KILROY REALTY CORP
Form 10-K
February 12, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _________ to _________

Commission file number 1-12675

KILROY REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**95-4598246**
(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)**

Registrant s telephone number, including area code: (310) 481-8400

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	**New York Stock Exchange**
7.80% Series E Cumulative Redeemable Preferred Stock, $.01 par value	**New York Stock Exchange**
7.50% Series F Cumulative Redeemable Preferred Stock, $.01 par value	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

x Large accelerated filer	¨ Accelerated filer	¨ Non-accelerated filer (Do not check if a smaller reporting company)	¨ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant was approximately $1,535,639,832 based on the closing price on the New York Stock Exchange for such shares on June 30, 2008.

As of February 12, 2009, 33,054,353 shares of common stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement with respect to its 2009 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant s fiscal year are incorporated by reference into Part III of this Form 10-K.

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Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our or the Company mean Kilroy Realty Corporation, including our consolidated subsidiaries.

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PART I

This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended (the 1933 Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the 1934 Act)). These statements relate to, among other things, our future results of operations, cash available for distribution, property acquisitions, level of future property dispositions, ability to timely lease or re-lease space at current or anticipated rents, ability to complete current and future development or redevelopment properties within budget and on schedule, sources of growth, planned development and expansion of owned or leased property, capital requirements, compliance with contractual obligations and federal, state and local regulations, conditions of properties, environmental findings and general business, industry and economic conditions applicable to us. These statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this annual report was filed with the Securities and Exchange Commission (the SEC).

ITEM 1. BUSINESS

The Company

We are a real estate investment trust, or REIT, which owns, operates, develops, and acquires Class A suburban office and industrial real estate in key submarkets in Southern California, which we believe have strategic advantages and strong barriers to entry.

As of December 31, 2008, our stabilized portfolio of operating properties was comprised of 92 office buildings (the Office Properties) and 42 industrial buildings (the Industrial Properties), which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2008, the Office Properties were approximately 86.2% leased to 292 tenants, and the Industrial Properties were approximately 96.3% leased to 63 tenants. All of our properties are located in Southern California.

Our stabilized portfolio excludes undeveloped land, development and redevelopment properties currently under construction, lease-up properties and one industrial property that we are in the process of re-entitling for residential use. We define lease-up properties as 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 December 31, 2008, we had one development property in the lease-up phase, which encompasses approximately 51,000 rentable square feet of new medical office space and is located in the San Diego region of Southern California.

We own our interests in all of our properties through Kilroy Realty, L.P., a Delaware limited partnership (the Operating Partnership), and Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the Finance Partnership). We conduct substantially all of our activities through the Operating Partnership in which, as of December 31, 2008, we owned an approximate 95.0% general partnership interest. The remaining 5.0% limited partnership interest in the Operating Partnership was owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors. Kilroy Realty Finance, Inc., one of our wholly-owned subsidiaries, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest of the Finance Partnership. We conduct substantially all of our development activities through Kilroy Services, LLC (KSLLC), a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to we, us, our or the Company include the Operating Partnership, the Finance Partnership, KSLLC, Kilroy Realty Finance, Inc., and all other wholly-owned subsidiaries, which include Kilroy Realty Partners L.P., Kilroy Realty TRS, Inc., Kilroy Realty Management, L.P., Kilroy RB LLC and Kilroy RB II LLC.

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The following diagram illustrates the structure of Kilroy Realty Corporation and our subsidiaries as of December 31, 2008:

Available Information; Website Disclosure; Corporate Governance Documents

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file these materials with, or furnish them to, the SEC.

The following documents relating to corporate governance are also available free of charge on our website under Investor Relations Corporate Governance and available in print to any security holder upon request:

- Corporate Governance Guidelines
- Code of Business Conduct and Ethics
- Audit Committee Charter
- Executive Compensation Committee Charter
- Nominating / Corporate Governance Committee Charter

You may also request copies of any of these documents by writing to:

Attention: Investor Relations

Kilroy Realty Corporation

12200 West Olympic Boulevard, Suite 200

Los Angeles, CA 90064

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Business and Growth Strategies

Growth Strategies. We believe that a number of factors and strategies will enable us to continue to achieve our objectives of long-term sustainable growth in Net Operating Income (defined below) and FFO (defined below) as well as maximization of long-term stockholder value. These factors and strategies include:

- the quality and location of our properties;
- our ability to efficiently manage our assets as a low cost provider of commercial real estate through our seasoned management team possessing core capabilities in all aspects of real estate ownership, including property management, leasing, marketing, financing, accounting, legal, construction management and new development;
- the development of our existing development pipeline land holdings;
- our pursuit of redevelopment opportunities in land-constrained markets; and
- our access to development and leasing opportunities as a result of our extensive experience and significant working relationships with major Southern California corporate tenants, municipalities and landowners given our over 60-year presence in the Southern California market.

Net Operating Income is defined as operating revenues (rental income, tenant reimbursements and other property income) less property and related expenses (property expenses, real estate taxes, provision for bad debts and ground leases) before depreciation. FFO is funds from operations as defined by the National Association of Real Estate Investment Trusts (NAREIT). See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Non-GAAP Supplemental Financial Measures: Funds From Operations for a reconciliation of these measures to generally accepted accounting principles (GAAP) net income available for common stockholders.

Operating Strategies. We focus on enhancing long-term growth in Net Operating Income and FFO from our properties by:

- maintaining higher than average regional occupancy rates;
- maximizing cash flow from our properties through active leasing, early renewals, and effective property management;
- structuring leases to maximize returns and internal growth;
- managing portfolio credit risk through effective underwriting, including the use of credit enhancements and interests in collateral to mitigate portfolio credit risk;
- managing operating expenses through the efficient use of internal management, leasing, marketing, financing, accounting, legal, and construction management functions;

- maintaining and developing long-term relationships with a diverse tenant base;

- managing our properties to offer the maximum degree of utility and operational efficiency to tenants;

- continuing to effectively manage capital improvements to enhance our properties competitive advantages in their respective markets and improve the efficiency of building systems; and

- attracting and retaining motivated employees by providing financial and other incentives to meet our operating and financial goals.

Development Strategies. We and our predecessors have developed office and industrial properties primarily located in Southern California since 1947. As of December 31, 2008, our development pipeline

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included 116.7 gross acres of undeveloped land, with which we believe we will have the potential to develop over two million rentable square feet of office space in the future, depending upon economic conditions. Our strategy with respect to development is to:

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

We may engage in the additional development or redevelopment of office and/or industrial properties, primarily in Southern California, when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities, and landowners in Southern California will give us further access to development opportunities. There can be no assurance, however, that we will be able to successfully develop or redevelop any of our properties or that we will have access to additional development or redevelopment opportunities.

Financing Strategies. Our financing policies and objectives are determined by our Board of Directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt-to-total market capitalization. Our funding strategies are to:

- maintain financial flexibility and the ability to access a variety of capital sources;
- maintain a staggered debt maturity schedule to limit risk exposure at any particular point in the capital and credit market cycles;
- complete financing in advance of the need for capital; and
- manage interest rate exposure.

We utilize multiple sources of capital, including borrowings under our $550 million unsecured line of credit (the Credit Facility), proceeds from the issuance of debt or equity securities and other bank and/or institutional borrowings and dispositions of non-strategic assets. There can be no assurance, however, that we will be able to obtain capital as needed on terms favorable to us or at all. See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations below.

Significant Tenants

As of December 31, 2008, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 38.7% of total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants at December 31, 2008 determined on a straight-line basis over the term of the related lease in accordance with GAAP. Of this amount, our largest tenant, Intuit Inc. (Intuit), leased an aggregate of approximately 541,600 rentable square feet of office space under three separate leases, representing 5.4% of our total annualized base rental revenues at December 31, 2008.

For further information on the composition of our tenant base, see Item 2: Properties Significant Tenants.

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Competition

We compete with several developers, owners and operators of office, industrial and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. For further discussion of the potential impact of competitive conditions on our business, see Item 1A: Risk Factors below.

Segment and Geographic Financial Information

For financial information about our two reportable segments, Office Properties and Industrial Properties, see Note 19 to our consolidated financial statements.

All of our business is conducted in Southern California. For information about our revenues and long-lived assets and other financial information, see our consolidated financial statements included in this report and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Employees

As of December 31, 2008, we employed 134 people through the Operating Partnership, KSLLC and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Government Regulations Relating to the Environment

Many laws and governmental regulations relating to the environment are applicable to our properties, and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of our properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property or as requested by a tenant. Site assessments are generally performed to American Society for Testing and Materials standards then-existing for Phase I site assessments and typically include a historical review, a public records review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented.

Historical operations at or near some of our properties, including the presence of underground storage tanks, may have caused soil or groundwater contamination. The prior owners of the affected properties conducted remediation of known contamination in the soils on our properties, and we do not believe that further clean-up of the soils is required. We are not aware of any such condition, liability or concern by any other means that would give rise to material environmental liability. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns; there may be material environmental conditions, liabilities or compliance concerns that arose at a property after the review was completed; future laws, ordinances or regulations may impose material additional environmental liability; and current environmental conditions at our properties may be affected in the future by tenants, third parties or the condition of land or operations near our properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not affect our ability to make distributions to our stockholders.

Use of hazardous materials by some of our tenants. Some of our tenants routinely handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations

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may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants, in their leases, to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2008, less than 5% of our tenants, representing less than 10% of the aggregate square footage of our properties, handled hazardous substances and/or wastes on our properties as part of their routine operations. These tenants are primarily involved in the life sciences and the light industrial and warehouse business. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

Costs related to government regulation and private litigation over environmental matters. Under applicable environmental laws and regulations, we may be liable for the costs of removal, remediation or disposal of certain hazardous or toxic substances present or released on our properties. These laws could impose liability without regard to whether we are responsible for, or even knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs, and the presence or release of hazardous substances on a property could result in governmental clean-up actions, personal injury or similar claims by private plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits. We carry what our management believes to be sufficient environmental insurance to cover any potential liability for soil and groundwater contamination and the presence of asbestos-containing materials at the affected sites identified in the environmental site assessments. The policy is subject to various terms, conditions, qualifications and limitations of coverage. Therefore, management cannot provide any assurance that our insurance coverage will be sufficient or that our liability, if any, will not have a material adverse effect on our financial condition, results of operations, cash flow, quoted trading price of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

ITEM 1A. RISK FACTORS

The following section sets forth material factors that may adversely affect our business and operations. The following factors, as well as the factors discussed in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations, and other information contained in this report, should be considered in evaluating us and our business.

Global Market and Economic Conditions. In the U.S., recent market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through the fourth quarter of 2008. For the year ended December 31, 2008, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to increased market volatility and diminished expectations for the U.S. economy. In the second half of 2008, added concerns fueled by the federal government conservatorship of the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association, the declared bankruptcy of Lehman Brothers Holdings Inc., the U.S. government financial assistance to American International Group Inc., Citibank, Bank of America and other federal government interventions in the U.S. credit markets lead to increased market uncertainty and instability in both U.S. and international capital and credit markets. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment have contributed to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability, and the ability of our tenants, to timely refinance maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations.

Our operations depend upon the Southern California economy. As of December 31, 2008, all of our properties and our future development pipeline land holdings are located in Southern California. Our business depends on our ability to generate FFO in excess of scheduled principal payments on debt, payments on the 7.450% Series A Cumulative Redeemable Preferred Units of the Operating Partnership (the Series A Preferred Units), distributions to preferred stockholders and capital expenditure requirements.

