delaware LLC, it must provide the Special Delaware Opinions, in form and substance and from Delaware counsel reasonably acceptable to Lender;
- (f) the proposed transferee provides Lender with a non-consolidation opinion in form and substance and from counsel reasonably acceptable to Lender;
- (g) the proposed transferee assumes all obligations of Borrower under the Loan Instruments (except side letters or other agreements, if any, which are personal to and intended to benefit only the original Borrower), pursuant to an assumption agreement in form and content reasonably acceptable to Lender, which includes representations and warranties substantially equivalent to those set forth in the Loan Instruments (exclusive of any modifications thereto set forth in this or other side letters, if any, which are "personal" to the original Borrower) relating to compliance with anti-money laundering laws and regulations (collectively, "**AML**"), including without limitation, the USA Patriot Act of 2001, OFAC or other statutes or regulations covered by Section 2.08 of the Mortgage and any similar regulations or statutes and the Employee Retirement Income Security Act of 1974, as same may have been amended, and with respect to being a single purpose entity, bankruptcy remote borrower;
- (h) the proposed transferee executes and/or delivers all documents evidencing or relating to the assumption reasonably required by Lender, including, but not limited to:
 - (i) an environmental indemnity agreement in Lender's then current form,
 - (ii) evidence of proper corporate (or other appropriate) authority and legal opinions substantially similar to the legal opinions delivered to Lender on the Closing Date,
 - (iii) an endorsement to Lender's title policy updating the effective date to the date of the transfer with no additional title exceptions (or, if

there are any additional title exceptions, such additional title exceptions are approved by Lender in its sole discretion or have otherwise been approved in accordance with the Loan Instruments), reflecting the proposed transferee as the title holder, and otherwise in form and substance acceptable to Lender,

- (iv) new and/or amended financing statements (which shall be filed in the appropriate offices);
 - (v) the proposed transferee's certification of its legal name, type of organization, federal tax identification number, place of business, or if the proposed transferee has more than one place of business, its chief executive office, its mailing address and its organizational identification number or certification that it does not have an organizational identification number; and
 - (vi) a chart (the "**Proposed Transferee Organizational Chart**") which accurately and completely, represents each and every direct and indirect owner of the proposed transferee, including the percentage ownership interest and jurisdiction of formation of each direct and indirect owner, except the proposed transferee is permitted not to disclose the Permissible Undisclosed Indirect Owners of the Proposed Transferee on the Proposed Transferee Organizational Chart;
- (i) neither the proposed transferee, nor any Controlled Affiliate of such proposed transferee:
- (i) has held a controlling interest or an ownership interest of 25% or more in real property that was collateral for any loan made by Lender and/or any of its affiliates (each a "**NYL Loan**") or any other loan that was sold at a foreclosure or similar sale or transferred by deed in lieu thereof or as to which a foreclosure or similar sale proceeding was or is pending,
 - (ii) has been in default, beyond the applicable cure period, if any, under a NYL Loan as a result of which the NYL Loan has been accelerated,
 - (iii) in connection with a default under a NYL Loan, has entered into a modification, forbearance or similar agreement,
 - (iv) is presently or at any time has been, the subject of any bankruptcy, reorganization, insolvency, debtor-creditor or other similar proceeding, or made an assignment for the benefit of creditors, and/or

- (v) is a current or past litigant, opposing Lender, in any lawsuit brought against or by Lender;
- (j) one or more persons or entities (collectively, the " **New Guarantor**") acceptable to Lender (which, upon a transfer pursuant to this Section shall be deemed a Guarantor) and who has a minimum net worth and liquidity, excluding its indirect interest, if any, in the Secured Property, of \$700 million (net worth) and \$35 million (liquidity), respectively executes and delivers to Lender Lender's then current form of guaranty of the non-recourse exceptions and environmental indemnity agreement and all other Loan Instruments, if any, to which Guarantor is a party; and
- (k) all out-of-pocket costs and expenses actually incurred by Lender (including legal fees) in connection with the transaction are paid by Borrower. Upon completion of the sale or transfer, Borrower shall provide to Lender all of the documents associated with the sale or transfer as may be reasonably requested by Lender. At Lender's sole option, the Loan shall become immediately due and payable upon any other or further sale or transfer.

