

DELIVERING the Future



2000 ANNUAL REPORT

KILROY
REALTY
CORPORATION



1231 North Miller | ORANGE COUNTY



Sorrento Mesa | SAN DIEGO



Peregrine Systems Corporate Center | DEL MAR

COMPANY Profile



Kilroy Realty Corporation is a Southern California-based real estate investment trust active in the office and industrial property markets of the western United States, primarily California. Founded in 1947 by John B. Kilroy, Sr., the company's present chairman, the company has operated as a fully integrated real estate enterprise for five decades. Today, Kilroy Realty owns and manages 12.4 million square feet of commercial space and is actively expanding its real estate portfolio with a development pipeline centered in several high-growth coastal sub-markets of Southern California. At December 31, 2000, the company owned and managed 6.6 million square feet of office space and 5.8 million square feet of industrial space.

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PERFORMANCE Measures

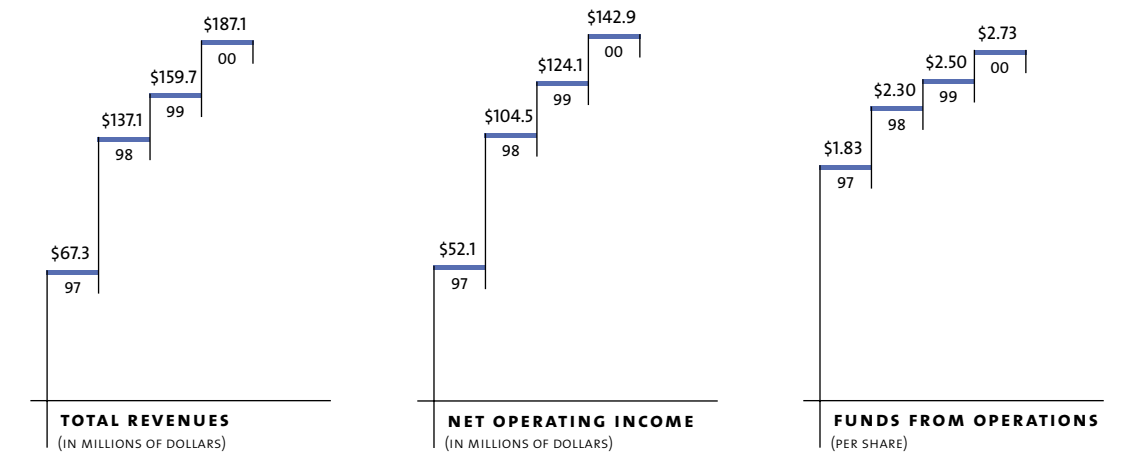
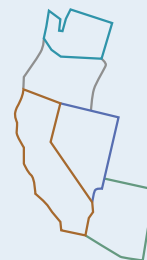
FINANCIAL HIGHLIGHTS (IN THOUSANDS EXCEPT PER SHARE DATA)	12 MONTHS ENDED		
	12.31.00	12.31.99	12.31.98
REVENUES	\$ 187,114	\$ 159,700	\$ 137,088
NET INCOME	\$ 46,847	\$ 39,895	\$ 38,822
FUNDS FROM OPERATIONS (FFO)	\$ 83,472	\$ 80,631	\$ 71,174
FFO PER SHARE	\$ 2.73	\$ 2.50	\$ 2.30
DIVIDENDS PER SHARE	\$ 1.80	\$ 1.68	\$ 1.62

RENTABLE SQUARE FOOTAGE (AT 12.31)	2000	1999	1998
	OFFICE PROPERTIES	6,624,443	6,147,985
INDUSTRIAL PROPERTIES	5,807,555	6,477,132	6,157,107
OCCUPANCY	97%	97%	96%

KRC Portfolio

AT DECEMBER 31, 2000
(IN SQUARE FEET)

ARIZONA	130,877
CALIFORNIA	11,483,548
NEVADA	284,922
WASHINGTON	532,651



To Our SHAREHOLDERS

“Umbraculi celeriter
agnascor apparatus bellis.
Quadrupei fortiter vocifi
catu Medusa. Vix adfabilis
rures adquireret zothecas,
iam quadrupei insectat
syrtes. Matrimonii conu-
bium santet saburre”



JOHN B. KILROY, JR.
President and Chief Executive Officer

California's record-setting economic performance in 2000 produced another remarkable year for commercial real estate. Up and down the state, new business formations and robust job creation accelerated already strong demand for high quality, well-located office and industrial space, while entitlement hurdles and capital market discipline restrained new supply.