Events and conditions applicable to owners and operators of real property that are beyond our control may decrease funds available for distribution and the value of our properties. These events include:

- local oversupply or reduction in demand for office, industrial or other commercial space;
- inability to collect rent from tenants;
- vacancies or inability to rent spaces on favorable terms or at all;
- inability to finance property development and acquisitions on favorable terms or at all;
- increased operating costs, including insurance premiums, utilities, and real estate taxes;
- costs of complying with changes in governmental regulations;
- the relative liquidity of real estate investments;
- changing submarket demographics; and
- property damage resulting from seismic activity or other natural disasters.

The global economic crisis referenced above has particularly affected the economy of California, where foreclosures and unemployment rates exceed the national average. In addition, the State of California faces budgetary shortfalls which if left unaddressed will negatively impact government-provided state and local services, and also may adversely impact property owners and tenants. The geographical concentration of our properties may expose us to greater economic risks than if we owned properties in a different geographic region or in several geographic regions. Any adverse economic or real estate developments in the Southern California region could adversely impact our financial condition, results of operations and cash flow, and those of our tenants, as well as adversely affect the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to our stockholders.

We depend on significant tenants. As of December 31, 2008, our fifteen largest tenants represented approximately 38.7% of total annualized base rental revenues. Of this amount, our largest tenant, Intuit, leased an aggregate of approximately 541,600 rentable square feet of office space under three separate leases, representing 5.4% of our total annualized base rental revenues at December 31, 2008. See further discussion on the composition of our tenants by industry and our largest tenants under Item 1: Business Significant Tenants and Item 2: Properties Significant Tenants, respectively.

Although we have been able to mitigate the impact of past significant tenant defaults on our financial condition, revenues and results of operations, our financial condition, results of operations, our ability to borrow funds and cash flows would be adversely affected if any of our significant tenants fails to renew its lease(s), renews its lease(s) on terms less favorable to us or becomes bankrupt or insolvent or otherwise unable to satisfy its lease obligations.

Downturn in tenants businesses may reduce our cash flow. For the year ended December 31, 2008, we derived approximately 97.6% of our revenues from continuing operations from rental income and tenant

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reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might permit the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Therefore, our claim for unpaid rent would likely not be paid in full. Any losses resulting from the bankruptcy of any of our existing tenants could adversely impact our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

We may be unable to renew leases or re-lease available space. As of December 31, 2008, we had office and industrial space available for lease representing approximately 10.8% of the total square footage of our properties. In addition, leases representing approximately 9.2% and 16.4% of the leased rentable square footage of our properties are scheduled to expire in 2009 and 2010, respectively. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. Management believes that the average rental rates for our properties, are approximately 5% below the current average quoted market rates and average rental rates for leases scheduled to expire in 2009 and approximately 5% to 10% below the current average quoted market rates for the entire portfolio, although individual properties within any particular submarket presently may be leased at, above or below the current market rental rates within that submarket. We cannot 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 rental rates. If the average rental rates for our properties decrease or existing tenants do not renew their leases, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment and use of our properties. In addition to the governmental regulations relating to the environment described in Item 1: Business Government Regulations Relating to the Environment above, we are subject to additional governmental regulations that may have a material adverse effect on our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the ADA) under which all public accommodations must meet federal requirements related to access and use by disabled persons, and state and local laws addressing earthquake, fire and life safety requirements. Although we believe that our properties substantially comply with present requirements under applicable governmental regulations, none of our properties have been audited or investigated for compliance by any regulatory agency. If we were not in compliance with material provisions of the ADA or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to properties. Federal, state or local governments may also enact future laws and regulations that could require us to make significant modifications or renovations to our properties. If we were to incur substantial costs to comply with the ADA or any other regulations, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment and use of our properties. Restrictions on our ability to develop, redevelop or use our properties resulting from changes in the existing land use rules and regulations could have an adverse effect on our financial position,

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results of operations, cash flow, quoted trading prices of our securities, ability to satisfy our debt service obligations, and ability to pay distributions to stockholders. For example, the Airport Land Use Commission is currently evaluating updates to the existing airport compatibility plans for all public and military airports in San Diego County, which if adopted could adversely impact our business in this region.

Increasing utility costs in California may have an adverse effect on our operating results and occupancy levels. The State of California continues to address issues related to the supply of electricity, water and natural gas. In recent years, shortages of electricity have resulted in increased costs for consumers and certain interruptions in service. Increased consumer costs and consumer perception that the State is not able to effectively manage its utility needs may reduce demand for leased space in California office and industrial properties. A significant reduction in demand for office and industrial space could adversely affect our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

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

- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- cash flow may be insufficient to meet required principal and interest payments;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure the loans and receive an assignment of rents and leases; and
- our default under one mortgage loan could result in a default on other indebtedness with cross default provisions.

If one or more of these events were to occur, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could require us to pay income or excise tax notwithstanding our tax status as a REIT under the Code of 1986, as amended (the Code). As of December 31, 2008, we had approximately $1.2 billion aggregate principal amount of indebtedness, $81.6 million of which is contractually due prior to December 31, 2009. Our total debt and preferred equity represented 54.1% of our total market capitalization at December 31, 2008. See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a presentation of our market capitalization.

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners and operators of office, industrial and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located but which have lower occupancy rates than our properties. For instance, the occupancy rate for our Long Beach stabilized office property portfolio in Los Angeles County at December 31, 2008 was 94.4% in comparison to 87.8% for the Long Beach submarket in total. We believe that our higher occupancy rates mean that, on average, our competitors have more space currently available for lease than we do. As a result, our competitors have an incentive to decrease rental rates until their available space is leased. If our competitors offer space at rental rates below the rates currently charged by us for comparable space, we may be pressured to reduce our rental rates below those currently charged in order to retain tenants when our tenant leases expire. Leases representing approximately 108,400 rentable square feet, or 11.4% of our Long Beach stabilized office property portfolio, are scheduled to expire in 2009. As a result, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders may be adversely affected.

Potential losses may not be covered by insurance. We carry comprehensive liability, fire, extended coverage, rental loss and terrorism insurance covering all of our properties. Management believes the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage and industry practice. We do not carry insurance for generally uninsurable losses such as loss from riots or acts of God. Some of our policies, like those covering losses due to floods, are subject to limitations involving large deductibles or co-payments.

Earthquake damage to our properties could have an adverse effect on our financial condition and operating results. As of December 31, 2008, all of our properties are located in Southern California. We carry earthquake insurance on our properties in an amount and with deductibles that management believes are commercially reasonable. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, our earthquake insurance policies include substantial self-insurance portions and we may discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for earthquake insurance exceeds the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flow from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable.

We may be unable to complete acquisitions and successfully operate acquired properties. We continually evaluate the market of available properties and may acquire office and industrial properties and undeveloped land when strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them is subject to the following risks:

- the potential inability to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;
- the possibility that, even if we enter into agreements for the acquisition of office and industrial properties, such acquisitions may never close since they remain subject to customary conditions to closing including the completion of due diligence investigations to management s satisfaction;
- we may be unable to finance acquisitions on favorable terms;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; and
- we may lease acquired properties at below expected rental rates.

If we cannot finance property acquisitions on favorable terms or operate acquired properties to meet financial expectations, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

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

- we may be unable to lease acquired, developed or redeveloped properties at expected rental rates or within projected timeframes;

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- we may not complete development or redevelopment properties on schedule or within budgeted amounts;
- we may expend funds on and devote management s time to acquisition, development or redevelopment properties that we may not complete;
- we may encounter delays or refusals in obtaining all necessary zoning, land use, other required entitlements, building, occupancy, and other required governmental permits and authorizations; and
- we may encounter delays, refusals, unforeseen cost increases and other impairments due to third-party litigation.

If one or more of these events were to occur in connection with our acquired properties or our development or redevelopment properties currently under construction or planned for development, our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

While we primarily acquire, develop and redevelop office properties in Southern California markets, we may in the future acquire, develop or redevelop properties for retail or other use and expand our business to other geographic regions where we expect the development or acquisition of property to result in favorable risk-adjusted returns on our investment. Presently, we do not possess the same level of familiarity with development of property types other than office and industrial, or with outside markets, which could adversely affect our ability to acquire or develop properties or to achieve expected performance.

We could default on leases for land on which some of our properties are located. As of December 31, 2008, we owned one office complex, located on various land parcels, which we lease individually on a long-term basis. As of December 31, 2008, we had approximately 949,000 aggregate rentable square feet, or 7.7% of our total stabilized portfolio, of rental space located on these leased parcels. The leases for the land under the one office complex at the Kilroy Airport Center in Long Beach, California expire in 2084. If we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease and all of its options, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

Real estate assets are illiquid, and we may not be able to sell our properties when we desire. Our investments in our properties are relatively illiquid, limiting our ability to sell our properties quickly in response to changes in economic or other conditions. In addition, the Code generally imposes a 100% prohibited transaction tax on profits we derive from sales of properties held primarily for sale to customers in the ordinary course of business, which effectively limits our ability to sell properties other than on a selected basis. These restrictions on our ability to sell our properties could have an adverse effect on our financial position, results of operations, cash flow, quoted trading prices of our securities, ability to satisfy our debt service obligations and repay indebtedness and ability to pay distributions to stockholders.

Common limited partners of the Operating Partnership have limited approval rights, which may prevent us from completing a change of control transaction that may be in the best interests of stockholders. We may not withdraw from the Operating Partnership or transfer our general partnership interest or admit another general partner without the approval of the holders of a majority of the units representing common limited partnership interests in the Operating Partnership (the Common Units), except in the case of a termination transaction that requires the approval of the holders of 60% of the common units, including the common units held by us in our capacity as general partner. The right of common limited partners to vote on these transactions could limit our ability to complete a change of control transaction that might otherwise be in the best interest of our stockholders.

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The Chairman of our Board of Directors and our President and Chief Executive Officer each have substantial influence over our affairs. John B. Kilroy, Sr. is the Chairman of the Board of Directors and the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Each is a member of our Board of Directors, and together, as of December 31, 2008, they beneficially owned 306,808 shares of common stock and an aggregate of 1,430,970 Common Units, which are redeemable in exchange for, at our option, an equal number of shares of our common stock, representing a total beneficial ownership of approximately 5.0% of the total outstanding shares of common stock as of December 31, 2008, assuming the exchange, at our option, of the Common Units held by Messrs. Kilroy into shares of our common stock.

Pursuant to our charter, no stockholder may own, actually or constructively, more than 7.0% of our common stock without obtaining a waiver from the Board of Directors. The Board of Directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock. Consequently, Messrs. Kilroy have substantial influence on us and could exercise their influence in a manner that is not in the best interest of our stockholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to our stockholders for approval.

Limited partners of the Operating Partnership must approve the dissolution of the Operating Partnership and the disposition of properties they contributed. For as long as limited partners own at least 5% of all of the Common Units, we must obtain the approval of limited partners holding a majority of the common units before we may dissolve the partnership. As of December 31, 2008, limited partners owned approximately 5.0% of the outstanding interests in the Operating Partnership, of which 4.1% was owned by John B. Kilroy, Sr. and John B. Kilroy, Jr. In addition, the Operating Partnership has agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement or restructuring of debt, or any sale, exchange or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of our stockholders.

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

The Code contains stringent ownership limits on us as a result of our decision to be taxed as a REIT, including:

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

Our charter also establishes clear ownership limits to protect our REIT status. No single stockholder may own, either actually or constructively, absent a waiver from the Board of Directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our common stock outstanding. Similarly, absent a waiver from the Board of Directors, no single holder of our 7.45% Series A Cumulative Redeemable Preferred stock (the Series A Preferred Stock), if issued, may actually or constructively own any class or series of our preferred stock, so that their total capital stock ownership would exceed 7.0% by value of our total outstanding shares of capital stock; no single holder of our 7.8% Series E Cumulative Redeemable Preferred stock (the Series E Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series E Preferred Stock; and no single holder of our 7.5% Series F Cumulative Redeemable Preferred stock (the Series F Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series F Preferred Stock.