4.2 Required Documentation. Borrower shall provide to Lender, at least thirty (30) days prior to the proposed sale or transfer, all information reasonably requested by Lender in connection with such sale or transfer (the "**Required Documentation**"), which may include, without limitation, (a) a copy of the fully executed purchase and sale agreement, including all amendments thereto; (b) the Proposed Transferee Organizational Chart; (c) copies of the organizational documents of the proposed transferee, its constituent entities and its principals as depicted on the Proposed Transferee Organizational Chart; (d) a current financial statement for the proposed transferee, the New Guarantor and such other parties on the Proposed Transferee Organizational Chart as Lender may reasonably request, in sufficient detail to permit a determination of net worth and liquidity for the proposed transferee and any proposed New Guarantor; and (e) two (2) bank references for the proposed transferee (or its principals as depicted on the Proposed Transferee Organizational Chart) and any proposed New Guarantor. The Required Documentation shall also include a \$50,000 non-refundable processing fee. If the transfer is approved and subsequently completed, this fee will be applied toward the one percent (1%) fee required above.

For the avoidance of doubt, Borrower shall have the right to transfer or sell the Secured Property pursuant to this Section 4 on and subject to the foregoing conditions in this Section 4 notwithstanding the prior Release of the Office Parcel and/or the Retail Parcel as provided in Section 7 below.

This Section 4 shall continue in effect and constitute a consent and waiver only so long as (a) the conditions set forth in this Section 4 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing consent and waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such

Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 4 shall be null and void.

* * * * *

5.0 Permitted Transfers of Ownership Interests. Notwithstanding the provisions of Section 1.11 of the Mortgage, Lender agrees to allow Borrower to transfer non-controlling interests in Borrower and in Borrower's Upstream Owners without prior written notice to Lender except as provided below provided that:

- (a) at the time of such transfer:
 - (i) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure (or otherwise waived in Lender's sole discretion), and no event has occurred and is continuing which, with the giving of notice or lapse of time, or both, would constitute an Event of Default; and
 - (ii) neither the proposed transferee, nor any Controlled Affiliates of such proposed transferee (A) has held an ownership interest in real property that was collateral for any NYL Loan or any other loan that was sold at a foreclosure or similar sale or transferred by deed in lieu thereof or as to which a foreclosure or similar sale proceeding was or is pending, (B) has been in default, beyond the applicable cure period, if any, under a NYL Loan as a result of which the NYL Loan has been accelerated, (C) in connection with a default under a NYL Loan, has entered into a modification, forbearance or similar agreement, (D) is presently or at any time has been, the subject of any bankruptcy, reorganization, insolvency, debtor-creditor or other similar proceeding, or made an assignment for the benefit of creditors, and/or (E) is a current or past litigant, opposing Lender, in any lawsuit brought against or by Lender.
- (b) immediately following the contemplated transfer Kilroy Realty, L.P. and Kilroy Realty Corporation (i) retains at least a fifty-one percent (51%), direct or indirect, ownership interest in Borrower and (ii) controls, directly or indirectly, the management and operation of the Secured Property and Borrower and is required by the Loan Instruments to maintain such control;
- (c) the obligations of Guarantor under the Environmental Indemnity, the Non-Recourse Guaranty and the other Loan Instruments, if any, to which Guarantor is a party (collectively, the "**Guarantor Loan Instruments**") shall not be modified or impaired by the transfer and Guarantor hereby

agrees by its execution of this letter agreement that any future transfer of direct or indirect ownership interests in Borrower shall be deemed to be a reaffirmation by Guarantor of Guarantor's obligations under the Guarantor Loan Instruments and Guarantor's agreement that its obligations under the Guarantor Loan Instruments shall not be modified or impaired by the transfer;

