

KILROY REALTY CORP
Form 424B5
January 04, 2017
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**Filed Pursuant To Rule 424(b)(5)
Under the Securities Act of 1933
Registration No. 333-213864**

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated January 4, 2017

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 29, 2016)

3,500,000 Shares

Common Stock

We are selling 3,500,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol KRC. The last reported sale price of our common stock on the NYSE on January 3, 2017 was \$73.21 per share.

Shares of our common stock are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of Capital Stock Restrictions on Ownership and Transfer of the Company's Capital Stock in the accompanying prospectus.

An investment in our common stock involves various risks and prospective investors should carefully consider the matters discussed under Risk Factors beginning on page S-6 of this prospectus supplement and the matters discussed in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus before making a decision to invest in our common stock.

	Per Share	Total
Public offering price	\$	\$

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Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to Kilroy Realty Corporation	\$	\$

We have granted the underwriters an option to purchase a maximum of 525,000 additional shares of our common stock exercisable at any time until 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

On December 13, 2016, our board of directors declared a regular quarterly cash dividend of \$0.375 per share of our common stock and a special cash dividend of \$1.90 per share of common stock, both of which are payable on January 13, 2017 to stockholders of record as of the close of business on December 30, 2016. **Purchasers of shares of common stock in this offering will not receive those dividends on such shares.**

We expect that the shares of common stock will be ready for delivery through The Depository Trust Company on or about _____, 2017.

Joint-Book Running Managers

BofA Merrill Lynch J.P. Morgan Barclays Jefferies Wells Fargo Securities
Prospectus Supplement dated January _____, 2017

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Kilroy Realty Corporation, or the Company, is the sole general partner of Kilroy Realty, L.P., or the operating partnership. Unless otherwise expressly stated or the context otherwise requires, in this prospectus supplement, we, us, and our refer collectively to Kilroy Realty Corporation and its subsidiaries, including the operating partnership. References in this prospectus supplement to the operating partnership's revolving credit facility mean the operating partnership's current \$600 million unsecured revolving credit facility and references in this prospectus supplement to the operating partnership's term loan facilities mean the operating partnership's current \$150 million fully drawn unsecured term loan facility and \$39 million unsecured term loan facility.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus, any document incorporated or deemed to be incorporated by reference in each and any free writing prospectus that we may prepare in connection with this offering. Neither we nor the underwriters have authorized anyone to provide you with any information or make any representation that is different. If anyone provides you with any additional or different information, you should not rely on it. Neither this prospectus supplement nor the accompanying prospectus nor any such free writing prospectus is an offer to sell or a solicitation of an offer to buy any securities other than the common stock to which this prospectus supplement relates or an offer to sell or the solicitation of an offer to buy securities in any jurisdiction where, or to any person to whom, it is unlawful to make an offer or solicitation. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus, any document incorporated or deemed to be incorporated by reference in each or any free writing prospectus that we may provide you in connection with this offering is accurate on any date after the respective dates of those documents. Our business, financial condition, liquidity, results of operations, funds from operations and prospects may have changed since those respective dates.

Industry and Market Data

In this prospectus supplement and the documents incorporated and deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, we refer to information and statistics regarding, among other things, the industry, markets, submarkets and sectors in which we operate, including, among other things, the percentage by which certain leases are above or below applicable market rents and the number of square feet of office and other space that could be developed from specific parcels of undeveloped land. We obtained this information and these statistics from various third-party sources and our own internal estimates. We believe that these sources and estimates are reliable but have not independently verified them and cannot guarantee their accuracy or completeness.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary does not contain all the information important to you in deciding whether to invest in our common stock. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, including the financial statements and related notes, before making an investment decision.

The Company

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

As of September 30, 2016, our stabilized office portfolio was comprised of 101 office properties, which encompassed an aggregate of approximately 13.6 million rentable square feet, and 200 residential units. As of September 30, 2016, these properties were approximately 96.6% occupied by 530 tenants. Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, lease-up properties, real estate assets held for sale, undeveloped land and our recently completed residential property. As of September 30, 2016, we had one development project under construction that is expected to encompass approximately 700,000 aggregate rentable square feet upon completion. 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. As of September 30, 2016, we had no redevelopment properties. We define lease-up properties as office properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. As of September 30, 2016, we had two development projects in lease-up, encompassing approximately 450,000 aggregate rentable square feet. Our stabilized office portfolio also excludes our near-term and future development pipeline, which as of September 30, 2016 was comprised of eight potential development sites, representing approximately 70 gross acres of undeveloped land on which we believe we have the potential to develop over 5.7 million square feet of office space, depending upon economic conditions.