The Board of Directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize our REIT status and if it believes that the waiver would be in our best interests. The Board of Directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock.

If anyone acquires shares in excess of any ownership limits, the transfer to the transferee will be void with respect to these excess shares, the excess shares will be automatically transferred from the transferee or owner to a trust for the benefit of a qualified charitable organization, the purported transferee or owner will have no right to vote those excess shares, and the purported transferee or owner will have no right to receive dividends or other distributions from these excess shares.

Our charter contains provisions that may delay, deter, or prevent a change of control transaction. The following provisions of our charter may delay or prevent a change of control over the Company, even if a change of control might be beneficial to our stockholders, deter tender offers that may be beneficial to our stockholders, or limit stockholders opportunity to receive a potential premium for their shares if an investor attempted to gain shares beyond our ownership limits or otherwise to effect a change of control:

- Our Board of Directors is divided into three classes with staggered terms. The staggered terms for directors may reduce the possibility of a tender offer or an attempt to complete a change of control transaction even if a tender offer or a change of control is in our stockholders interest. The Board of Directors adopted a resolution at its meeting on October 2, 2008 to submit and recommend for approval to stockholders at the 2009 annual meeting an amendment to our charter to de-stagger the Board of Directors;

- Our charter authorizes our Board of Directors to issue up to 30,000,000 shares of preferred stock, including convertible preferred stock, without stockholder approval. The Board of Directors may establish the preferences, rights and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our stockholders interest. As of December 31, 2008, 5,060,000 shares of our preferred stock were issued and outstanding, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our Series F Preferred Stock and an additional 1,500,000 shares of preferred stock were designated as 7.45% Series A Preferred Stock, which was reserved for possible issuance in exchange for outstanding Series A Preferred Units; and

- Our charter states that any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of the holders of at least two thirds of the votes entitled to be cast in the election of directors.

Loss of our REIT status would have significant adverse consequences to us and the value of our stock. We currently operate in a manner that is intended to allow us to qualify as a REIT for federal income tax purposes under the Code. If we were to lose our REIT status, we would face serious tax consequences that would substantially reduce the funds available for distribution to stockholders for each of the years involved due to the following:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

- unless entitled to relief under statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable treasury regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. For distributions with respect to taxable years ending on or before December 31, 2009, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors or our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to qualify as a REIT, we cannot be certain that we have been or will continue to be organized or be able to operate in a manner to qualify or remain qualified as a REIT for federal income tax purposes.

To maintain our REIT status we may be forced to borrow funds on a short-term basis during unfavorable market conditions. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% non-deductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. For distributions with respect to taxable years ending on or before December 31, 2009, recent IRS guidance allows us to satisfy up to 90% of these requirements through the distribution of shares of our common stock, if certain conditions are met. To maintain our REIT status and avoid the payment of federal income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

Our growth depends on external sources of capital that are outside of our control. We are required under the Code to distribute at least 90% of our taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain. For distributions with respect to taxable years ending on or before December 31, 2009, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Access to third-party sources of capital depends, in part, on general market conditions and

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the availability of credit, the market s perception of our growth potential, our current and expected future earnings, our cash flow and cash distributions, and the quoted market prices of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flow, quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to our stockholders may be adversely impacted.

Our Board of Directors may change investment and financing policies without stockholder approval causing us to become more highly leveraged, which may increase our risk of default under our debt obligations.

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by our Board of Directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. At December 31, 2008, we had approximately $1.2 billion aggregate principal amount of indebtedness outstanding, which represented 46.1% of our total market capitalization. Our total debt and the liquidation value of our preferred equity as a percentage of total market capitalization was approximately 54.1% at December 31, 2008. See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a presentation of our market capitalization. This ratio may be increased or decreased without the consent of our stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to make distributions to stockholders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional shares of capital stock without stockholder approval, which may dilute stockholder investment. We may issue shares of our common stock, preferred stock or other equity or debt securities without stockholder approval. Similarly, we may cause the Operating Partnership to offer its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or our stockholders. Further, under certain circumstances, we may issue shares of our common stock in exchange for the 3.250% Exchangeable Senior Notes Due 2012 issued by the Operating Partnership (the Notes). Existing stockholders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a stockholder s investment.

We may invest in securities related to real estate which could adversely affect our ability to make distributions to stockholders. We may purchase securities issued by entities which own real estate and may, in the future, also invest in mortgages. In general, investments in mortgages are subject to several risks, including:

- borrowers may fail to make debt service payments or pay the principal when due;
- the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property; and
- interest rates payable on the mortgages may be lower than our cost for the funds used to acquire these mortgages.

Owning these securities may not entitle us to control the ownership, operation and management of the underlying real estate. In addition, we may have no control over the distributions with respect to these securities, which could adversely affect our ability to make distributions to stockholders.

Sales of a substantial number of shares of our securities, or the perception that this could occur, could result in decreasing the quoted market price per share for our securities. Management cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of our common stock.

As of December 31, 2008, 33,086,148 shares of our common stock and 5,060,000 shares of our preferred stock, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our Series F

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Preferred Stock, were issued and outstanding, and an additional 1,500,000 shares of preferred stock were designated as 7.45% Series A Preferred Stock, which was reserved for possible issuance in exchange for outstanding Series A Preferred Units. As of December 31, 2008, we had reserved for future issuance the following shares of common stock: 1,753,729 shares issuable upon the exchange, at our option, of Common Units; 1,120,973 shares issuable under the Company s 2006 Incentive Award Plan; and 978,390 shares issuable under the Company s Dividend Reinvestment and Direct Stock Purchase Plan. During the year ended December 31, 2008, we filed a registration statement that was automatically effective and registered 2,188,340 shares of our common stock for possible issuance to the holders of Common Units. This registration statement also registered 306,808 shares of our common stock currently held by certain of the selling stockholders for possible resale. In addition, we have a currently-effective registration statement registering 6,269,570 shares of our common stock that may be issued in exchange for the Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

Future terrorist activity or engagement in war by the U.S. may have an adverse affect on our financial condition and operating results. Future terrorist attacks in the U.S., such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001 and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties. In addition, the public perception that certain locations are at greater risk for attack, such as major airports, ports and rail facilities, may decrease the demand for and the value of our properties near these sites. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction or loss, and the availability of insurance for these acts may be less, and cost more, which could adversely affect our financial condition. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

Terrorist acts and engagement in war by the U.S. also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for our office and industrial leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

General

As of December 31, 2008, our stabilized portfolio of operating properties was comprised of 92 Office Properties and 42 Industrial Properties, which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2008, the Office Properties were approximately 86.2% leased to 292 tenants, and the Industrial Properties were approximately 96.3% leased to 63 tenants.

Our stabilized portfolio excludes undeveloped land, development and redevelopment properties currently under construction, lease-up properties and one industrial property that the Company is in the process of re-entitling for residential use. As of December 31, 2008, we had one development property in the lease-up phase, which encompasses approximately 51,000 rentable square feet of new medical office space.

All of our properties are located in Southern California. We own all of our properties through the Operating Partnership and the Finance Partnership. The seven office buildings located at Kilroy Airport Center in Long Beach, California all are held subject to leases for the land that expire in 2084.

In general, the Office Properties are leased to tenants on a full service gross or modified gross basis, and the Industrial Properties are leased to tenants on a triple net basis. Under a full service lease, the landlord is obligated to pay the tenant s proportionate share of real estate taxes, insurance and operating expenses up to the amount incurred during the tenant s first year of occupancy (Base Year) or a negotiated amount approximating the tenant s pro rata share of real estate taxes, insurance and operating expenses (Expense Stop). The tenant pays its pro rata share of increases in expenses above the Base Year or Expense Stop. A modified gross lease is similar to a full service gross lease, except tenants are obligated to pay their proportionate share of certain operating expenses, usually electricity, directly to the service provider. Under a triple net lease and a modified net lease, tenants pay their proportionate share of real estate taxes, operating costs and utility costs.

We believe that all of our properties are well-maintained and do not require significant capital improvements. As of December 31, 2008, we managed all of our properties through internal property managers.

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Office and Industrial Properties

The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2008.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/08(1)	Annualized Base Rental Revenue ($000 s)(2)	Average Base Rental Revenue Per Sq. Ft. ($)(3)
Office Properties:						
Los Angeles County						
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0%	$ 421	$ 35.71
23975 Park Sorrento, Calabasas, California	1	2001	100,592	63.0%	2,329	38.08
24025 Park Sorrento, Calabasas, California	1	2000	102,264	100.0%	3,941	38.54
26541 Agoura Road Calabasas, California	1	1988	91,327	5.0%	16	3.49
2240 E. Imperial Highway, El Segundo, California	1	1983/2007	122,870	100.0%	2,699	21.97
2250 E. Imperial Highway, El Segundo, California	1	1983	293,261	96.5%	8,478	30.19
2260 E. Imperial Highway, El Segundo, California	1	1983	286,151	100.0%	5,409	18.90
909 N. Sepulveda Blvd., El Segundo, California	1	1972/2004	241,607	93.3%	5,373	23.83
999 N. Sepulveda Blvd., El Segundo, California	1	1962/2003	127,901	98.6%	2,558	22.38
3750 Kilroy Airport Way, Long Beach, California(5)	1	1989	10,457	100.0%	137	19.85
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	96.1%	4,337	27.29
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	86.6%	5,082	27.29
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	94.3%	5,268	29.02
3840 Kilroy Airport Way, Long Beach, California	1	1999	136,026	100.0%	4,915	36.13
3880 Kilroy Airport Way, Long Beach, California	1	1987	98,243	100.0%	1,328	13.52
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	94.9%	2,833	23.93
12100 W. Olympic Blvd., Los Angeles, California	1	2002	150,167	100.0%	5,125	34.13
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	94.7%	4,169	37.93
12312 W. Olympic Blvd, Los Angeles, California(4)	1	1950/1998	78,000	100.0%	1,782	22.85
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue, Santa Monica, California(4)	3	1992	94,844	100.0%	3,425	36.11
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	89,017	81.2%	2,126	29.41
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	90.8%	2,340	36.74
Subtotal/Weighted Average Los Angeles County	25		3,007,187	92.1%	75,243	27.77
San Diego County						
12225 El Camino Real, Del Mar, California	1	1998	60,840	0.0%		
12235 El Camino Real, Del Mar, California(6)	1	1998	54,673	100.0%	2,042	37.35
12340 El Camino Real, Del Mar, California(6)	1	2002	87,405	100.0%	3,884	44.44
12390 El Camino Real, Del Mar, California(6)	1	2000	72,332	100.0%	3,069	42.43
3579 Valley Centre Drive, Del Mar, California	1	1999	52,375	0.0%		
3611 Valley Centre Drive, Del Mar, California(6)	1	2000	130,178	95.6%	4,349	36.87
3661 Valley Centre Drive, Del Mar, California(6)	1	2001	129,752	100.0%	4,006	30.87
3721 Valley Centre Drive, Del Mar, California(6)	1	2002	114,780	100.0%	3,767	32.82
3811 Valley Centre Drive, Del Mar, California(7)	1	2000	112,067	100.0%	5,199	46.39
12348 High Bluff Drive, Del Mar, California(6)	1	1999	38,710	93.5%	1,211	33.44
12400 High Bluff Drive, Del Mar, California(6)	1	2003	208,464	100.0%	9,897	47.48
6200 Greenwich Drive, Governor Park, California(7)	1	1996	71,000	100.0%	1,516	21.35
6220 Greenwich Drive, Governor Park , California	1	1996	141,214	0.0%		
15051 Avenue of Science, I-15 Corridor, California(7)	1	2001	70,617	100.0%	2,035	28.82
15073 Avenue of Science, I-15 Corridor, California(7)	1	2001	46,759	100.0%	1,233	26.37
15231 Avenue of Science, I-15 Corridor, California(7)	1	2005	65,638	100.0%	1,875	28.57
15253 Avenue of Science, I-15 Corridor, California(7)	1	2005	37,437	100.0%	1,070	28.58
15333 Avenue of Science, I-15 Corridor, California(7)	1	2006	78,880	100.0%	2,219	28.13
15378 Avenue of Science, I-15 Corridor, California(7)	1	1984	68,910	100.0%	978	14.19
15004 Innovation Drive, I-15 Corridor, California(7)	1	2008	146,156	100.0%	7,137	48.83
15435 Innovation Drive, I-15 Corridor, California	1	2000	51,500	0%		