- (d) Borrower and Guarantor hereby agree by their execution of this letter agreement that any future transfer pursuant to this Section shall be deemed a representation and warranty by Borrower and Guarantor that such transfer does not cause a violation of any of the provisions of the Loan Instruments, including without limitation those relating to compliance with OFAC, AML and any similar regulations or statutes and the Employee Retirement Income Security Act of 1974, as same may have been amended;
- (e) Borrower shall provide Lender with not less than five (5) Business Days prior written notice of any transfer under this Section after which (i) with respect to a U.S. citizen or entity, that either alone or together with his/her/its Controlled Affiliates did not, directly or indirectly, own a twenty-five percent (25%) or greater interest in Borrower prior to the transfer, either alone, or together with his/her/its Controlled Affiliates, will own a twenty-five percent (25%) or greater interest in Borrower after the transfer and/or (ii) with respect to a non-U.S. citizen or entity, that either alone or together with his/her/its Controlled Affiliates did not, directly or indirectly, own a ten percent (10%) or greater interest in Borrower prior to the transfer, either alone, or together with his/her/its Controlled Affiliates, will own a ten percent (10%) or greater interest in Borrower after the transfer and/or (iii) with respect to a person or entity that did not, directly or indirectly have control rights with respect to Borrower prior to the transfer, will have such control rights after the transfer, and, in such prior notice, disclose to Lender the name, ownership and the place of organization or location of citizenship (as the case may be) of any such direct or indirect owner of Borrower;
- (f) not less than ten (10) Business Days following any transfer pursuant to this Section, Borrower provides to Lender an organizational chart, certified by Borrower, depicting the direct and indirect ownership interests of Borrower after the proposed transfer, in form and substance reasonably acceptable to Lender and which satisfies Lender's OFAC requirements (the "**Post Transfer Organizational Chart**"), except that, for the avoidance of doubt, Borrower is permitted not to disclose the Permissible Undisclosed Indirect Owners of Borrower on the Post Transfer Organizational Chart, and thereafter Borrower shall provide to Lender any other supporting documentation as Lender may reasonably require; and

- (g) the proposed transfer does not have any adverse effect on the bankruptcy remoteness of Borrower and/or any SPE Principal.

This Section 5.0 shall continue in effect and constitute a consent and waiver only so long as (a) the conditions set forth in this Section 5.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing consent and waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 5.0 shall be null and void.

* * * * *

6.0 Permitted Transfer in Connection with Merger or Consolidation. Notwithstanding the provisions of Section 1.11 of the Mortgage, Lender agrees to allow a merger or consolidation of Kilroy Realty, L.P. or Kilroy Realty Corporation with another entity (the "**Kilroy Merger**") provided that:

- (a) the obligations of Guarantor under Guarantor Loan Instruments shall not be modified or impaired by the Kilroy Merger and Guarantor hereby agrees by its execution of this letter agreement that any future Kilroy Merger shall be deemed to be a reaffirmation by Guarantor of Guarantor's obligations under the Guarantor Loan Instruments and Guarantor's agreement that its obligations under the Guarantor Loan Instruments shall not be modified or impaired by the Kilroy Merger;
- (b) Borrower and Guarantor hereby agree by their execution of this letter agreement that any future Kilroy Merger pursuant to this Section shall be deemed a representation and warranty by Borrower and Guarantor that the Kilroy Merger does not cause a violation of any of the provisions of the Loan Instruments, including without limitation those relating to compliance with OFAC, AML and any similar regulations or statutes and the Employee Retirement Income Security Act of 1974, as same may have been amended;
- (c) Borrower shall provide Lender with not less than five (5) Business Days prior written notice of the Kilroy Merger after which (i) with respect to a U.S. citizen or entity, that either alone or together with his/her/its Controlled Affiliates did not, directly or indirectly, own a twenty-five percent (25%) or greater interest in Borrower prior to the Kilroy Merger, either alone, or together with his/her/its Controlled Affiliates, will own a twenty-five percent (25%) or greater interest in Borrower after the Kilroy Merger and/or (ii) with respect to a non-U.S. citizen or entity, that either alone or together with his/her/its Controlled Affiliates did not, directly or indirectly, own a ten percent (10%) or greater interest in Borrower prior to the Kilroy Merger, either alone, or together with his/her/its Controlled