Southern California fared particularly well. The five-county region stretching from San Diego to Ventura, where Kilroy Realty owns and operates the overwhelming majority of its portfolio, produced 600,000 net new jobs last year, reducing unemployment rates to 20-year lows in many submarkets.

At KRC, we took full advantage of the favorable conditions to add new, "state of the market" properties to our portfolio, while selling older, non-strategic assets into a bullish market for real estate. This process of capital redeployment enhanced the overall quality of our portfolio, while increasing its appeal for today's universe of tenants. What's more, the proceeds generated from our asset dispositions helped finance new development, allowing us to maintain a strong, statically sized balance sheet, and a healthy growth rate.

Our financial results underscore the increasing value of the KRC portfolio. Total revenues grew 17% last year to \$187 million. Funds from operations rose to \$83.5 million, or \$2.73 per share, up 9% on a per-share basis. Net income increased to \$46.8 million, or \$1.75 per share, up 22% on a per-share basis. In February 2001, our board of directors announced a 6.7% increase in KRC's annual dividend to \$1.92 per share – a clear signal of their confidence in the company's ongoing growth prospects.

New development added just over a million square feet of office space to our real estate holdings last year, at a total investment cost of \$203 million. Located in many of Southern California's fastest growing submarkets, including coastal San Diego, West Los Angeles and northwestern LA County, these nine new properties were 99% occupied at year-end. We also sold some 957,000 square feet of older, lower-value properties for total proceeds of \$114 million.



RICHARD E. MORAN, JR.
Executive Vice President and
Chief Financial Officer

Our existing portfolio also benefited from the strong market. All told, we signed new and renewing leases on nearly two million square feet of space in our stabilized portfolio at average rental rates 24% above year-earlier levels. Total revenues generated by the stabilized portfolio increased 6.6%, to \$147 million. Net operating income for these properties rose 7.1%, to \$114 million. At year-end, the portfolio's occupancy rate stood above 97%.

Looking forward, it remains to be seen how well the California economy will fare in 2001 amid a national slow-down and the increasing likelihood of higher energy prices in our state. Taking these uncertainties into account, we're approaching the new year at KRC with an extra measure of caution and vigilance.

Yet, to date, our experience in the marketplace, and especially in the coastal submarkets of Southern California where we operate, continues to signal healthy operating conditions for commercial real estate. Indeed, the usual constraints on development here, coupled with growing caution in the real estate industry, appears to be reducing office starts for 2001 below 2000 levels. Meanwhile, demand shows no evidence of letting up.

If these conditions remain intact, we're optimistic that both our markets and our company will perform well this year. And one of the key reasons for that optimism is our unwavering focus on quality. It describes our portfolio, it describes our chosen submarkets, and it certainly describes the nature of the industries that power California's economy as we enter the 21st century.

Simply put, California commands the high ground in the battle to supply and serve our increasingly information-driven global economy. The state's unmatched quality of life, its array of world-class educational institutions and its highly educated workforce all act as magnets to attract and retain high quality business enterprises. Last year, an estimated one out of # venture-capital dollars invested nationwide made its way to California.

Currently, our internal planning at KRC assumes, as do most regional economic forecasts, that growth will moderate but continue in 2001. With that backdrop, we'll continue



JEFFREY C. HAWKEN
Executive Vice President and
Chief Operating Officer

to pursue the set of growth strategies that we laid out to our investors in our IPO four years ago, and that we've consistently executed every year since.

Quality plays a key role in our strategies. We choose to focus our operations in the Southern California marketplace that has provided the backdrop for our organization's success for more than 50 years. Within this region, we concentrate our resources in the strongest coastal submarkets, the rapidly growing, largely suburban communities that have become the state's newest economic and cultural hubs. And we approach these submarkets with product designs that address the style, flexibility and tech-oriented service needs of our tenant base.