Kilroy Realty Corporation is a Maryland corporation organized to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, which owns its interests in all of its properties through the operating partnership and Kilroy Realty Finance Partnership, L.P., both of which are Delaware limited partnerships. We generally conduct substantially all of our operations through the operating partnership in which, as of September 30, 2016, Kilroy Realty Corporation owned an approximate 97.2% general partnership interest. The remaining approximately 2.8% common limited partnership interest in the operating partnership as of September 30, 2016 was owned by non-affiliated investors and certain executive officers and directors of Kilroy Realty Corporation.

Our outstanding common stock and preferred stock are listed on the New York Stock Exchange. Our common stock is listed under the symbol KRC, our 6.875% Series G Cumulative Redeemable Preferred Stock, or the Series G preferred stock, is listed under the symbol KRC-PG, and our 6.375% Series H Cumulative Redeemable Preferred Stock, or the Series H preferred stock, is listed under the symbol KRC-PH.

Our principal executive offices are located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064. Our telephone number is (310) 481-8400.

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Recent Developments

Completed Acquisitions. In December 2016, we acquired an approximately 179,000 square foot mixed-use project in the West Hollywood submarket of Los Angeles for approximately \$210.0 million. This project, located on the Sunset Strip, is comprised of a 10-story, approximately 72,000 square foot office tower and a three-building retail plaza encompassing approximately 107,000 square feet built on top of a subterranean parking structure that provides approximately 930 parking spaces (approximately five spaces per 1,000 square feet). Additionally, this project includes three billboards atop the retail buildings that were fully leased as of December 31, 2016. The office and retail components of this project were approximately 88% occupied as of the same date. In-place leases for the office and retail components of this project have a weighted average remaining lease term of approximately 63 months as of December 31, 2016. Based on our internal estimates, we believe that the weighted average in-place rents for the office and retail components of this project were approximately 15% to 20% below market rents at the time of the acquisition. We believe we have the opportunity to significantly increase the value of this project over time through repositioning the retail component and increasing both parking and billboard revenues.

In December 2016, we acquired an approximately 152,000 square foot project in the Palo Alto submarket of the San Francisco Bay Area for approximately \$130.0 million. This project is comprised of two buildings, one developed in 2015 and the other in 1998, and is suited for office, life sciences and research and development uses. The buildings are located on Page Mill Road in Stanford Research Park, one of Silicon Valley's technology-oriented commercial office parks. The two buildings are subject to a 51-year ground lease with Stanford University. The buildings are fully occupied by TheraNOS, Inc., a consumer healthcare technology company, and Perkins Coie LLP, an international law firm. In-place leases for this project have a weighted average remaining lease term of approximately 130 months as of December 31, 2016. Based on our internal estimates, we believe that the weighted average in-place rents for this project were approximately 20% to 25% below market rents at the time of the acquisition.

Our internal estimates of the percentage differences between the weighted average in-place rents of these projects and market rates are subject to uncertainties and actual percentage differences may differ, perhaps substantially, from our estimates. In addition, we may not be able to increase the value of these projects to the extent we anticipate or at all.

Development. In December 2016, we commenced the first phase of development on One Paseo, a mixed-use project in Del Mar, California. We expect to spend a total of approximately \$225 million on the first phase, with incremental spend on the first phase of approximately \$150 million to \$200 million, which includes all of the project's sitework, approximately 237 residential units and approximately 96,000 square feet of retail space. Development of this project, which we expect will encompass a total of approximately 1.1 million square feet, will occur in phases, and we estimate that the total development cost, including the land, will be approximately \$660 million.