Affiliates, will own a ten percent (10%) or greater interest in Borrower after the Kilroy Merger and/or (iii) with respect to a person or entity that did not, directly or indirectly have control rights with respect to Borrower prior to the Kilroy Merger, will have such control rights after the Kilroy Merger, and, in such prior notice, disclose to Lender the name, ownership and the place of organization or location of citizenship (as the case may be) of any such direct or indirect owner of Borrower;

- (d) Not less than ten (10) Business Days following the Kilroy Merger, Borrower provides to Lender an organizational chart, certified by Borrower, depicting the direct and indirect ownership interests of Borrower after the Kilroy Merger, in form and substance reasonably acceptable to Lender and which satisfies Lender's OFAC requirements (the "**Post Kilroy Merger Organizational Chart**"), except that, for the avoidance of doubt, Borrower is permitted not to disclose the Permissible Undisclosed Indirect Owners of Borrower on the Post Kilroy Merger Organizational Chart, and thereafter Borrower shall provide to Lender any other supporting documentation as Lender may reasonably require; and
- (e) the proposed Kilroy Merger does not have any adverse effect on the bankruptcy remoteness of Borrower and/or any SPE Principal.

This Section 6.0 shall continue in effect and constitute a waiver only so long as (a) the conditions set forth in this Section 6.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 6.0 shall be null and void.

* * * * *

7.0 Partial Releases. Notwithstanding the provisions of Section 1.11 of the Mortgage or otherwise, beginning on the Closing Date, but not during the last six (6) months of the Loan term, Lender agrees to release (each a "**Release**") the Office Parcel and/or the Retail Parcel (hereinafter each referred to as "**Release Parcel**") from the lien of the Loan Instruments upon the satisfaction of all of the conditions listed below.

- (a) No Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure (or otherwise waived in Lender's sole discretion) and no event has occurred and is continuing which, with the giving of notice or lapse of time, or both, would constitute an Event of Default under any Loan Instrument;

- (b) Borrower has given at least sixty (60) days prior written notice to Lender of its desire to have the Release Parcel released;
- (c) Borrower shall remit to Lender, together with the written notice required by the previous clause (b), (i) a non-refundable administrative fee, for Lender's efforts in reviewing the documentation for the Release in the amount of \$50,000, (ii) Borrower's authorization to Lender (on a Lender provided form) to obtain with respect to the Remaining Parcel, a current appraisal from a M.A.I. appraiser selected by Lender and (iii) \$15,000 as payment on account of the estimated cost of such appraisal, provided, however, that if this estimated payment is insufficient to the cost of the appraisal, then, at Lender's request, Borrower will promptly deposit the balance with Lender;
- (d) At the time of the Release, Borrower shall pay Lender, as a prepayment of the outstanding principal balance of the Loan, an amount equal to one hundred and seven percent (107%) of the Allocated Loan Amount associated with the Release Parcel plus the applicable Make-Whole Amount;
- (e) The Release Parcel and the Remaining Parcel are both legally subdivided and separate from each other, in accordance with all applicable subdivision, zoning, building and other laws and ordinances and all appeal periods applicable thereto shall have expired without the filing of an appeal;
- (f) The Release Parcel shall be a separate lot for real estate tax assessment purposes and shall not be so assessed together with the Remaining Parcel, which Remaining Parcel shall consist of one or more separate lots for real estate tax assessment purposes;
- (g) Following the release of the Release Parcel, the Remaining Parcel (i) shall comply with all applicable subdivision, zoning, land use control and other laws and ordinances, and all restrictions, covenants, easements and documents of record, and (ii) shall not violate or cause a breach of any lease, agreement, easement, covenant, restriction, setback line or any other document of record relating to the Secured Property or by which Borrower is bound;
- (h) All consents and approvals necessary for the Release (if any), including without limitation any necessary government permits and any necessary approvals of tenants of the Secured Property, shall have been obtained in form and substance reasonably satisfactory to Lender;
- (i) Borrower shall have provided Lender with evidence, reasonably acceptable to Lender, that the Release will not trigger a termination right or cause a default under any lease covering the Secured Property or any