Not surprisingly, our roster of customers in these burgeoning new markets include some of the highest quality businesses in the state. Large and small, 'New Economy' and old, services- and manufacturing-oriented, our tenants represent the broad diversity of the Southern California economy itself.

This year, we expect to add several new names to the list. Our committed development for 2001 includes 11 projects with 965,000 square feet of rentable space. As with all our new development, these are top quality properties in top quality Southern California submarkets. As we went to press, they were 100% preleased or otherwise committed – evidence, once again, that quality is always in high demand, the key to long-term value in both customer relationships and real estate assets.

All in all, I'm confident that we remain on track for another solid performance at Kilroy Realty Corporation in the year ahead. Our portfolio continues to grow in value. And our organization remains as committed as ever to delivering a sound and prosperous future for the company and its shareholders. Your continued support is much appreciated.

Cordially,

John B. Kilroy Jr.
President and Chief Executive Officer



Brobeck Headquarters | ORANGE COUNTY



Caramel Valley Corporate Center | DEL MAR

Year in REVIEW

I N C R E A S E D REVENUES 17.2% TO \$187 MILLION, FUNDS FROM OPERATIONS PER SHARE 9.2% TO \$2.73 PER SHARE, AND THE ANNUALIZED DIVIDEND 6.7% TO \$1.92 PER SHARE.

E N H A N C E D THE OVERALL QUALITY OF THE COMPANY'S REAL ESTATE PORTFOLIO, INVESTING \$203 MILLION IN NEW OFFICE DEVELOPMENT LOCATED IN RAPIDLY GROWING SUBMARKETS OF COASTAL SAN DIEGO, LONG BEACH AIRPORT, EL SEGUNDO, WEST LOS ANGELES AND NORTHWESTERN LOS ANGELES COUNTY, WHILE DIVESTING \$114 MILLION IN OLDER, NON-STRATEGIC REAL ESTATE ASSETS.

C O M P L E T E D AND STABILIZED NINE NEW OFFICE PROPERTIES TOTALING 1.0 MILLION SQUARE FEET OF RENTABLE SPACE THAT WAS 99% OCCUPIED AT YEAR-END 2000.

S I G N E D NEW AND RENEWING LEASES ON 2.0 MILLION SQUARE FEET OF SPACE AT AVERAGE RENTAL RATES 24% ABOVE YEAR-EARLIER LEVELS.

I N C R E A S E D NET OPERATING INCOME FROM THE COMPANY'S EXISTING PORTFOLIO 7.1% TO \$114 MILLION WHILE BOOSTING ITS AVERAGE OCCUPANCY TO 97%.

I N I T I A T E D CONSTRUCTION OR COMMITTED TO DO SO ON 965,000 SQUARE FEET OF NEW OFFICE SPACE IN SOUTHERN CALIFORNIA, 00% OF WHICH WAS RELEASED OR COMMITTED BY THE FIRST QUARTER OF 2001.

S T R E N G T H E N E D THE COMPANY'S BALANCE SHEET AND INCREASED ITS FINANCIAL FLEXIBILITY BY EXPANDING UNSECURED CREDIT RESOURCES TO \$000 MILLION.

A C H I E V E D A TOTAL RETURN FOR KRC COMMON SHAREHOLDERS, INCLUDING BOTH DIVIDENDS AND CAPITAL APPRECIATION, OF 00%.

Sony Music Headquarters | SANTA MONICA



DELIVERING QUALITY IS FUNDAMENTAL TO OUR BUSINESS.

We manage our portfolio to build value, not size. Consciously recycling capital from older, mature assets helps to fund new development, maintain a strong balance sheet and average up the long-term earnings potential of our overall mix of properties.

We operate our properties to foster relationships that endure. We have a keen understanding of the knowledge-based industries our markets attract. New economy or old, manufacturing, research or service-based, these are fast-paced enterprises with highly educated, creative employees. They need flexible work environments, "state-of-the-market" amenities, and responsive property management.

We develop new real estate to capture opportunities difficult for competitors to replicate. We focus on the high-growth coastal submarkets of Southern California, where excess demand is commonplace, supply is limited, and barriers to entry are permanent.