In November 2016, we commenced development on 100 Hooper Street, a LEED Platinum-designed project fully entitled for approximately 314,000 square feet of office and approximately 86,000 square feet of production, distribution and repair (PDR) space configured in two, four-story buildings. This project is located in the SOMA district of San Francisco. Adobe Systems Incorporated, which has its main San Francisco presence just blocks from 100 Hooper Street, has signed a long-term lease for approximately 207,000 square feet. Adobe will occupy approximately 155,000 square feet initially and approximately 52,000 square feet within 15 months of construction completion that is expected to occur in 2018. We estimate that the total development cost, including the land, will be approximately \$270 million.

Based on our internal budgets, in 2017, we expect to spend approximately \$330 to \$360 million on the three projects we currently have under development, including the two development projects described above. In addition, we are pursuing entitlements to build a new five-story life sciences building with approximately 150,000 square feet of rentable space in the University Towne City submarket of San Diego.

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Development projects are subject to a number of risks and uncertainties, and we cannot assure you that the cost of the projects described above will not exceed, perhaps substantially, the estimated costs set forth above or that the projects will be completed by the dates and on the other terms currently contemplated, or at all, or that the size and design of the projects, if completed, will not differ from the descriptions in this prospectus supplement. For additional information, see Risk Factors Risks Related to our Business and Operations We may be unable to successfully complete and operate acquired, developed, and redeveloped properties in the Company's and the operating partnership's Annual Report on Form 10-K for the year ended December 31, 2015.

Capital Recycling. We are under contract to sell an approximately 68,000 square-foot office building in San Diego's Sorrento Mesa submarket for gross proceeds of approximately \$12.1 million. This disposition is currently expected to close in January 2017, subject to satisfaction of customary closing conditions and other uncertainties. There can be no assurance that this disposition will close on the terms currently contemplated or at all or, if it does, when the closing will occur. This property was reported as held for sale as of September 30, 2016.

Leasing. In November 2016, we signed a 12-year lease with Amazon.com for space at our approximately 320,000 square foot Westlake Terry office project in the South Lake Union neighborhood of greater Seattle. Amazon.com is scheduled to take occupancy of an initial approximately 150,000 square feet of space following the expiration of an existing tenant's lease in the third quarter of 2017 and completion of tenant improvements. This project was fully occupied as of December 31, 2016.

Mortgage Financing. In November 2016, we closed a \$170.0 million mortgage loan secured by our Westside Media Center, a three building media and entertainment office project in Los Angeles. The mortgage, which is non-recourse to us and the operating partnership (other than pursuant to limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities) bears interest at 3.57% and matures on December 1, 2026. We used a portion of the proceeds from the loan to pay off an approximately \$65 million mortgage at par in December 2016 and intend to use the remaining proceeds for general corporate purposes.

ATM Activity. From October 1, 2016 through December 30, 2016, we sold 451,398 shares of our common stock having an aggregate gross sales price of approximately \$32.3 million pursuant to our at-the-market offering program.

Dividends and Distributions. On December 13, 2016, our board of directors declared a regular quarterly cash dividend of \$0.375 per share of our common stock and a special cash dividend of \$1.90 per share of common stock, both of which are payable on January 13, 2017 to stockholders of record as of the close of business on December 30, 2016. As general partner of the operating partnership, on December 13, 2016, our board of directors also declared a regular quarterly cash distribution per common unit of limited partnership interest of the operating partnership, or common unit, and a special cash distribution per common unit in the same respective amounts to common unit holders of record as of the close of business on the same date. Based on the number of shares of our common stock and common units outstanding as of December 30, 2016, the total amount of the regular quarterly cash dividend and distribution and the special cash dividend and distribution will be approximately \$35.9 million and \$181.6 million, respectively. **Purchasers of shares of common stock in this offering will not receive either the regular quarterly cash dividend or the special cash dividend described above on any shares they purchase in this offering.**

We expect to fund this regular quarterly cash dividend and special cash dividend with unrestricted cash on hand, which may include proceeds from this offering. As of December 30, 2016, we had unrestricted cash on hand of approximately \$205 million, before reconciling items.