part thereof, including, without limitation, a default with respect to parking requirements, and that the Release shall not impair the right of any tenant of the Secured Property or cause any tenant to have any right to modify or terminate its lease or to have any rights against its landlord arising from, or connected to, the Release;

- (j) The Remaining Parcel shall be self sufficient in all respects, including, without limitation, with respect to utility services, and shall not depend in any manner on the Release Parcel, other than as provided in reciprocal easement agreements reasonably approved by Lender;
- (k) all construction, operating, reciprocal easement agreements and similar agreements with the transferee of the Release Parcel, and other agreements relating to the Release Parcel and any construction and operations thereon shall be reasonably acceptable to Lender in form and content;
- (l) After the Release and the required principal prepayment in connection with the Release, the Loan to value ratio of the Remaining Property (as determined by an M.A.I. appraisal acceptable to Lender) shall be equal to or less than the lower of (i) the Loan to value ratio at the time of Release (assuming the Release has not occurred) or (ii) 52% (Borrower shall have the right to partially prepay the Loan (together with any applicable Make Whole Amount) to meet this test (but shall not have the right to prepay any more than the amount necessary to meet this test));
- (m) After the Release and the required principal prepayment in connection with the Release, the Project DY for the Remaining Property (as reasonably determined by Lender) shall be equal to or greater than the higher of (i) the Projected DY at the time of Release (assuming the Release has not occurred) or (ii) 10.1% (Borrower shall have the right to partially prepay the Loan (together with any applicable Make Whole Amount) to meet this test (but shall not have the right to prepay any more than the amount necessary to meet this test));
- (n) Borrower shall have provided to Lender, in form and substance reasonably satisfactory to Lender (a) an endorsement to Lender's title insurance policy dating down the coverage and all of the endorsements to the date of the Release and reflecting no additional exception (other than any exceptions approved by Lender, in writing, or which have otherwise been approved in accordance with the Loan Instruments) and no impairments of coverage and insuring that the lien, and the priority of the lien, of the Mortgage has not been affected by the Release, other than the exclusion of the Release Parcel from the Secured Property; (b) an opinion of Borrower's counsel to the effect that the Mortgage remains enforceable following the Release; (c) an as-built survey of the Remaining Parcel; and (d) such other documentation as Lender may reasonably request;

- (o) Borrower shall provide written confirmation from each Guarantor that the Release does not release such guarantor from its obligations and liabilities as guarantor under the Non-Recourse Guaranty and from its obligations under the Environmental Indemnity;
- (p) Pursuant to Section 5.1 of that certain One Paseo Declaration of Restrictions (CC&Rs) recorded on February 5, 2019 with the San Diego County Recorder as Document No. 2019-0041167 (the "**One Paseo REA**"), Borrower shall have caused the One Paseo Owners Association to (i) be incorporated as a nonprofit mutual benefit corporation under the laws of the State of California and (ii) commence operations and performance of the obligations under the One Paseo REA;
- (q) That certain Parking Services Agreement dated as of February 22, 2021 between Borrower and Ace Parking III, LLC shall be amended as necessary in connection with such Release;
- (r) With respect to a release of the Retail Parcel, Borrower shall (i) cause to be recorded an amendment to (or an amendment and restatement of) that certain Shared Parking Agreement dated July 24, 2017 and recorded on August 23, 2017 with the San Diego County Recorder as Document No. 2017-0383723 (the "**Shared Parking Agreement**") that updates all legal description references in the Shared Parking Agreement to refer to the current parcel map (provided that the Shared Parking Agreement may be updated by another method as provided by the City of San Diego and reasonably approved by Lender) and (ii) cause to be issued an endorsement to Lender's title insurance policy adding the Shared Parking Agreement as an appurtenant easement in the legal description;
- (s) The documentation relating to the Release shall be reasonably satisfactory to Lender; and
- (t) In addition to the non-refundable administrative fee specified above, Borrower shall pay all out-of-pocket fees and expenses actually incurred by Lender in connection with the Release and the foregoing conditions precedent, including without limitation, survey costs, title insurance premiums and other charges, and Lender's legal fees, and all other actual, out-of-pocket expenses relating to the Release.