15445 Innovation Drive, I-15 Corridor, California	1	2000	51,500	0%		
13280 Evening Creek Drive South, I-15 Corridor, California(8)	1	2007	42,971	46.5%	520	26.03
13290 Evening Creek Drive South, I-15 Corridor, California	1	2007	61,176	0.0%		
13480 Evening Creek Drive North, I-15 Corridor, California(6)	1	2008	147,533	100.0%	7,775	52.70
13500 Evening Creek Drive North, I-15 Corridor, California(6)	1	2004	140,915	98.0%	4,900	35.50
13520 Evening Creek Drive North, I-15 Corridor, California(6)	1	2004	140,915	53.0%	2,658	36.57

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/08[1]	Annualized Base Rental Revenue ($000 s)[3]	Average Base Rental Revenue Per Sq. Ft. ($)[3]
7525 Torrey Santa Fe, 56 Corridor, California[7]	1	2007	103,979	100.0%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California[7]	1	2007	130,243	100.0%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California[7]	1	2007	130,354	100.0%	3,609	27.69
7555 Torrey Santa Fe, 56 Corridor, California[7]	1	2007	101,236	100.0%	3,175	31.36
10020 Pacific Mesa Blvd, Sorrento Mesa, California[4]	1	2007	318,000	100.0%	7,683	24.16
4921 Directors Place, Sorrento Mesa, California	1	2007	55,500	0.0%		
4939 Directors Place, Sorrento Mesa, California[7]	1	2002	60,662	100.0%	2,881	47.49
4955 Directors Place, Sorrento Mesa, California[7]	1	2002	76,246	100.0%	2,276	29.85
5005 Wateridge Vista Drive, Sorrento Mesa, California[4]	1	1999	61,460	100.0%	1,248	20.31
5010 Wateridge Vista Drive, Sorrento Mesa, California[4]	1	1999	111,318	100.0%	2,261	20.31
10243 Genetic Center Drive, Sorrento Mesa, California	1	2001	102,875	0.0%		
10390 Pacific Center Court, Sorrento Mesa, California[7]	1	2002	68,400	100.0%	2,771	40.51
6055 Lusk Avenue, Sorrento Mesa, California[4]	1	1997	93,000	100.0%	1,554	16.71
6260 Sequence Drive, Sorrento Mesa, California[7]	1	1997	130,536	100.0%	1,717	13.15
6290 Sequence Drive, Sorrento Mesa, California[7]	1	1997	90,000	100.0%	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California[4]	1	1997	62,415	100.0%	1,200	19.23
6340 Sequence Drive, Sorrento Mesa, California[7]	1	1998	66,400	100.0%	1,246	18.77
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0%	2,507	18.91
10394 Pacific Center Court, Sorrento Mesa, California[7]	1	1995	59,630	100.0%	1,096	18.38
10398 Pacific Center Court, Sorrento Mesa, California[7]	1	1995	43,645	100.0%	943	21.61
10421 Pacific Center Court, Sorrento Mesa, California	1	1995/2002	79,871	0.0%		
10445 Pacific Center Court, Sorrento Mesa, California[16]	1	1995	48,709	0.0%		
10455 Pacific Center Court, Sorrento Mesa, California	1	1995	90,000	100.0%	1,112	12.36
10350 Barnes Canyon, Sorrento Mesa, California[6]	1	1998	38,018	100.0%	915	24.07
10120 Pacific Heights, Sorrento Mesa, California[7]	1	1995	52,540	100.0%	977	18.60
5717 Pacific Center Blvd, Sorrento Mesa, California[4]	1	2001/2005	67,995	100.0%	1,503	22.10
4690 Executive Drive, UTC, California[9]	1	1999	47,636	100.0%	1,064	22.34
9455 Towne Center Drive, UTC, California	1	1998	45,195	0.0%		
9785 Towne Center Drive, UTC, California[4]	1	1999	75,534	100.0%	1,374	18.19
9791 Towne Center Drive, UTC, California[4]	1	1999	50,466	100.0%	916	18.15
Subtotal/Weighted Average San Diego County	57		5,019,160	83.1%	124,171	29.83
Orange County						
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	95.1%	841	20.44
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	94.5%	1,473	26.06
601 Valencia Avenue, Brea, California	1	1982	60,891	0.0%		
603 Valencia Avenue, Brea, California	1	2005	45,900	100.0%	993	21.63
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	66.4%	1,232	30.39
Subtotal/Weighted Average Orange County	5		277,340	67.9%	4,539	24.65
Other						
5151 Camino Ruiz, Camarillo, California[17]	2	1982	187,861	89.4%	1,879	11.19
5153 Camino Ruiz, Camarillo, California[10]	1	1982	38,655	100.0%	618	15.99
5155 Camino Ruiz, Camarillo, California[10]	1	1982	38,856	100.0%	625	16.09
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	100.0%	2,438	30.07
Subtotal/Weighted Average Other	5		346,439	94.2%	5,560	17.03
TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES	92		8,650,126	86.2%	209,513	28.38
Industrial Properties:						
Los Angeles County						
2031 E. Mariposa Avenue, El Segundo, California	1	1954	192,053	100.0%	2,960	15.41

Subtotal/Weighted Average Los Angeles County	1		192,053	100.0%	2,960	15.41
Orange County						
1000 E. Ball Road, Anaheim, California	1	1956	100,000	100.0%	757	7.57
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0%	388	6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0%	753	8.94
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	100.0%	1,087	7.55
3130/3150 Miraloma, Anaheim, California(11)	1	1970	144,000	100.0%	838	5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0%	314	7.62
3340 E. La Palma Avenue, Anaheim, California(18)	1	1966	153,320	40.8%		
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0%	923	9.40
4123 E. La Palma Avenue, Anaheim, California(13)	1	1985	70,863	100.0%	711	10.03

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/08[(1)]	Annualized Base Rental Revenue ($000 s)[(2)]	Average Base Rental Revenue Per Sq. Ft. ($)[(3)]
4155 E. La Palma Avenue, Anaheim, California[(12)]	1	1985	74,618	88.8%	761	11.48
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0%	2,078	7.26
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0%	564	5.10
1145 N. Ocean Boulevard, Anaheim, California	1	1999	65,447	100.0%	495	7.56
1201 N. Miller Street, Anaheim, California	1	1999	119,612	100.0%	881	7.37
1211 N. Miller Street, Anaheim, California	1	1999	200,646	100.0%	1,053	5.25
1231 N. Miller Street, Anaheim, California	1	1999	113,242	100.0%	689	6.08
660 N. Puente Street, Brea, California	1	1981	51,567	100.0%	402	7.80
950 W. Central Avenue, Brea, California	1	1983	24,000	100.0%	252	10.50
1050 W. Central Avenue, Brea, California[(7)]	1	1984	30,000	100.0%	314	10.47
1150 W. Central Avenue, Brea, California	1	1984	30,000	100.0%	330	11.00
895 Beacon Street, Brea, California	1	1987	54,795	100.0%	400	7.30
955 Beacon Street, Brea, California	1	1987	37,916	100.0%	219	5.78
1125 Beacon Street, Brea, California	1	1988	49,178	100.0%	420	8.54
925 Lambert Road, Brea, California[(14)]	1	1999	80,000	100.0%	573	7.16
1075 Lambert Road, Brea, California[(14)]	1	1999	98,811	100.0%	767	7.76
1675 MacArthur Blvd, Costa Mesa, California	1	1986	50,842	100.0%	625	12.29
25902 Towne Center Drive, Foothill Ranch, California	1	1998	309,685	100.0%	2,459	7.94
12681/12691 Pala Drive, Garden Grove, California[(7)]	1	1970	84,700	55.1%	383	8.21
7421 Orangewood Avenue, Garden Grove, California[(7)]	1	1981	82,602	100.0%	643	7.78
7091 Belgrave Avenue, Garden Grove, California	1	1971	70,000	100.0%	377	5.39
12271 Industry Street, Garden Grove, California[(6)]	1	1972	20,000	100.0%	184	9.20
12311 Industry Street, Garden Grove, California[(6)]	1	1972	25,000	100.0%	227	9.08
12400 Industry Street, Garden Grove, California[(15)]	1	1972	64,200	100.0%		
7261 Lampson Avenue, Garden Grove, California	1	1974	47,092	100.0%	330	7.01
12472 Edison Way, Garden Grove, California	1	1984	55,576	100.0%	416	7.49
12442 Knott Avenue, Garden Grove, California	1	1985	58,303	100.0%	546	9.36
2055 S.E. Main Street, Irvine, California[(4)]	1	1973	47,583	100.0%	541	11.37
1951 E. Carnegie Avenue, Santa Ana, California	1	1981	100,000	100.0%	1,013	10.13
2525 Pullman Street, Santa Ana, California	1	2002	103,380	100.0%	684	6.62
14831 Franklin Avenue, Tustin, California	1	1978	36,256	100.0%	279	7.70
2911 Dow Avenue, Tustin, California	1	1998	51,410	100.0%	393	7.64
Subtotal/Weighted Average Orange County	41		3,526,610	96.1%	25,069	7.68
TOTAL/WEIGHTED AVERAGE INDUSTRIAL PROPERTIES	42		3,718,663	96.3%	28,029	8.11
TOTAL/WEIGHTED AVERAGE ALL PROPERTIES	134		12,368,789	89.2%	$ 237,542	$ 21.92

(1) Based on all leases at the respective properties in effect at December 31, 2008. Includes month-to-month leases at December 31, 2008.

(2) Calculated as contractual base rental revenues as of December 31, 2008, determined in accordance with GAAP, annualized to reflect a twelve-month period. Annualized base rental revenues excludes the amortization of deferred revenue recorded for tenant-funded tenant improvements. Excludes month-to-month leases and vacant space at December 31, 2008.

(3) Calculated as annualized base rent divided by net rentable square feet leased at December 31, 2008. Excludes month-to-month leases and vacant space at December 31, 2008.

(4) For this property, the lease is written on a triple net basis.

(5) For this property, leases of approximately 4,000 rentable square feet are written on a modified gross basis, and leases of approximately 6,000 rentable square feet are written on a full service gross basis.

(6) For this property, the leases are written on a modified gross basis.

(7) For this property, the lease is written on a modified net basis.

(8) For this property, a lease of approximately 20,000 rentable square feet is written on a modified net basis. The remaining 23,000 rentable square feet is currently being marketed for lease.

(9) For this property, leases of approximately 36,000 rentable square feet are written on a modified net basis, and leases of approximately 11,000 rentable square feet are written on a modified gross basis.