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The Offering

Issuer	Kilroy Realty Corporation, a Maryland corporation
Common stock to be offered by us	3,500,000 shares (or 4,025,000 shares if the underwriters exercise their option to purchase additional shares in full)
Common stock outstanding after this offering	96,719,439 shares (or 97,244,439 shares if the underwriters exercise their option to purchase additional shares in full)
Use of proceeds	<p>We estimate that the net proceeds from this offering will be approximately \$245.6 million, or approximately \$282.5 million if the underwriters exercise their option to purchase additional shares in full, in each case based upon an assumed public offering price of \$73.21 per share (which was the last reported sale price of our common stock on the New York Stock Exchange, or NYSE, on January 3, 2017) and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>We intend to use the net proceeds from this offering for general corporate purposes, which may include partially funding the special cash dividend described above under Recent Developments Dividends, funding development projects, acquiring land and properties and repaying outstanding indebtedness, which may include borrowings, if any, under the operating partnership's revolving credit facility and borrowings under the operating partnership's term loan facilities. Pending application of the net proceeds for those purposes, we may temporarily invest such net proceeds in marketable securities. See Use of Proceeds in this prospectus supplement. For information concerning certain potential conflicts of interest that may arise from the use of proceeds, see Use of Proceeds, Underwriting (Conflicts of Interest) Conflicts of Interest and Underwriting (Conflicts of Interest) Other Relationships in this prospectus supplement.</p>
Restrictions on ownership and transfer	<p>Shares of our common stock are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a REIT for federal income tax purposes. See Description of Capital Stock Restrictions on Ownership and Transfer of the Company's Capital Stock in the accompanying prospectus.</p>
NYSE Listing	Our common stock is listed on the NYSE under the symbol KRC.
Risk factors	An investment in our common stock involves various risks and prospective investors should carefully consider the matters discussed under the caption entitled Risk Factors beginning on page S-6 of this prospectus supplement and under the caption entitled Risk Factors in our and the operating partnership's Annual Report on Form 10-K for the year ended December 31, 2015 incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the other risks described in the documents

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incorporated and deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, before making a decision to invest in our common stock.

Transfer Agent and Registrar

Computershare, Inc.

The number of shares of common stock to be outstanding after this offering is based on 93,219,439 shares issued and outstanding as of December 30, 2016. This number excludes the following as of December 30, 2016:

50,500 shares of common stock issuable upon exercise of outstanding options granted under our equity compensation plans;

1,364,162 additional shares of common stock reserved and available for future issuance under our equity compensation plans (including shares to cover performance-based vesting awards at (i) levels actually achieved for the performance conditions and (ii) target levels for the market conditions applicable to these awards);

1,976,901 shares of common stock underlying outstanding restricted stock units awarded under our equity compensation plans (including shares to cover performance-based vesting awards at (i) levels actually achieved for the performance conditions and (ii) target levels for the market conditions applicable to these awards);

2,381,543 shares of common stock issuable upon redemption of outstanding common units, as described in the accompanying prospectus under Description of Material Provisions of the Partnership Agreement of Kilroy Realty, L.P. Common Limited Partnership Units Redemption/Exchange Rights ; and

a total of up to 9,236,100 shares of our common stock (subject to certain anti-dilution and other potential adjustments) issuable upon conversion of our Series G preferred stock and Series H preferred stock following a Series G Change of Control or Series H Change of Control, respectively (as defined under the caption Description of Capital Stock 6.875% Series G Cumulative Redeemable Preferred Stock and 6.375% Series H Cumulative Redeemable Preferred Stock, respectively, in the accompanying prospectus) with respect to us..

As of December 30, 2016, a total of 1,649,760 shares of common stock reserved for possible issuance upon redemption of outstanding common units are covered by a currently effective registration statement that also covers up to 94,441 presently outstanding shares of common stock held by a stockholder for possible resale. Consequently, if and when the shares are issued or sold under this registration statement, they may be sold in public offerings and thereafter will be generally freely tradable in the public markets. Likewise, the 9,236,100 shares of common stock issuable upon conversion of our Series G preferred stock and Series H preferred stock following a Series G Change of Control or a Series H Change of Control, respectively, of us have been registered with the Securities and Exchange Commission, or SEC, and, if and when issued, will generally be freely tradable in the public markets. For additional information, please see our and the operating partnership's Annual Report on Form 10-K for the year ended December 31, 2015 and subsequent Quarterly Reports on Form 10-Q and the description of our Series G preferred stock and Series H preferred stock contained in our Registration Statements on Form 8-A filed with the Securities and Exchange Commission, or the SEC, on March 22, 2012 and August 10, 2012, respectively, all of which are incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as in the accompanying prospectus under the caption Description of Capital Stock 6.875% Series G Cumulative Redeemable Preferred Stock and 6.375% Series H Cumulative Redeemable Preferred Stock.