This Section 7.0 shall continue in effect and constitute a waiver only so long as (a) the conditions set forth in this Section 7.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 7.0 shall be null and void.

8.0 Leasing Parameters; Deemed Lease Approvals; Permitted Corporate Rentals .

8.1 Leasing Parameters. Notwithstanding anything in the Loan Instruments to the contrary, Lender shall permit Borrower to execute a Lease or Lease modification, including a Lease renewal, without Lender's prior written consent provided that:

- (a) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure in writing or otherwise waived in writing;
- (b) the Lease term or the term of the Lease modification or renewal, as applicable, is not more than twelve (12) years and is on the standard form lease approved by Lender with such commercially reasonable modifications and deviations as may be negotiated by Borrower and the applicable lessee (provided that there shall be no material modifications to the mortgagee protection provisions contained in such form lease);
- (c) the Lease or the Lease modification or renewal, as applicable does not include any purchase option, right of first refusal or right of first offer with respect to a purchase of all or a portion of the Secured Property;
- (d) the rent is at market terms, including, but not limited to, base rent, reimbursements and tenant improvement costs;
- (e) the rent shall be not less than (i) \$67 gross per square foot with respect to any Lease pertaining to the Office Parcel and (ii) \$67 net per square foot with respect to any Lease pertaining to the Retail Parcel;
- (f) the total rentable square footage of the Lease together with the total rentable square footage of any other Lease at the Secured Property to the applicable tenant and/or its affiliates, initially shall not be more than (i) 20,000 square feet with respect to any Lease pertaining to the Office Parcel and (ii) 4,000 square feet with respect to any Lease pertaining to the Retail Parcel;
- (g) Lender receives a certified copy of the fully-executed Lease or the Lease modification or renewal, as applicable, within ten (10) Business Days of it being fully executed; and
- (h) The Lease contains (i) an obligation for the lessee to automatically attorn to any successor owner following a foreclosure or deed in lieu thereof, which attornment may be conditioned upon an agreement by such successor owner not to disturb the lessee so long as the lessee is not in default under the Lease and (ii) the unilateral right for any mortgagee to subordinate the lien of its security instrument to the Lease.

8.2 Deemed Approval. For (1) all new Leases that require Lender's approval and (2) renewals and modifications of existing Leases that require Lender's approval, if Lender fails to respond to Borrower's request for approval within five (5) Business Days of Lender's receipt of such request, followed by Lender's failure to respond within four (4) Business Days of a second request by Borrower, such failure shall be deemed to be Lender's approval of the document submitted by Borrower for approval. In order to be effective, such approval requests shall contain language in bold, capital letters advising Lender of the time period in which Lender is required to review such request and that Lender's failure to do so within such time period shall result in a deemed approval.

8.3 Permitted Corporate Rentals. Notwithstanding anything in the Loan Instruments to the contrary, Lender shall permit Borrower to enter into a Permitted Corporate Rental without Lender's prior written consent provided that:

- (a) no Event of Default has occurred under any of the Loan Instruments, other than an Event of Default as to which Lender, in its sole discretion, has accepted a cure in writing or otherwise waived in writing;
- (b) the Permitted Corporate Rental provides for apartment rentals on prevailing market rental rates and terms;
- (c) Lender receives a certified copy of the fully-executed Lease providing for the Permitted Corporate Rental, within ten (10) Business Days of it being fully executed.

