

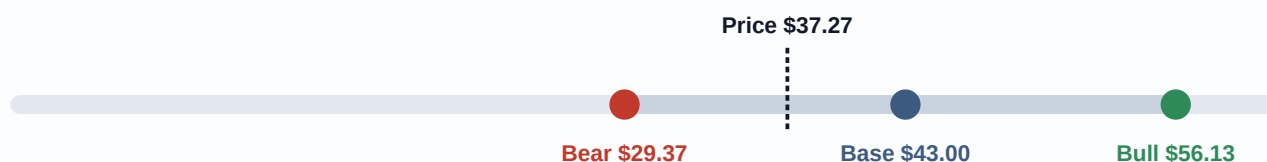
Initiated 2026-10-24 · Price \$37.27 (close 2026-10-23, stockanalysis.com) · Mkt cap \$4.38bn · Real estate / West Coast office and life-science REIT · Model: verified

Rating: Hold — Conviction: Medium

Kilroy's leasing has turned: Q3 2026 signed 815k sq ft, and \$100.7mm of rent is signed but not yet commenced, against a run-rate NOI of ~\$693mm. But the portfolio is only 76.9% occupied, leverage is 7.2x, and \$1.27bn of debt matures by 2029 at coupons below today's issuance rates. The upside in the model rests on two assumptions: that private buyers price this office portfolio near broker averages, and that ~\$1.5bn of land is worth its cost. The AFFO stream on its own does not support the current price. That split keeps this a Hold.

Conviction tests (3a-v-c): T1 pass (Base +13.7% at +1pp, +17.2% at -1pp; Hold at both) · T2 fail (NAV alone +43.7% reads Buy; AFFO DCF alone -12.9% reads Hold) · T3 pass (one est. input, the NCI half of other_claims, moves Base 2.4%) · T4 pass (no single pending event >25%)

MODEL VALUE RANGE VS PRICE



Business overview

Kilroy owns 16.3mm sq ft of stabilized office and life-science space. By YTD NOI, the San Francisco Bay Area is 44.3% (SF CBD 25.6%), Seattle 17.1%, Los Angeles 16.1%, and San Diego and Austin the remaining ~22.5%. Tenants are mostly technology companies: the top ten include Stripe, Adobe, Box, Salesforce, DoorDash, Netflix and Cruise. In 2026 it sold \$347.5mm of office and residential assets and bought nothing. Kilroy Oyster Point Phase 2 (KOP 2, 872k sq ft of life-science space) entered the stabilized pool in Q1 2026 at 7% occupied and 49% leased.

Three variables drive earnings:

- How fast the 610bp gap between leased (83.0%) and occupied (76.9%) closes.
- Retention on 2027–2028 expirations (13.6% of ABR).
- Refinancing costs on debt that averages 4.27% stated.

Competition

- **Listed peers.** BXP (the largest SF landlord), Hudson Pacific (SF, LA, Seattle) and Douglas Emmett (LA) compete for the same tech and media tenants. Sublease space and distressed private buildings sold at reset bases compete on price.
- **Private pricing.** Lee & Associates puts Q2 2026 SF office sales at a ~7.3% cap rate and ~\$462/sq ft. Savills' SF average is 7.7%, against 6.7% in 2019. Kilroy's January sale of Sabre Springs (San Diego suburban) went for \$124.5mm, or ~\$291/sq ft.

- **Where pressure shows first.** In retention and concessions before face rents. YTD retention is 45%, and Q3 second-generation TI/LC ran \$94.43/sq ft, while Q3 cash spreads were still +9.7%.
- **Valuation.** Trailing P/FFO (stockanalysis, 2026-10-23): KRC 10.1x, Cousins 10.0x, BXP 9.1x, Douglas Emmett 7.2x. Hudson Pacific's P/FFO is negative, and it trades at 0.25x book.

Bull case

1. **The signed-not-commenced book converts.** \$48.3mm of SNO rent commences between Q4 2026 and H2 2027, and \$52.4mm in 2028+. Q3 was among Kilroy's best leasing quarters since 2019, with leased occupancy up in all five regions. Plays out if retention runs near Q3's 78% and SF AI and tech demand holds. *Model: ss_noi_growth*
2. **KOP 2 leases up.** 49% leased; SNO rent commencing 2028+ averages ~\$103/sq ft, largely KOP 2 (est.). Each additional 100k sq ft is roughly \$8–10mm of NOI (est.). Plays out if biotech funding stabilizes. *Model: acq_noi*
3. **Private cap rates set the value.** Today's price implies a ~9.1% cap rate on run-rate NOI with land at cost. That is well above the ~7.3% broker averages. Plays out if office financing reopens. *Model: cap_rate, terminal_p_affo*