(10) For this property, leases of approximately 20,000 rentable square feet are written on a full service gross basis and leases of approximately 19,000 rentable square feet are written on a triple net basis.

(11) For this property, a lease of approximately 144,000 rentable square feet is written on a modified net basis.

(12) For this property, leases of approximately 47,000 rentable square feet are written on a full service gross basis, and leases of approximately 19,000 rentable square feet are written on a triple net basis.

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(13) For this property, a lease of approximately 15,000 rentable square feet is written on a modified gross basis, and a lease of approximately 56,000 rentable square feet is written on a triple net basis.

(14) For these properties, leases of approximately 142,000 rentable square feet are written on a modified net basis, and a lease of approximately 37,000 rentable square feet is written on a modified gross basis.

(15) For this property, 64,200 rentable square feet were occupied at December 31, 2008 on a month-to-month basis.

(16) For this property, a lease was executed with Cardinal Health, Inc. during the fourth quarter of 2008. Cardinal Health, Inc. is expected to take occupancy during the first quarter of 2009. See additional information regarding Cardinal Health, Inc. in Item 2: Properties Significant Tenants.

(17) For this property, leases of approximately 168,000 rentable square feet are written on a triple net basis and the remaining 20,000 rentable square feet are vacant.

(18) For this property, approximately 62,500 rentable square feet were occupied at December 31, 2008 on a month-to-month basis.

Re-entitlement Property

At December 31, 2008 we were in the process of re-entitling the following property for residential use:

Property Location	No. of Buildings	Year Acquired	Net Rentable Square Feet	Percentage Occupied at 12/31/08
17150 Von Karman Irvine, California	1	1997	157,458	0%

Lease-up Development Office Property

The following office property, which is located in San Diego County, will be added to the stabilized office portfolio at the earlier of the property reaching 95% occupancy or one year following cessation of major construction activities. Construction was completed on this property during the fourth quarter of 2008.

Property Name / Submarket	No. of Buildings	Year Built	Net Rentable Square Feet	Percentage Occupied at 12/31/08
Sorrento Gateway-Lot 1 Sorrento Mesa	1	2008	50,925	0%

Future Development Pipeline

The following table sets forth certain information relating to our undeveloped land located in San Diego, California as of December 31, 2008.

Project	Submarket	Gross Site Acreage	Total Cost Basis As of 12/31/2008 (in millions)

Carlsbad Oaks Lots 4, 5, 7 & 8	Carlsbad	32.0	$	18.1
Pacific Corporate Center Lot 8	Sorrento Mesa	5.0		11.3
Rancho Bernardo Corporate Center	I-15 Corridor	21.0		27.2
San Diego Corporate Center	Del Mar	23.0		94.8
Santa Fe Summit Phase II and III	56 Corridor	21.8		69.1
Sorrento Gateway Lot 2	Sorrento Mesa	6.3		11.1
Sorrento Gateway Lot 7	Sorrento Mesa	7.6		10.0
Total		116.7	$	241.6

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Significant Tenants

The following table sets forth information about our fifteen largest tenants as of December 31, 2008, based upon annualized rental revenues at December 31, 2008.

Tenant Name	Property Segment	Annualized Base Rental Revenues(1) (in thousands)	Percentage of Total Annualized Base Rental Revenues(1)	Initial Lease Date(2)	Lease Expiration Date
Intuit, Inc.	Office	$ 15,021	5.4%	November 1997	Various(3)
Scripps Health	Office	12,336	4.4	July 2004	Various(4)
Bridgepoint Education, Inc.(5)	Office	9,746	3.5	April 2007	September 2018
Cardinal Health, Inc.(6)	Office	9,256	3.3	July 2007	August 2017
DIRECTV, Inc.	Office	8,530	3.1	November 1996	July 2014
AMN Healthcare, Inc.	Office	8,341	3.0	July 2003	July 2018
The Boeing Company	Office/Industrial	6,593	2.4	August 1984	Various(7)
Fish & Richardson P.C.	Office	6,071	2.2	October 2003	October 2018
Epson America, Inc.	Office	5,538	2.0	October 1999	October 2019
Accredited Home Lenders, Inc.	Office	5,164	1.9	December 2005	May 2016
Verenium Corporation	Office	5,158	1.8	November 2000	Various(8)
Hewlett-Packard Company	Office	4,348	1.6	October 1999	April 2012
Fair, Isaac and Company, Incorporated	Office	4,006	1.4	August 2003	July 2010
Avnet, Inc.	Office	3,768	1.4	March 2003	February 2013
Epicor Software Corporation	Office	3,509	1.3	September 1999	August 2009
Total		$ 107,385	38.7%		

(1) Based upon annualized contractual base rental revenue, which is calculated on a straight-line basis in accordance with GAAP, for leases for which rental revenue is being recognized by us as of December 31, 2008.

(2) Represents the date of the first relationship between the tenant and us or our predecessor.

(3) The Intuit leases, which contribute $16,000, $1.5 million and $13.5 million of annualized base rental revenues, expired in January 2009 and will expire in August 2010 and August 2017, respectively.

(4) The Scripps Health leases, which contribute $5.2 million and $7.1 million of annualized base rental revenues, expire in June 2021 and February 2027, respectively.

(5) Bridgepoint Education, Inc. is presently expected to increase its current occupancy of 196,415 rentable square feet to 307,008 rentable square feet in phases through the third quarter of 2010. This anticipated expansion will increase our annualized base rental revenue from Bridgepoint Education, Inc. to approximately $14.8 million in the third quarter of 2010. If the increase in occupancy occurs, Bridgepoint Education, Inc. would become our second largest tenant starting in the fourth quarter of 2009.

(6) In December 2008, we executed a lease with Cardinal Health, Inc. for an additional 48,700 rentable square feet at 10445 Pacific Center Court in San Diego, CA. The lease will increase our annualized base rental revenue from Cardinal Health, Inc. by approximately $0.8 million and is expected to commence in the first quarter of 2009.

(7) The Boeing Company leases, which contribute $0.7 million, $5.4 million and $0.5 million of annualized base rental revenues, expire in March 2009, July 2010 and October 2010, respectively.

(8) The Verenium Corporation leases, which contribute $2.9 million and $2.3 million of annualized base rental revenues, expire in November 2015 and March 2017, respectively.

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The following table sets forth the composition of our tenant base by industry at December 31, 2008, based on Standard Industrial Classifications.

Industry	Percentage of Total Annualized Base Rental Revenues at December 31, 2008
Professional, business and other services	34.3%
Manufacturing	19.2%
Education and health services	16.7%
Finance, insurance and real estate	15.1%
Information technology	9.9%
Government	2.0%
Construction	1.7%
Wholesale and retail trade	0.5%
Leisure and hospitality	0.5%
Transportation, warehousing and public utilities	0.1%
Total	100.0%

The following is a list of a representative sample of 25 of our tenants whose annualized base rental revenues were individually less than 1.0% of our total annualized base rental revenue at December 31, 2008:

- ADT Security Services, Inc.
- American Apparel USA, LLC
- American Financial Network
- Budget Press, Inc.
- Conkle, Kremer & Engel
- Contractors Bonding & Insurance Company
- Digital Artist Management, Inc.
- Dudek & Associates, Inc.
- Encore Software, Inc.
- Healthcare Communications, Group
- The Hospitality Group Worldwide Limited
- Houser & Allison, APC
- Innovative Medical Management, Inc.
- Interior Office Solutions, Inc.
- IPC International Corporation
- Mundell Odlum & Hawes, LLP
- New Vision Shutters
- North American Title Company
- Pacific West Association of REALTORS®, Incorporated
- Pickford Realty, Ltd.
- Robert Half International, Inc.
- Samsung Information Systems America, Inc.
- Stoody, Mills & Lansford LLP
- Winters Financial Group, Inc.
- WL & Associates Realty Advisor, Inc.

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Lease Expirations

The following table sets forth a summary of our lease expirations for the Office Properties and Industrial Properties for each of the next ten years beginning with 2009, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under Item 1A: Risk Factors.

Lease Expirations by Segment Type[1]

Year of Lease Expiration	Number of Expiring Leases	Net Rentable Area Subject to Expiring Leases (Sq. Ft.)	Percentage of Leased Square Feet Represented by Expiring Leases	Annualized Base Rental Revenue Under Expiring Leases (000 $)[3]	Percentage of Annualized Base Rental Revenue Represented by Expiring Leases[2]	Average Annualized Base Rental Revenue Under Expiring Leases (000 $)[3]
Office Properties:						
2009	64	639,648	8.7%	$ 16,406	7.8%	$ 25.65
2010	76	1,311,111	17.8	32,305	15.4	24.64
2011	51	518,501	7.0	10,759	5.1	20.75
2012	42	534,377	7.2	14,940	7.1	27.96
2013	37	529,882	7.2	13,139	6.3	24.80
2014	24	886,873	12.0	22,479	10.8	25.35
2015	14	476,464	6.5	14,380	6.9	30.18
2016	9	333,947	4.5	8,514	4.1	25.50
2017	11	1,084,438	14.7	29,624	14.1	27.32
2018	20	638,798	8.7	28,283	13.5	44.28
2019 and beyond	5	428,819	5.7	18,684	8.9	43.57
	353	7,382,858	100.0%	$ 209,513	100.0%	28.38
Industrial Properties:						
2009	10	355,413	10.3%	$ 2,479	8.8%	6.97
2010	16	461,493	13.4	3,674	13.1	7.96
2011	12	345,634	10.0	3,217	11.5	9.31
2012	11	596,672	17.3	4,158	14.8	6.97
2013	4	581,508	16.8	4,259	15.2	7.32
2014	6	407,123	11.8	3,053	10.9	7.50
2015	4	260,889	7.6	2,102	7.5	8.06
2016	1	41,225	1.2	314	1.1	7.62
2017	1	192,053	5.6	2,960	10.6	15.41
2018	1	82,602	2.3	643	2.3	7.78
2019 and beyond	2	130,144	3.7	1,170	4.2	8.99
	68	3,454,756	100.0%	$ 28,029	100.0%	8.11
Total Portfolio	421	10,837,614	100.0%	$ 237,542	100.0%	$ 21.92

(1) The information presented reflects leasing activity as of January 31, 2009. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases and vacant space at December 31, 2008.

(2) Reflects annualized contractual base rental revenue calculated on a straight-line basis.

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Secured Debt

At December 31, 2008, the Operating Partnership had six outstanding mortgage notes payable and one secured line of credit, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately $316.5 million. See Note 9 to our consolidated financial statements and Schedule III Real Estate and Depreciation included with this report. 88.8% of our secured debt bears interest at a fixed rate and 11.2% bears interest at a variable rate. Management believes that, as of December 31, 2008, the value of the properties securing the respective secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

Other than routine litigation incidental to the business, we are not a defendant in, and our properties are not subject to, any legal proceedings that, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations or cash flow.

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

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol KRC. The following table illustrates the high, low and closing prices by quarter during 2008 and 2007 as reported on the NYSE. As of the date this report was filed, there were approximately 129 registered holders of our common stock.

2008	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$ 53.64	$ 44.81	$ 49.11	$ 0.5800
Second quarter	55.54	46.52	47.03	0.5800
Third quarter	52.30	42.37	47.79	0.5800
Fourth quarter	45.97	21.71	33.46	0.5800

2007	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$ 89.80	$ 72.70	$ 73.75	$ 0.5550
Second quarter	76.92	69.48	70.84	0.5550
Third quarter	73.20	56.79	60.63	0.5550
Fourth quarter	68.29	52.66	54.96	0.5550

We pay distributions to common stockholders quarterly each January, April, July and October at the discretion of the Board of Directors. Distribution amounts depend on our FFO (as defined under Item 1: Business Business and Growth Strategies), financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant.