This Section 8.0 shall continue in effect and constitute a waiver only so long as (a) the conditions set forth in this Section 8.0 are satisfied and (b) the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If either of clauses (a) or (b) of the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 8.0 shall be null and void.

9.0 Change in Control. For the avoidance of doubt, so long Kilroy Realty, L.P. and Kilroy Realty Corporation continues to control, directly or indirectly, the management and operation of the Secured Property and Borrower, a change in control of Borrower shall not be deemed to have occurred under Section 1.11B(3) of the Mortgage.

This Section 9.0 shall continue in effect and constitute a waiver only so long as the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that the foregoing waiver is "personal" to the original Borrower of the Loan and shall not apply to any successor or assignee of such Borrower's interest in the Secured Property. If the immediately preceding sentence shall not be true and correct in any respect, then, at Lender's option, this Section 9.0 shall be null and void.

* * * * *

The waivers and consents set forth in this letter agreement extend only to the matters set forth herein and under the conditions and limitations stated herein, and such waivers and consents are not intended to affect the rights of Lender to exercise any power or right it may have under the Mortgage or any other Loan Instrument.

In the event of any conflict or inconsistency between the Loan Instruments and this letter agreement, this letter agreement shall govern and control as long as the Secured Property (or any portion thereof) has not been conveyed or transferred by Borrower, it being acknowledged and agreed that this letter agreement is personal to the original Borrower of the Loan.

Guarantor hereby ratifies the terms of this letter agreement and agrees that neither the waivers and consents granted herein, nor the exercise by Borrower of any rights pursuant to this letter agreement, shall affect the obligations of such Guarantor under any guaranty, indemnity or other document or agreement executed by such Guarantor in connection with the Loan.

This letter agreement shall be governed by the laws of the state in which the Premises is located.

Please acknowledge your receipt and agreement to the foregoing by signing a copy of this letter agreement in the space provided below and returning the signed copy to Lender.

Truly yours,

YORK LIFE INSURANCE COMPANY

/s/ Paula H. Warren

Paula H. Warren

Corporate Vice President

Agreement to the foregoing
is hereby acknowledged as of
the 20th day of July, 2023.

BORROWER:

KR ONE PASEO RESIDENTIAL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

KR ONE PASEO RETAIL, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

[Signatures continued on the following page]

KR ONE PASEO OFFICE, LLC, a
Delaware limited liability company

By: Kilroy Realty, L.P., a Delaware limited
partnership, its Member

By: Kilroy Realty Corporation, a
Maryland corporation, its General
Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

GUARANTOR:

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

By: Kilroy Realty Corporation, a Maryland
corporation, its General Partner

By: /s/ Jon Taylor Friend
Name: Jon Taylor Friend
Title: SVP, Treasurer

By: /s/ Lauren N. Stadler
Name: Lauren N. Stadler
Title: SVP, Corporate Counsel

EXHIBIT A-1

LEGAL DESCRIPTION OF OFFICE PARCEL

PARCEL B (OFFICE):

PARCEL(S) 1 AND 2 OF PARCEL MAP NO. 21585, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL OIL RIGHTS ON HEREIN DESCRIBED PROPERTY TO BE RESERVED BY THE GRANTOR HER HEIRS AND ASSIGNS, FOREVER, AND FURTHER THAT THE SAID GRANTOR, HER HEIRS OR ASSIGNS AGREE TO PAY A REASONABLE COMPENSATION TO THE SAID GRANTEE OR THEIR ASSIGNS, SHOULD THE GRANTOR, HER HEIRS OR ASSIGNS, ENTER THE HEREIN DESCRIBED LAND FOR THE PURPOSE OF DIGGING OR DRILLING FOR OIL, AS RESERVED IN DEED FROM TILLIE M. LACY, ALSO KNOWN AS TILLIE WATERS LACY TO MEAD-HASKELL COMPANY, DATED JULY 29, 1919 RECORDED JULY 29, 1919 IN BOOK 789, PAGE 78 OF DEEDS.