Bear case

1. **Tech tenants keep shrinking.** Cruise (4.6% of ABR, lease to 2031; tenant credit n/a (unverified)), DIRECTV (2.1%) expires 2026–27 and Okta (3.2%) in 2028. If retention stays near the YTD 45%, new leasing only refills vacated space. Plays out if AI hiring does not offset broader tech cost-cutting. *Model: ss_noi_growth*
2. **Shrinking to fund the balance sheet.** Further sales at ~7%+ yields cut NOI faster than they cut interest, and KOP 2 lease-up stalls. Plays out if 2027 guidance relies on dispositions again. *Model: acq_noi*
3. **Rates reprice both sides.** \$795mm matures 2026–2028 at 3.6–4.8% and refinances near 6–7%. With the 10Y at 5.00%, office cap rates could move toward 8.25% (bear case). Plays out if S3 or S4 persists. *Model: cost_of_debt, cap_rate, terminal_p_affo*
4. **The land is worth less than cost.** Flower Mart (\$690mm cost basis) has no start date, and its carry is capitalized into reported FFO (~\$49mm of interest in 2026). *Model: not in the value range — land enters at cost through other_claims; see the land sensitivity below.*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/FFO (TTM, aggregator)	10.1x · 10.4x on 2026 guide mid (\$3.57)	n/a (unverified)	Cousins 10.0x · BXP 9.1x · Douglas Emmett 7.2x	stockanalysis.com, 2026-10-23; Q3 release
Implied cap rate (Q3 run-rate NOI / EV; EV = mkt cap + \$4,411mm debt – cash + NCI – land at cost)	9.1% (7.9% with land at zero)	n/a (unverified)	n/a (not on one source)	model-inputs basis
P/B	0.84x	n/a (unverified)	Cousins 1.06x · BXP 1.92x · Douglas Emmett 0.93x	stockanalysis.com, 2026-10-23
Dividend yield (\$2.16 annualized)	5.8%	n/a (unverified)	Cousins 4.43% · BXP 4.51% · Douglas Emmett 7.47%	stockanalysis.com, 2026-10-23

Model-implied value range (from `model-summary.json` ; reit module, NAV at a cap rate and AFFO/share DCF with a terminal P/AFFO, midpoints): Bear \$29.37 · Base \$43.00 · Bull \$56.13 per share, i.e. implied returns of ~21.2% / +15.4% / +50.6% vs \$37.27. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What the price implies.** It sits a little below the midpoint between bear and base. The market is not paying for the leasing recovery, but it is also not crediting the land.
- **The two methods disagree by 65%.** Base NAV is \$53.54 and Base AFFO DCF is \$32.47. The NAV re-rates the portfolio from today's ~9.1% implied cap rate to 7.25% (about 185bp) and adds the land at cost (~\$13/share). The DCF charges all interest, including the

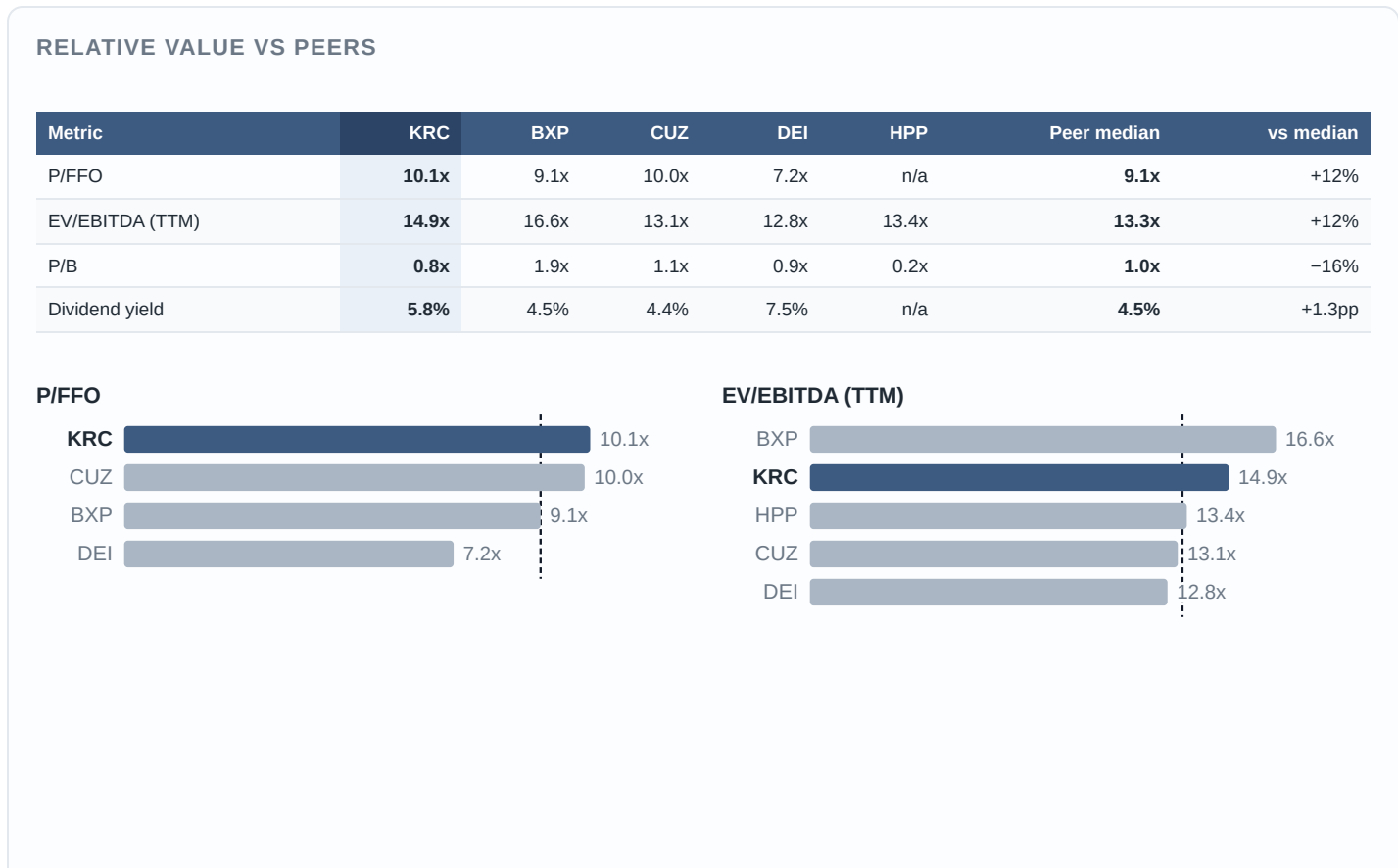
- ~\$49mm the company capitalizes on land, and credits the land nothing. It also embeds a de-rating from ~17.0x to 14x on the model's AFFO.
- Rating vs model.** A +15.4% Base is above the hurdle for Hold, but it relies on the NAV method. With land at 50% of cost, Base falls to \$39.76 (+6.7%).
- Tail sensitivity.** The bear case is a leasing plateau, so a harsher case was run: same-store NOI +0.9%/–2%/–3%/–1%/0%, more dispositions (–\$30mm, –\$10mm), capex 25% of NOI, refinancing to 6.4%, a 9.0% cap rate, a 9x terminal P/AFFO, 12% cost of equity and land at half its cost. It gives \$20.30 (–45.5%).