During the years ended December 31, 2008 and 2007, we issued 435,596 and 129,204 shares of common stock, respectively, in redemption of 435,596 and 129,204 Common Units by limited partners. The issuance was not dilutive to capitalization or distributions as the common shares were issued on a one-for-one basis pursuant to the terms set forth in the partnership agreement of the Operating Partnership, and the Common Units share in distributions with the common stock.

During the years ended December 31, 2008 and 2007, we accepted the return, at the current quoted market price, of 61,111 and 31,515 shares of our common stock, respectively, from certain key employees in accordance with the provisions of our incentive stock plan to satisfy minimum statutory tax-withholding requirements related to shares that vested during these periods.

The following table sets forth our share repurchase activity for the three months ended December 31, 2008:

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
October 1 October 31, 2008				
November 1 November 30, 2008				
December 1 December 31, 2008	809(1)	$ 34.49		988,025

Total	809	$ 34.49	988,025

(1) In December 2008, a total of 809 shares were tendered to satisfy minimum statutory tax withholding obligations related to the vesting of restricted shares.

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PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on our shares of common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor s 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2008. We include an additional index, the SNL REIT Office Index, to the performance graph since management believes it provides additional information to investors about our performance relative to a more specific peer group. The SNL REIT Office Index is a published and widely recognized index that comprises 16 office equity REITs, including us. The graph assumes the investment of $100 in us and each of the indices on December 31, 2003 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.

(1) This index is published by SNL Financial LC and includes 15 other office REITs and us.

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ITEM 6. SELECTED FINANCIAL DATA

Kilroy Realty Corporation Consolidated

(in thousands, except per share, square footage and occupancy data)

	Year Ended December 31, 2008	2007	2006	2005	2004
Statements of Operations Data:					
Rental income	$ 252,084	$ 229,672	$ 216,745	$ 205,070	$ 182,461
Tenant reimbursements	31,035	25,322	22,440	20,270	18,549
Other property income	6,849	3,478	2,356	771	1,080
Total revenues	289,968	258,472	241,541	226,111	202,090
Property expenses	48,875	43,306	39,700	36,061	30,276
Real estate taxes	22,108	19,539	18,149	16,334	15,220
Provision for bad debts	4,051	473	744	(668)	832
Ground leases	1,617	1,582	1,583	1,207	976
General and administrative expenses	38,260	36,580	22,800	66,456	34,021
Interest expense	40,366	37,502	43,541	38,956	33,678
Depreciation and amortization	83,275	72,815	68,830	64,273	54,820
Total expenses	238,552	211,797	195,347	222,619	169,823
Interest and other investment (loss) income	(93)	1,606	1,653	604	521
Net settlement receipts (payments) on interest rate swaps			991	364	(2,893)
(Loss) gain on derivative instruments			(818)	378	3,099
Total other (loss) income	(93)	1,606	1,826	1,346	727
Income from continuing operations before minority interests	51,323	48,281	48,020	4,838	32,994
Minority interests:					
Distributions on Cumulative Redeemable Preferred units	(5,588)	(5,588)	(5,588)	(5,588)	(9,579)
Original issuance costs of redeemed preferred units					(1,200)
Minority interest in (earnings) loss of Operating Partnership attributable to continuing operations	(2,148)	(2,129)	(2,514)	1,193	(2,344)
Total minority interests	(7,736)	(7,717)	(8,102)	(4,395)	(13,123)
Income from continuing operations	43,587	40,564	39,918	443	19,871
Discontinued operations:					
Revenues from discontinued operations	199	10,312	22,788	16,734	23,585
Expenses from discontinued operations	135	(6,521)	(8,625)	(9,780)	(13,374)
Net gain on dispositions of discontinued operations	234	74,505	31,259	30,764	6,148
Impairment loss on property held for sale					(726)
Minority interest in earnings of Operating Partnership attributable to discontinued operations	(34)	(5,038)	(3,476)	(4,342)	(1,963)
Total income from discontinued operations	534	73,258	41,946	33,376	13,670
Net income	44,121	113,822	81,864	33,819	33,541
Preferred dividends	(9,608)	(9,608)	(9,608)	(9,608)	(3,553)
Net income available for common stockholders	$ 34,513	$ 104,214	$ 72,256	$ 24,211	$ 29,988
Share Data:					
Weighted average shares outstanding basic	32,466,591	32,379,997	31,244,062	28,710,726	28,244,459

Weighted average shares outstanding diluted		32,669,997		32,526,723		31,389,999		28,710,726		28,422,027
Income (loss) from continuing operations per common share basic	$	1.05	$	0.96	$	0.97	$	(0.32)	$	0.58
Income (loss) from continuing operations per common share diluted	$	1.04	$	0.95	$	0.96	$	(0.32)	$	0.57
Net income per common share basic	$	1.06	$	3.22	$	2.31	$	0.84	$	1.06
Net income per common share diluted	$	1.06	$	3.20	$	2.30	$	0.84	$	1.06
Dividends declared per common share	$	2.32	$	2.22	$	2.12	$	2.04	$	1.98

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	Kilroy Realty Corporation Consolidated December 31, 2008	2007	2006	2005	2004
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,472,013	$ 2,368,556	$ 2,040,761	$ 1,953,971	$ 1,863,230
Total assets	2,099,583	2,068,720	1,799,352	1,674,474	1,609,024
Total debt	1,169,466	1,107,002	879,198	842,282	801,441
Total liabilities	1,341,512	1,263,481	1,011,790	1,031,106	929,348
Total minority interests	102,006	111,947	113,266	124,100	133,129
Total preferred stock	121,582	121,582	121,582	121,582	121,582
Total stockholders equity	656,065	693,292	674,296	519,268	546,547
Other Data:					
Funds From Operations(1)	$ 118,952	$ 110,584	$ 118,184	$ 63,603	$ 87,643
Cash flows provided by (used in):					
Operating activities	144,481	147,500	61,570	116,002	120,513
Investing activities	(93,825)	(244,802)	(136,193)	(75,682)	(123,271)
Financing activities	(52,835)	97,086	82,690	(41,292)	(2,281)
Office Properties:					
Rentable square footage	8,650,126	8,088,769	7,835,040	7,948,152	7,674,424
Occupancy	86.2%	93.7%	95.8%	92.5%	94.0%
Industrial Properties:					
Rentable square footage	3,718,663	3,869,969	3,869,969	4,587,491	4,602,605
Occupancy	96.3%	94.7%	95.8%	99.3%	95.5%

(1) We calculate FFO in accordance with the 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, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures.

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 to be insufficient by themselves. 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 since 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 of operations.

Non-cash adjustments to arrive at FFO were as follows: in all periods, minority interest in earnings of the Operating Partnership, depreciation and amortization of real estate assets and net gain (loss) from dispositions of operating properties. For additional information, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Supplemental Financial Measure: Funds From Operations including a reconciliation of our GAAP net income available for common stockholders to FFO for the years ended December 31, 2008, 2007, 2006, 2005, and 2004.

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ITEM 7. 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. Statements contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, property development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the breadth and duration of the current economic recession and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, competitive market conditions, interest rate levels, volatility in our stock price, and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and related to investing in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see Item 1A: Risk Factors and the discussion under the captions Factors That May Influence Future Results of Operations and Liquidity and Capital Resources below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

Overview and Background

We own, operate, and develop office and industrial real estate in Southern California. We operate as a self-administered REIT. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership and conduct substantially all of our operations through the Operating Partnership. We owned a 95.0% and 93.7% general partnership interest in the Operating Partnership as of December 31, 2008 and 2007, respectively.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management 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.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those policies that require management to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where management is required to make significant judgments and assumptions with respect to the practical application of accounting principles in its business operations. Critical accounting policies are by definition those policies that are material to our financial statements and for which the impact of changes in estimates, assumptions and judgments could have a material impact to our financial statements.

The following critical accounting policies discussion reflects what we believe are the more significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements. This discussion of our critical accounting policies is intended to supplement the description of our accounting policies in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions and judgments. For further discussion of our significant accounting policies, see Note 2 to our consolidated financial statements included in this report.

Rental Revenue Recognition

Rental revenue is our principal source of revenue. The timing of when we commence rental revenue recognition depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of the tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset and we commence rental revenue recognition when the tenant takes possession of the finished space, which is typically when such tenant improvements are substantially complete.

The determination of whether we are or the tenant is the owner of the tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform a detailed evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the tenant improvement allowance is spent prior to installation of the tenant improvements;
- whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the tenant improvement allowance was spent on prior to payment by the landlord for such tenant improvements;
- whether the tenant improvements are unique to the tenant or reusable by other tenants;
- whether the tenant is permitted to alter or remove the tenant improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and
- whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2008, 2007 and 2006, we recorded $28.1 million, $41.1 million and $5.9 million, respectively, of tenant-funded tenant improvements, primarily at certain of our in-process development and redevelopment properties, and we recognized $11.3 million, $4.3 million and $2.3 million, respectively, of non-cash rental revenue related to the amortization of deferred revenue recorded in connection with these tenant-funded tenant improvements.

When we conclude that we are not the owner and the tenant is the owner of tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and rental revenue recognition begins when the tenant takes possession of or controls the space.

Our judgment as to whether we are or the tenant is the owner of tenant improvements for accounting purposes is made on a lease by lease basis and has a significant impact on the amount of non-cash rental revenue that we record related to the amortization of deferred revenue for tenant-funded tenant improvements, and therefore on our results of operations. Our judgment as to whether we are or the tenant is the owner of the tenant improvements for accounting purposes can also have a significant effect on the timing of our overall revenue recognition and therefore on our results of operations.

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Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each applicable underlying lease. Examples of judgments and estimates used when determining the amounts recoverable include:

- estimating the final expenses, net of accruals, that are recoverable;
- estimating the fixed and variable components of operating expenses for each building;
- conforming recoverable expense pools to those used in establishing the base year or base allowance for the applicable underlying lease; and
- concluding whether an expense or capital expenditure is recoverable per the terms of the underlying lease.

During the year, we accrue estimated tenant reimbursement revenue in the period in which the reimbursable expenses are incurred and thus recoverable from the tenant based on our best estimate of the amounts to be recovered. Throughout the year, we perform analyses to properly match tenant reimbursement revenue with reimbursable costs incurred to date. Additionally, during the fourth quarter of each year, we perform preliminary reconciliations and accrue additional tenant reimbursement revenue or refunds. Subsequent to year end, we perform final detailed reconciliations and analyses on a lease-by-lease basis and bill or refund each tenant for any cumulative annual adjustments in the first and second quarters of each year for the previous year s activity.

Our historical experience for the years ended December 31, 2007, 2006 and 2005 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized. We are currently in the process of performing our 2008 final reconciliations.

Allowances for Uncollectible Current Tenant Receivables and Deferred Rent Receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables. Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement.

Management s determination of the adequacy of the allowance for uncollectible current tenant receivables and the allowance for deferred rent receivables is performed using a methodology that incorporates a specific identification analysis and an aging analysis and includes an overall evaluation of our historical loss trends and the current economic and business environment.

With respect to the allowance for uncollectible tenant receivables, the specific identification methodology analysis, relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, our assessment of the tenant s ability to meet its lease obligations and the status of negotiations of any disputes with the tenant. With respect to the allowance for deferred rent receivables, given the longer term nature of these receivables, the specific identification methodology analysis evaluates each of our significant tenants and any tenants on our internal watchlist and relies on factors such as each tenant s financial condition and its ability to meet its lease obligations. Our allowances also include a reserve based on historical loss trends, which is not associated with any specific tenant. These reserves as well as our specific identification reserve is re-evaluated quarterly based on changes in the financial condition of tenants and our assessment of the tenant s ability to meet its lease obligations, overall economic conditions and the current business environment.