APN: 304-070-65 AND 304-070-066

Exhibit A-1-1

EXHIBIT A-2

LEGAL DESCRIPTION OF RETAIL PARCEL

PARCEL C (RETAIL):

PARCEL 3 OF PARCEL MAP NO. 21585, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL OIL RIGHTS ON HEREIN DESCRIBED PROPERTY TO BE RESERVED BY THE GRANTOR HER HEIRS AND ASSIGNS, FOREVER, AND FURTHER THAT THE SAID GRANTOR, HER HEIRS OR ASSIGNS AGREE TO PAY A REASONABLE COMPENSATION TO THE SAID GRANTEE OR THEIR ASSIGNS, SHOULD THE GRANTOR, HER HEIRS OR ASSIGNS, ENTER THE HEREIN DESCRIBED LAND FOR THE PURPOSE OF DIGGING OR DRILLING FOR OIL, AS RESERVED IN DEED FROM TILLIE M. LACY, ALSO KNOWN AS TILLIE WATERS LACY TO MEAD-HASKELL COMPANY, DATED JULY 29, 1919 RECORDED JULY 29, 1919 IN BOOK 789, PAGE 78 OF DEEDS.

APN: 304-070-67

EXHIBIT B

ALLOCATED LOAN AMOUNTS

	Address	Allocated Loan Amount
1	One Paseo Living 3200 Paseo Village Way	\$210,000,000
2	One Paseo Office 12830 & 12860 El Camino Real	\$120,000,000
3	One Paseo Retail 3725 Paseo Place	\$45,000,000
Total		\$375,000,000

Exhibit B-1

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, John Kilroy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Kilroy

John Kilroy

Chief Executive Officer

Date: October 26, 2023

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Elliott Trencher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Elliott Trencher

Elliott Trencher

Executive Vice President, Chief Financial Officer and
Chief Investment Officer

Date: October 26, 2023

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, John Kilroy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kilroy Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Kilroy

John Kilroy
Chief Executive Officer
Kilroy Realty Corporation, sole general partner
of
Kilroy Realty, L.P.

Date: October 26, 2023

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Elliott Trencher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kilroy Realty, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Elliott Trencher

Elliott Trencher

Executive Vice President, Chief Financial Officer and
Chief Investment Officer

Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: October 26, 2023

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the "Company") hereby certifies, to his knowledge, that:

- (i) the accompanying quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Kilroy

John Kilroy

Chief Executive Officer

Date: October 26, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company or Kilroy Realty, L.P. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the "Company") hereby certifies, to his knowledge, that:

- (i) the accompanying quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Elliott Trencher

Elliott Trencher

Executive Vice President, Chief Financial Officer and
Chief Investment Officer

Date: October 26, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company or Kilroy Realty, L.P. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation, the sole general partner of Kilroy Realty, L.P. (the "Operating Partnership"), hereby certifies, to his knowledge, that:

- (i) the accompanying quarterly Report on Form 10-Q of the Operating Partnership for the quarter ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ John Kilroy

John Kilroy

Chief Executive Officer

Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: October 26, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of Kilroy Realty Corporation or the Operating Partnership under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Operating Partnership and will be retained by the Operating Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation, the sole general partner of Kilroy Realty, L.P. (the "Operating Partnership"), hereby certifies, to his knowledge, that:

- (i) the accompanying quarterly Report on Form 10-Q of the Operating Partnership for the quarter ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Elliott Trencher

Elliott Trencher

Executive Vice President, Chief Financial Officer and
Chief Investment Officer

Kilroy Realty Corporation, sole general partner of
Kilroy Realty, L.P.

Date: October 26, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of Kilroy Realty Corporation or the Operating Partnership under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Operating Partnership and will be retained by the Operating Partnership and furnished to the Securities and Exchange Commission or its staff upon request.