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RISK FACTORS

*Investing in our common stock involves risks. Before acquiring any common stock pursuant to this prospectus supplement and the accompanying prospectus, you should carefully consider the information contained in this prospectus supplement, the accompanying prospectus, the documents incorporated or deemed to be incorporated by reference in each and any free writing prospectus that we may prepare in connection with this offering, including, without limitation, the risks described below and under the captions *Item 1A. Risk Factors* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our and the operating partnership's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC, under the captions *Item 1A. Risk Factors* and *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our and the operating partnership's subsequent Quarterly Reports on Form 10-Q filed with the SEC and as described in our other filings with the SEC. The occurrence of any of these risks could materially and adversely affect our business, financial condition, liquidity, results of operations, funds from operations and prospects, as well as the trading price of our common stock, and might cause you to lose all or a part of your investment in our common stock. Please also refer to the section *Forward-Looking Statements* in this prospectus supplement.*

Risks Related to this Offering

This offering and future issuances of our common stock could be dilutive to our earnings per share and funds from operations per share.

Giving effect to the issuance of common stock in this offering, the receipt of the expected net proceeds and the use of those net proceeds, this offering could have a dilutive effect on our earnings per share and funds from operations per share. Additional issuances of our common stock, including in connection with acquisitions, if any, could also be dilutive to our earnings per share and funds from operations per share. The issuance or sale of our common stock, including the sale of shares in this offering, in connection with acquisitions, if any, or in the secondary market (including upon the conversion of our Series G preferred stock or Series H preferred stock following a Series G Change of Control or Series H Change of Control, respectively (as defined under *Description of Capital Stock 6.875% Series G Cumulative Redeemable Preferred Stock* and *Description of Capital Stock 6.375% Series H Cumulative Redeemable Preferred Stock*, respectively, in the accompanying prospectus) with respect to Kilroy Realty Corporation, upon redemption of common units and upon the issuance of shares of common stock under our stock option and other equity incentive plans or pursuant to options or other awards granted under those plans), or the perception that such additional issuances or sales could occur, could also adversely affect the trading price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities. In addition, if we are unable to apply the net proceeds from this offering to make investments in properties that generate sufficient revenues to offset the dilutive impact of the issuance of shares of our common stock in this offering, there will be further dilution of our earnings per share and funds from operations per share.

Risks Related to Our Business and Operations

The actual density of our undeveloped land holdings and/or any particular land parcel may not be consistent with our potential density estimates.

As of September 30, 2016, we estimate that our eight potential development sites, representing approximately 70 gross acres of undeveloped land, provide more than 5.7 million square feet of potential office or other space, which we refer to as *density*. We caution you not to place undue reliance on the potential density estimates for our undeveloped land holdings and/or any particular land parcel because they are based solely on our estimates, using data currently available to us, and our business plans as of September 30, 2016. The actual density of our undeveloped land holdings and/or any particular land parcel may differ substantially from our estimates based on numerous factors, including our inability to obtain necessary zoning, land use and

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other required entitlements, as well as building, occupancy and other required governmental permits and authorizations, and changes in the entitlement, permitting and authorization processes that may restrict or delay our ability to develop, redevelop or use undeveloped land holdings at anticipated density levels, or at all. Moreover, we may strategically choose not to develop, redevelop or use our undeveloped land holdings to their maximum potential density or be unable to do so as a result of factors beyond our control, including our inability to obtain capital on terms that are acceptable to us, or at all, to fund our development and redevelopment activities. We can provide no assurance that the actual density of our undeveloped land holdings and/or any particular land parcel will be consistent with our potential density estimates.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in each, contain, and documents we subsequently file with the SEC and incorporate by reference in each may contain, certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the Exchange Act), including 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, the projected number of square feet of office 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, projections regarding our ability to increase the value of properties or rental rates of properties, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions, the anticipated use of proceeds from this offering, anticipated growth in our funds from operations and anticipated market conditions, demographics, and similar matters. 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 ne phrases and similar expressions that do not relate to historical matters. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or events. Numerous factors could cause actual future performance, results and events to differ materially from those indicated in the forward-looking statements, including, among others:

global market and general economic conditions and their effect on our liquidity and financial conditions and those of our tenants;

adverse economic or real estate conditions generally, and specifically, in the States of California and Washington;

risks associated with our investment in real estate assets, which are illiquid, and with trends in the real estate industry;

defaults on or non-renewal of leases by tenants;

any significant downturn in tenants' businesses;

our ability to re-lease property at or above current market rates;

costs to comply with government regulations, including environmental remediations;

the availability of cash for distribution and debt service and exposure to risk of default under debt obligations;

increases in interest rates and our ability to manage interest rate exposure;

failure of interest rate hedging contracts to perform as expected and the effectiveness of such arrangements;

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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;

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significant competition, which may decrease the occupancy and rental rates of properties;

potential losses that may not be covered by insurance;

the ability to successfully complete acquisitions and dispositions on announced terms;

the ability to successfully operate acquired, developed and redeveloped properties;

the ability to successfully complete development and redevelopment projects on schedule and within budgeted amounts;

delays or refusals in obtaining all necessary zoning, land use and other required entitlements, governmental permits and authorizations for our development and redevelopment properties;

increases in anticipated capital expenditures, tenant improvement and/or leasing costs;

defaults on leases for land on which some of our properties are located;

adverse changes to, or implementations of, applicable laws, regulations or legislation;

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 risk factors included in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference in each, and documents we subsequently file with the SEC and incorporate by reference in each, are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional risk factors, see the factors included under the caption "Risk Factors" in this prospectus supplement, in the accompanying prospectus, in our and the operating partnership's Annual Report on Form 10-K for the year ended December 31, 2015, as well as the other risks described in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference in each. All forward-looking statements are based on information that was available, and speak only, as of the date on which they were made. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under Federal securities laws.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$245.6 million, or approximately \$282.5 million if the underwriters exercise their option to purchase additional shares in full, in each case based upon an assumed public offering price of \$73.21 per share (which was the last reported sale price of our common stock on the NYSE on January 3, 2017) and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase or decrease in the assumed public offering price of \$73.21 per share would increase or decrease, respectively, the estimated net proceeds from this offering by approximately \$3.4 million, or approximately \$3.9 million if the underwriters exercise their option to purchase additional shares in full, in each case assuming that the number of shares offered by us and the number of shares subject to the underwriters' option to purchase additional shares, as set forth on the cover page of this prospectus supplement, remain the same, and after deducting estimated underwriting discounts and commissions and our estimated offering expenses.

We intend to use the net proceeds from this offering for general corporate purposes, which may include partially funding the special cash dividend described under "Prospectus Summary - Recent Developments - Dividends," funding development projects, acquiring land and properties and repaying outstanding indebtedness, which may include borrowings, if any, under the operating partnership's revolving credit facility and borrowings under the operating partnership's term loan facilities. Pending application of the net proceeds for those purposes, we may temporarily invest such net proceeds in marketable securities. As of December 30, 2016, we had no borrowings under the revolving credit facility and aggregate borrowings of \$189 million outstanding under the term loan facilities. The revolving credit facility matures in 2019 and, as of December 30, 2016, bore interest at a rate equal to the London Interbank Offered Rate, or LIBOR, plus 1.05%, and the term loan facilities mature in 2019 and, as of December 30, 2016, bore interest at a rate equal to LIBOR plus 1.15%. Proceeds from borrowings under the revolving credit facility and the term loan facilities are applied for general corporate purposes, including funding development projects, acquiring land and properties and repaying other indebtedness. Any borrowings under the revolving credit facility that are repaid with net proceeds from this offering may be reborrowed, subject to customary conditions.