Our determination of the adequacy of these allowances requires significant judgment and estimates about matters that are uncertain at the time the estimates are made. For example, the factors that we consider and

re-evaluate on a quarterly basis with respect to our allowances include the creditworthiness of specific tenants, specific industry trends and conditions and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

For the years ended December 31, 2008, 2007 and 2006, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 1.4%, 0.2% and 0.3%, respectively, of recurring rental revenue. Included in the provision amount for 2008 is approximately $3.1 million to reserve for the unrecoverable portion of the deferred rent receivable balance related to the Favrille, Inc. (Favrille) lease. See Note 18 to our consolidated financial statements included in this report. Excluding the impact of Favrille on the provision for bad debts, for the year ended December 31, 2008, we recorded a provision for bad debts of approximately 0.3% of recurring revenue. Our historical experience has been that actual write-offs of current tenant receivables and deferred rent receivables has approximated the provision for bad debts recorded for the years ended December 31, 2008, 2007 and 2006. In the event our estimates were not accurate and we had to change our allowances by 1% of recurring revenue, the potential impact to our net income available to common stockholders would be approximately $2.8 million, $2.6 million and $2.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Evaluation of Asset Impairment

We evaluate our real estate assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a given asset may not be recoverable. We evaluate our real estate assets for impairment on a property by property basis. Indicators we use to determine whether an impairment evaluation is necessary include:

- current low occupancy levels or forecasted low occupancy levels at a specific property;
- current period operating or cash flow losses combined with a historical pattern or future projection of potential continued operating or cash flow losses at a specific property;
- deterioration in rental rates for a specific property as evidenced by sudden significant rental rate decreases or continuous rental rate decreases over numerous quarters, which could signal a decrease in future cash flow for that property;
- deterioration of a given rental submarket as evidenced by significant increases in market vacancy and/or negative absorption rates or continuous increases in market vacancy and/or negative absorption rates over numerous quarters, which could signal a decrease in future cash flow for properties within that submarket;
- significant increases in market capitalization rates, continuous increases in market capitalization rates over several quarters, or recent property sales at a loss within a given submarket, each of which could signal a decrease in the market value of properties;
- significant change in strategy or use of a specific property or any other event that could result in a decreased holding period or significant development delay;
- instances of physical damage to the property; and
- default by a significant tenant when other indicators are present.

When evaluating properties to be held and used for potential impairment, we first evaluate whether there are any indicators of impairment for any of our properties. If any impairment indicators are present for a specific property, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the property to the property s estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the property, we perform an impairment loss calculation to determine if the fair value of the property is less than the net carrying value of the

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property. Our impairment loss calculation compares the net carrying amount of the property to the property s estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset s net carrying amount exceeds the asset s estimated fair value. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our undiscounted cash flow and fair value calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flow and property fair values, including selecting the discount or capitalization rate that reflects the risk inherent in future cash flow. Estimating projected cash flow requires assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements and occupancy levels. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends. Determining the appropriate capitalization rate also requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate due to a variety of factors in the overall economy or within regional markets. If the actual net cash flow or actual market capitalization rates significantly differ from our estimates, the impairment evaluation for an individual asset could be materially affected.

During the years ended December 31, 2008, 2007 and 2006, we did not record any impairment losses since our strategy is to hold our properties for long-term use and therefore the undiscounted cash flow well exceeded the net carrying value for each evaluation.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements and leasing activities. Amounts capitalized are depreciated or amortized over estimated useful lives determined by management. We depreciate buildings and improvements based on the estimated useful life of the asset, and we amortize tenant improvements and leasing costs over the shorter of the estimated useful life or estimated remaining life of the related lease. All capitalized costs are depreciated or amortized using the straight-line method.

Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment. Expenditures that meet one or more of the following criteria generally qualify for capitalization:

- provide benefit in future periods;
- extend the useful life of the asset beyond our original estimates;
- increase the quantity of the asset beyond our original estimates; and
- increase the quality of the asset beyond our original estimates.

Our historical experience has demonstrated that we have not had material write-offs of assets and that our depreciation and amortization estimates have been reasonable and appropriate.

Factors That May Influence Future Results of Operations

Global Market and Economic Conditions. In the U.S., recent market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through the fourth quarter of 2008. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability, and the ability of our tenants, to timely refinance maturing liabilities and access the capital markets to meet liquidity needs.

Real Estate Asset Valuation. General economic conditions and the resulting impact on market conditions or a downturn in tenants businesses may adversely affect the value of our assets. Periods of economic slowdown or recession in the U.S., declining demand for leased office or industrial properties and/or a decrease in market rental rates and/or market values of real estate assets in our submarkets could have a negative impact on the value of our assets, including the value of our properties and related tenant improvements. If we were required under GAAP to write down the carrying value of any of our properties to the lower of cost or market due to impairment, or if as a result of an early lease termination we were required to remove and dispose of material amounts of tenant improvements that are not reusable to another tenant, our financial condition and results of operations would be negatively affected.

Leasing Activity and 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 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 our 2008 leasing activity.

Leasing Activity by Segment Type

For the Year Ended December 31, 2008

	Number of Leases(1)		Rentable Square Feet(1)					
	New	Renewal	New	Renewal	Changes in Rents(2)	Changes in Cash Rents(3)	Retention Rates(4)	Weighted Average Lease Term (in months)
Office Properties	29	31	226,820	349,009	36.4%	18.3%	48.7%	53
Industrial Properties	6	9	212,698	728,363	24.4%	0.8%	77.5%	63
Total portfolio	35	40	439,518	1,077,372	31.6%	11.3%	65.0%	59

(1) Represents leasing activity for leases commenced during the period shown, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.

(2) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Excludes leases for which the space was vacant longer than one year.

(3) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year.

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

We believe that at December 31, 2008 the weighted average cash rental rates for our properties were approximately 5% to 10% below the current average quoted market rates, although individual properties within any particular submarket presently may be leased either above, below or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below or at the average cash rental rate of our overall portfolio. However, under the current recessionary conditions affecting our markets, 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 quoted market rates. Our occupancy and rental rates are impacted by general economic conditions, including the pace of regional economic growth and access to capital. An extended economic slowdown and continued tightening of the credit markets could have an adverse affect on our tenants and, as a result, on our future occupancy, rental rates and cash flow.

Scheduled Lease Expirations. In addition to the 1.3 million rentable square feet, or 10.8%, of currently available space in our stabilized portfolio, leases representing approximately 9.2% and 16.4% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2009 and in 2010, respectively. The leases scheduled to expire during 2009 and in 2010 represent approximately 2.0 million rentable square feet of office space, or 20.5% of our total annualized base rental revenue, and 0.8 million rentable square feet of industrial space, or 2.6% of our total annualized base rental revenue, respectively. We believe that the average cash rental rates are approximately 5% below the current average quoted market rates for leases scheduled to expire during 2009 and that the average cash rental rates are approximately 10% to 15% below the current average quoted market rates for leases scheduled to expire during 2010, although individual properties within any particular submarket presently may be leased either above, below or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below or at the average cash rental rate of our overall portfolio. Our ability to re-lease available space depends upon the market conditions in the specific regions in which our properties are located and general market conditions.

Sublease Space. Of our leased space at December 31, 2008, approximately 485,600 rentable square feet, or 3.9%, of the square footage in our stabilized portfolio, was available for sublease, compared to 608,100 rentable square feet, or 5.1% at December 31, 2007. Of the 3.9% of available sublease space in our stabilized portfolio at December 31, 2008, approximately 1.2% was vacant space, and the remaining 2.7% was occupied. Approximately 53.1%, 27.2% and 19.7% of the available sublease space as of December 31, 2008 is located in the San Diego, Orange County and Los Angeles regions, respectively. Of the approximately 485,600 rentable square feet available for sublease at December 31, 2008, approximately 47,700 rentable square feet representing three leases are scheduled to expire in 2009, and approximately 144,200 rentable square feet representing seven leases are scheduled to expire in 2010.

Negative trends or other unforeseeable events that impair our ability to renew or re-lease space and our ability to maintain or increase rental rates in our submarkets could have an adverse effect on our future financial condition, results of operations and cash flow.

Development and Redevelopment Programs. Historically, a significant portion of our growth has come from our development and redevelopment efforts. 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 strategic submarkets.

We believe that a portion of our future potential growth will continue to come from our newly developed or redeveloped properties and our development pipeline. During the year ended December 31, 2008, we added approximately 560,000 rentable square feet of office space to our stabilized portfolio. As of December 31, 2008, our development pipeline included 116.7 gross acres of land with an aggregate cost basis of approximately $242 million. We may also continue to seek and obtain development opportunities throughout Southern California and specifically in our core markets.

However, we anticipate that the general economic conditions and the resulting impact on conditions in our core markets will delay timing and reduce the scope of our development program in the near future, which will further impact the average development and redevelopment asset balances qualifying for interest and other carry cost capitalization. During the third and fourth quarters of 2008, we did not capitalize interest and carry costs on certain development pipeline properties with an aggregate cost basis of approximately $38 million and $78 million, respectively, as it was determined these projects did not qualify for interest and other carry cost capitalization for the applicable quarters under GAAP.

In addition, we may be unable to lease committed development or redevelopment properties at expected rental rates or within projected timeframes or complete development or redevelopment properties on schedule or within budgeted amounts, which could adversely affect our financial condition, results of operations and cash

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flow. During the year ended December 31, 2008, three of the properties we added to the stabilized portfolio, encompassing approximately 159,000 rentable square feet, had not yet reached stabilized occupancy of 95% since one year had passed since cessation of major construction activity. The average occupancy for these three properties was approximately 13% at December 31, 2008.

We believe that other possible sources of potential future growth are redevelopment opportunities within our existing portfolio and/or targeted acquisitions. Redevelopment efforts can achieve similar returns to new development with reduced entitlement risk and shorter construction periods. Depending on market conditions, we will continue to pursue future redevelopment opportunities in our strategic submarkets where there is limited land for development. We had no redevelopment properties in-process as of December 31, 2008.

See additional information regarding our development and redevelopment properties under the caption 2008 Stabilized Development and Redevelopment Properties and in Item 2: Properties.

City of San Diego. Given the geographic concentration of our development program in San Diego County, our operating results may be affected by (i) the city of San Diego s current financial difficulties and ongoing investigations with respect to the city s finances, (ii) the city of San Diego s General Plan and Land Use update, (iii) the city of San Diego s zoning ordinance updates, (iv) the city of San Diego, state and federal agencies future adoption of potential impact fees to address water supply infrastructure, climate change legislation and mandatory energy and sustainable building code requirements, (v) the potential new building permit moratorium due to state and regional water agencies not issuing new water meters because of new water rationing guidelines, and (vi) recent storm water runoff regulations and other pending ordinances currently under consideration by the city, county and state water agencies and other agencies. Any of these factors may affect the city of San Diego s ability to finance capital projects and may impact real estate development, entitlements, costs of development and market conditions in this important submarket. As of the date this report was filed, we have not experienced any material adverse effects arising from these factors.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including equity and cash incentive programs, for our executive officers. The programs approved by the Executive Compensation Committee have historically provided for equity and cash compensation to be earned by our executive officers based on certain performance measures, including financial, operating and development targets.