Affiliates of some or all of the underwriters are lenders and, in certain cases, agents under the operating partnership's revolving credit facility and term loan facilities. As described above, net proceeds of this offering may be used to repay indebtedness, which may include borrowings under the revolving credit facility, if any, and term loan facilities. Because affiliates of some or all of the underwriters are lenders under the revolving credit facility or the term loan facilities, to the extent that net proceeds from this offering are applied to repay borrowings under the revolving credit facility or term loan facilities, such affiliates will receive proceeds of this offering through the repayment of those borrowings. Likewise, to the extent that net proceeds from this offering are applied to repay any other indebtedness of the Company, the operating partnership or any of the Company's other subsidiaries that may be held by any of the underwriters or any of their respective affiliates, such underwriters or affiliates, as the case may be, will receive proceeds of this offering through the repayment of that indebtedness. The amount received by any such underwriter and its affiliates, as applicable, from the repayment, if any, of those borrowings and/or that indebtedness may exceed 5% of the proceeds of this offering (not including underwriting discounts and commissions). Nonetheless, in accordance with Rule 5121 of the Financial Industry Regulatory Authority Inc., or FINRA, the appointment of a qualified independent underwriter is not necessary in connection with this offering because REITs are excluded from that requirement.

Table of Contents**UNDERWRITING (CONFLICTS OF INTEREST)**

We intend to offer the shares of common stock through the underwriters named below. Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC are acting as the representatives of the underwriters (the representatives). Subject to the terms and conditions described in an underwriting agreement among us, the operating partnership and the representatives of the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

<u>Underwriter</u>	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
J.P. Morgan Securities LLC	
Barclays Capital Inc.	
Jefferies LLC	
Wells Fargo Securities, LLC	
Total	3,500,000

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We and the operating partnership have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers certificates. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price appearing on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$ per share. After the public offering, the public offering price and concession may be changed.

The following table shows the public offering price, underwriting discounts and commissions and proceeds, before expenses, to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares.

	Per Share	Without Option	With Option
Public offering price	\$	\$	\$
Underwriting discounts and commissions	\$	\$	\$
Proceeds, before expenses, to Kilroy Realty Corporation	\$	\$	\$

The expenses of this offering, not including the underwriting discounts and commissions, are estimated at \$400,000 and are payable by us.

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Option to Purchase Additional Shares

We have granted an option to the underwriters to purchase up to 525,000 additional shares of common stock at the public offering price on the cover page of this prospectus supplement less the underwriting discounts and commissions. The underwriters may exercise this option for 30 days from the date of this prospectus supplement. If the underwriters exercise this option, each underwriter will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to the number of shares set forth opposite that underwriter's name reflected in the above table.

Lock-Up Agreements

We and the operating partnership have agreed that, during the period commencing on the date of this prospectus supplement and ending on the 60th day thereafter (the Lock-up Period), neither we nor the operating partnership will, without the prior written consent of the representatives, issue, sell, offer, contract or grant any option to sell, pledge, transfer or otherwise dispose of any shares of our common stock or common units or any securities exchangeable or exercisable for or convertible into common stock or common units, except that the foregoing restrictions will not apply to the following:

the issuance and sale of shares of our common stock to the underwriters in this offering and the issuance of common units by the operating partnership to us in return for our contribution to the operating partnership of net proceeds of this offering;

the issuance of our common stock and, if applicable, other securities upon conversion of our Series G preferred Stock or Series H preferred Stock and the issuance of common units and, if applicable, other securities by the operating partnership to us upon conversion of the operating partnership's outstanding Series G units of limited partnership interest or Series H units of limited partnership interest;

the issuance of common stock or options, restricted stock units or other equity awards to purchase common stock pursuant to, and the issuance of common stock upon exercise of options, restricted stock units or other equity awards issued under, any stock option, stock bonus or other stock plan or similar arrangement, and the issuance of common stock upon redemption of common units of the operating partnership; or

the issuance of common units in connection with an acquisition of real property so long as, among other things, the recipients of such common units agree in writing delivered to the representatives not to sell, offer, dispose of or otherwise transfer any shares of common stock issuable upon redemption of such common units during the Lock-up Period without the prior written consent of the representatives.

In addition, our directors and certain of our executive officers have agreed that they will not, without the prior written consent of the representatives, among other things, sell, offer, contract or grant any option to sell, pledge, transfer or otherwise dispose of any common stock or common units or securities exchangeable or exercisable for or convertible into shares of common stock or common units during the Lock-Up Period, except that the foregoing restrictions will not apply to the following:

the surrender of common units to us or the operating partnership in connection with the redemption of such common units;

transfers of shares of common stock or common units or securities exercisable or exchangeable for or convertible into shares of common stock to their respective family members or for the benefit of a charitable beneficiary or to a charitable foundation (so long as such transfers are not for value);

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pledges of shares of common stock or common units or securities exercisable or exchangeable for or convertible into shares of common stock to a lending institution as collateral or security for a bona fide loan or other extension of credit;

transfers of shares of common stock or common units or securities exercisable or exchangeable for or convertible into shares of common stock to us pursuant to our incentive stock plan in connection with the exercise of stock options or the satisfaction of withholding or other obligations upon the vesting of restricted stock grants; or

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the issuance of common stock by us upon conversion of our Series G preferred stock or Series H preferred stock; provided, however, that the shares of common stock and other securities issued upon redemption of common units pursuant to the first bullet in this paragraph shall be subject to the restrictions described in this paragraph; and provided, further, that it shall be a condition to any transfer or pledge pursuant to the second, third or fourth bullets in this paragraph that the transferee or pledgee, as the case may be, executes and delivers to the representatives a written agreement to the effect that the shares of common stock or common units or securities exercisable or exchangeable for or convertible into shares of common stock transferred or pledged pursuant the second, third or fourth bullets in this paragraph shall be subject to the restrictions described in this paragraph.

New York Stock Exchange Listing

Our common stock is listed on the NYSE under the symbol KRC.

Price Stabilization and Short Positions

In order to facilitate this offering of shares of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of our common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under their option to purchase additional shares pursuant to the underwriting agreement. The underwriters may close out a covered short sale by exercising the option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters may consider, among other things, the market price of our common stock compared to the price payable under the option to purchase additional shares. The underwriters may also sell shares in excess of the option to purchase additional shares, creating a naked short position. The underwriters must close out any naked short position by purchasing our common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after the date of pricing of this offering that could adversely affect investors who purchase in this offering.

As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of our common stock in the open market to stabilize the price of our common stock. These stabilizing transactions may occur before or after the pricing of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

The foregoing transactions, if commenced, may raise or maintain the market price of our common stock above independent market levels or prevent or retard a decline in the market price of our common stock.

The representatives of the underwriters have advised us that these transactions, if commenced, may be effected on the NYSE or otherwise. Neither we nor any of the underwriters makes any representation that the underwriters will engage in any of the transactions described above and these transactions, if commenced, may be discontinued without notice. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of the effect that the transactions described above, if commenced, may have on the market price of our common stock.

Electronic Distribution

In connection with this offering, certain of the underwriters or securities dealers may distribute this prospectus supplement and the accompanying prospectus by electronic means, such as email. Certain of the

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underwriters may facilitate internet distribution for this offering to certain of their respective internet subscription customers. In addition, certain of the underwriters may allocate shares for sale to their respective online brokerage customers. An electronic prospectus supplement and the accompanying prospectus may be made available on the website maintained by any such underwriter. Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on any such website is not part of, or incorporated by reference into, this prospectus supplement or the accompanying prospectus.

Conflicts of Interest

Affiliates of some or all of the underwriters are lenders and, in certain cases, agents under the operating partnership's revolving credit facility and term loan facilities. As described above under Use of Proceeds, net proceeds of this offering may be used to repay indebtedness, which may include borrowings under the revolving credit facility, if any, and term loan facilities. Because affiliates of some or all of the underwriters are lenders under the revolving credit facility or term loan facilities, to the extent that net proceeds from this offering are applied to repay borrowings under the revolving credit facility or the term loan facilities, such affiliates will receive proceeds of this offering through the repayment of those borrowings. Likewise, to the extent that net proceeds from this offering are applied to repay any other indebtedness of the Company, the operating partnership or any of the Company's other subsidiaries that may be held by any of the underwriters or any of their respective affiliates, such underwriters or affiliates, as the case may be, will receive proceeds of this offering through the repayment of that indebtedness. The amount received by any such underwriter and its affiliates, as applicable, from the repayment, if any, of those borrowings and/or that indebtedness may exceed 5% of the proceeds of this offering (not including underwriting discounts and commissions). Nonetheless, in accordance with Rule 5121 of FINRA, the appointment of a qualified independent underwriter is not necessary in connection with this offering because REITs are excluded from that requirement.

Other Relationships

In addition to the matters discussed above under Conflicts of Interest, some or all of the underwriters and/or their respective affiliates have engaged in, and/or may in the future engage in, investment banking, commercial banking, financial advisory and/or other