In the first quarter of 2009, our Executive Compensation Committee approved the 2009 Annual Bonus Program for executive management that will allow for executive management to receive bonus compensation for achieving certain specified corporate performance measures for the fiscal year ending December 31, 2009. The provisions of the 2009 program were reported on Form 8-K filed with the SEC on January 29, 2009. As a result of the structure of these programs and other such programs that the Executive Compensation Committee may adopt in the future, accrued incentive compensation and compensation expense for these programs will be affected by our operating and development performance, financial results, the performance of our common stock and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to compensation programs.

Share-Based Compensation. As of December 31, 2008, there was $9.6 million of total unrecognized compensation cost related to outstanding nonvested shares issued under share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.8 years. Additional unrecognized compensation cost of $9.7 million related to 51,040 nonvested shares of common stock and 569,973 nonvested restricted stock units issued under share-based compensation arrangements subsequent to December 31, 2008 is expected to be recognized over a weighted-average period of 1.4 years. See Note 13 to our consolidated financial statements included with this report for additional information regarding these programs.

Stabilized Portfolio Information

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2007 to December 31, 2008. Rentable square footage in our portfolio of stabilized properties increased by an aggregate of approximately 0.4 million rentable square feet, or 3.4%, to 12.4 million rentable square feet at December 31, 2008, as a result of the activity noted below.

		Office Properties		Industrial Properties		Total	
	Quarter of Activity	Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet
Total at December 31, 2007		86	8,088,769	43	3,869,969	129	11,958,738
Properties added from the Development and Redevelopment Portfolios	Q3-Q4 2008	6	560,130			6	560,130
Properties not in service due to re-entitlement(1)	Q4 2008			(1)	(157,458)	(1)	(157,458)
Remeasurement			1,227		6,152		7,379
Total at December 31, 2008		92	8,650,126	42	3,718,663	134	12,368,789

(1) We removed one property from the Orange County stabilized industrial portfolio in 2008 as we are in the process of re-entitling this property for residential use. If the re-entitlement is successful, we will evaluate the strategic options for the property, including the potential disposition of the asset.

2008 Stabilized Development and Redevelopment Properties

The following table sets forth certain information regarding development and redevelopment properties added to the stabilized portfolio during 2008.

Property Name / Address	Completion Date	Stabilization Date(1)	Number of Buildings	Rentable Square Feet	Percentage Leased at December 31, 2008
Development:					
ICC 15004 Innovation Drive San Diego, CA	Q3 2008	Q3 2008	1	146,156	100%
Sorrento Gateway-Lot 3 4921 Directors Place San Diego, CA	Q4 2007	Q4 2008	1	55,500	0%
Kilroy Sabre Springs Phase III 13480 Evening Creek Drive North San Diego, CA	Q3 2008	Q4 2008	1	147,533	100%
Total Development			3	349,189	84%
Redevelopment:					
Kilroy Airport Center 2240 E Imperial Highway El Segundo, CA	Q3 2007	Q3 2008	1	107,041	100%
Sabre Springs Corporate Center 13280/13290 Evening Creek Dr San Diego, CA	Q4 2007	Q4 2008	2	103,900	19%

Total Redevelopment	3	210,941	60%
Total Stabilized Development and Redevelopment Properties	6	560,130	75%

(1) The earlier of stabilized occupancy of 95% or one year from the date of cessation of major construction activities.

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Occupancy Information

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

Stabilized Portfolio Occupancy by Segment Type

Region	Number of Buildings	Square Feet Total	Occupancy at[1] 12/31/2008	12/31/2007	12/31/2006
Office Properties:					
Los Angeles County	25	3,007,187	92.1%	96.1%	92.8%
San Diego County	57	5,019,160	83.1	91.4	98.6
Orange County	5	277,340	67.9	99.1	98.3
Other	5	346,439	94.2	99.6	92.8
	92	8,650,126	86.2	93.7	95.8
Industrial Properties:					
Los Angeles County	1	192,053	100.0	100.0	100.0
Orange County	41	3,526,610	96.1	94.4	95.6
	42	3,718,663	96.3	94.7	95.8
Total stabilized portfolio	134	12,368,789	89.2%	94.0%	95.8%

	Average Occupancy			
	Stabilized Portfolio[1]		Core Portfolio[2]	
	2008	2007	2008	2007
Office Properties	92.0%	94.1%	91.3%	94.0%
Industrial Properties	93.0	92.1	93.0	92.3
	92.3%	93.4%	91.9%	93.1%

(1) Occupancy percentages reported are based on our stabilized portfolio for the period presented.

(2) Occupancy percentages reported are based on Office and Industrial Properties owned and stabilized at January 1, 2007 and still owned and stabilized at December 31, 2008.

As of December 31, 2008, the Office Properties and Industrial Properties represented approximately 88.2% and 11.8%, respectively, of our total annualized base rental revenue.

Current Regional Information

Los Angeles County. Our Los Angeles stabilized office portfolio of 3.0 million rentable square feet was 92.1% occupied with approximately 236,800 vacant rentable square feet as of December 31, 2008, compared to 96.1% occupied with approximately 112,100 vacant rentable square feet as of December 31, 2007. The decrease in Los Angeles County stabilized office portfolio occupancy is primarily attributable to a lease with Intuit that was terminated in July 2008, which represents approximately 90,000 rentable square feet. As of January 31, 2009, leases representing an aggregate of approximately 292,900 and 826,700 rentable square feet are scheduled to expire in 2009 and 2010, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2009 and 2010 represent approximately 38.6% of the total occupied rentable square feet in this region as of January 31, 2009 and 11.8% of our annualized base rental revenues for our total stabilized portfolio. Demand in our primary Los Angeles County submarkets has continued to exhibit resilient strength and we believe that our 2009 and 2010 lease expirations are on average approximately 10% to 15% below the current quoted market rates.

Orange County. As of December 31, 2008, our Orange County stabilized industrial portfolio was 96.1% occupied with approximately 137,100 vacant rentable square feet, compared to 98.6% occupied as of

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December 31, 2007 after adjusting for one vacant building encompassing approximately 157,500 rentable square feet that we removed from our stabilized portfolio in 2008 as we are in the process of re-entitling this property for residential use. If the re-entitlement is successful, we will evaluate the strategic options for the property, including the potential disposition of the asset. Our Orange County stabilized office portfolio of approximately 277,300 rentable square feet was 67.9% occupied with approximately 89,000 vacant rentable square feet as of December 31, 2008, compared to 99.1% occupied with approximately 2,600 vacant rentable square feet as of December 31, 2007. The decrease in occupancy was primarily attributable to a lease that expired during the second quarter of 2008, which represented approximately 54,300 rentable square feet.

As of January 31, 2009, leases representing an aggregate of approximately 469,700 and 472,900 rentable square feet were scheduled to expire in 2009 and 2010, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2009 and 2010 represents approximately 27.3% of the total occupied rentable square feet in this region as of the January 31, 2009 and 3.9% of the annualized base rental revenues for our total stabilized portfolio. We believe that our Orange County 2009 and 2010 lease expirations are on average approximately 0% to 5% above the current quoted market rates.

San Diego County. Our San Diego stabilized office portfolio was 83.1% occupied with approximately 849,800 vacant rentable square feet as of December 31, 2008, compared to 91.4% occupied with approximately 393,400 vacant rentable square feet as of December 31, 2007. The decrease in occupancy was primarily attributable to the following:

- Two leases that expired during the third quarter of 2008, which represented approximately 189,400 rentable square feet;
- One lease representing approximately 102,900 rentable square feet where the tenant ceased paying rent in 2008 and attempted to surrender the leased premises (see Note 16 to our consolidated financial statements included in this report for additional information). This building is shown as 0% occupied at December 31, 2008 in the table in Item 2: Properties Office and Industrial Properties ; and
- The addition of three development properties that stabilized during 2008 encompassing approximately 159,000 rentable square feet, which were 12.5% occupied as of December 31, 2008.

In addition, our one development property in lease-up and all of our future development pipeline land holdings are located in San Diego County. We have seen that the demand in Central San Diego has decreased from prior quarters, as evidenced by modest increases in direct and total vacancy rates, reported decreases in active demand for office space and slower and more protracted lease negotiations. As a result, given the current recessionary conditions, it may take a longer period of time for us to lease vacant space in San Diego than in prior years. In addition, we will seek only economically attractive development opportunities in this region depending upon market conditions. See additional information under the caption Factors That May Influence Future Results of Operations Development and Redevelopment Programs.

As of January 31, 2009, leases representing an aggregate of approximately 217,900 and 401,100 rentable square feet are scheduled to expire in 2009 and 2010, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2009 and 2010 represents approximately 14.8% of the total occupied rentable square feet in this region as of January 31, 2009 and 6.5% of our annualized base rental revenues for our total stabilized portfolio. Approximately 45% of the leases scheduled to expire in 2009 and 2010 are located in the Sorrento Mesa submarket. Direct vacancy for two and three-story office product in Sorrento Mesa is currently 7.8% and total vacancy is 9.3%. We currently believe that our Sorrento Mesa leases scheduled to expire during 2009 and 2010 are approximately 10% to 15% above the current average quoted market rates. Our remaining 2009 and 2010 lease expirations are spread across all of our other Central San Diego submarkets and we currently believe that the rental rate for these leases approximate current average quoted market rates.

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Results of Operations

Management internally evaluates the operating performance and financial results of our portfolio based on Net Operating Income for the following segments of commercial real estate property: Office Properties and Industrial Properties. We define Net Operating Income as operating revenues from continuing operations (rental income, tenant reimbursements and other property income) less operating expenses from continuing operations (property expenses, real estate taxes, provision for bad debts and ground leases). The Net Operating Income segment information presented within this Management s Discussion and Analysis of Financial Condition and Results of Operations consists of the same Net Operating Income segment information disclosed in Note 19 to our consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2008 and 2007.

	Year Ended December 31, 2008	2007	Dollar Change	Percentage Change
	($ in thousands)			
Net Operating Income, as defined				
Office Properties	$ 185,967	$ 168,575	$ 17,392	10.3%
Industrial Properties	27,350	24,997	2,353	9.4
Total portfolio	213,317	193,572	19,745	10.2
Reconciliation to Net Income Available for Common Stockholders:				
Net Operating Income, as defined for reportable segments	213,317	193,572	19,745	10.2
Other expenses:				
General and administrative expenses	38,260	36,580	1,680	4.6
Interest expense	40,366	37,502	2,864	7.6
Depreciation and amortization	83,275	72,815	10,460	14.4
Interest and other investment (loss) income	(93)	1,606	(1,699)	(105.8)
Income from continuing operations before minority interests	51,323	48,281	3,042	6.3
Minority interests attributable to continuing operations	(7,736)	(7,717)	(19)	0.2
Income from discontinued operations	534	73,258	(72,724)	(99.3)
Net income	44,121	113,822	(69,701)	(61.2)
Preferred dividends	(9,608)	(9,608)		0.0
Net income available for common stockholders	$ 34,513	$ 104,214	$ (69,701)	(66.9)%

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Rental Operations

We evaluate the operations of our portfolio based on operating property type. The following tables compare the Net Operating Income for the Office Properties and for the Industrial Properties for the years ended December 31, 2008 and 2007.

Office Properties

	Total Office Portfolio				Core Office Portfolio(1)			
	2008	2007	Dollar Change	Percentage Change	2008	2007	Dollar Change	Percentage Change
Operating revenues:								
Rental income	$ 223,245	$ 202,601	$ 20,644	10.2%	$ 191,126	$ 190,715	$ 411	0.2%
Tenant reimbursements	26,898	21,804	5,094	23.4	21,879	20,068	1,811	9.0
Other property income	5,923	3,406	2,517	73.9	5,918	3,405	2,513	73.8
Total	256,066	227,811	28,255	12.4	218,923	214,188	4,735	2.2