Balance sheet:

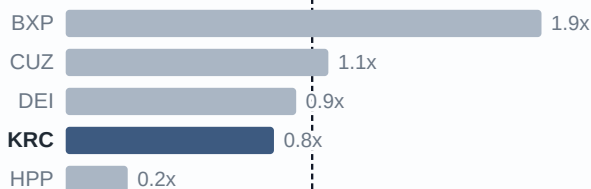
- Leverage: 6.4x net debt/FY2025 EBITDAre on the model basis, 7.1x on Y1. The company reports 7.2x on its share of TTM EBITDAre.
- Coverage: 3.6x FY2025 EBITDAre/interest. Company fixed-charge coverage is 3.0x.
- Liquidity: \$1.21bn undrawn revolver plus \$94mm of cash.
- Nearest maturities: \$145.8mm mortgage in December 2026 and \$175mm of 3.35% notes in February 2027.
- Ratings: n/a (unverified). The facility margins are rating-based, but no current agency rating was retrieved.

Model note: tier `full` , status `built` , verification `verified` (1,988 formula cells matched in LibreOffice). No assumptions without basis. Scenario consistency is `OK` on all 14 rows.

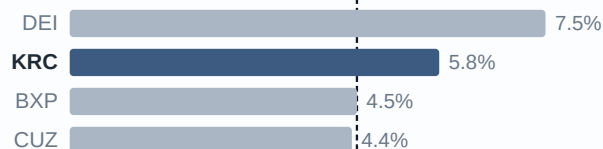
- Unverified input:** `market.other_claims` . It is the land at cost (\$1,544mm, sourced) less NCI at an estimated market value (\$417.8mm; book value is \$170.2mm).
- FY2023 NOI** is on the pre-2025 definition, which includes termination fees (overstated by ~\$5mm).
- Y1 NOI** is the Q3 run-rate, not the FY2026 print.
- FFO vs guidance.** Model Y1 FFO is \$3.35/share against guidance of \$3.55–3.59. The gap is uncapitalized interest (+\$0.41), the NCI share of FFO (–\$0.24, which the model keeps in AFFO), and the run-rate base.
- Cap-rate sources** are secondary search summaries, not Class A-specific.



P/B



Dividend yield



As of 2026-10-23. One source and one definition for every company: aggregator TTM multiples, lease-inclusive EV. Not the model's own EV basis (see the report's valuation table). Quotes taken at the 4:00 PM ET close on 2026-10-23; pages fetched 2026-10-24. Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-24.

Notes. Hudson Pacific's P/FFO is negative (-3.91x) on negative TTM FFO, shown as null. Hudson Pacific pays no common dividend (n/a on the source).

Scenario stress test

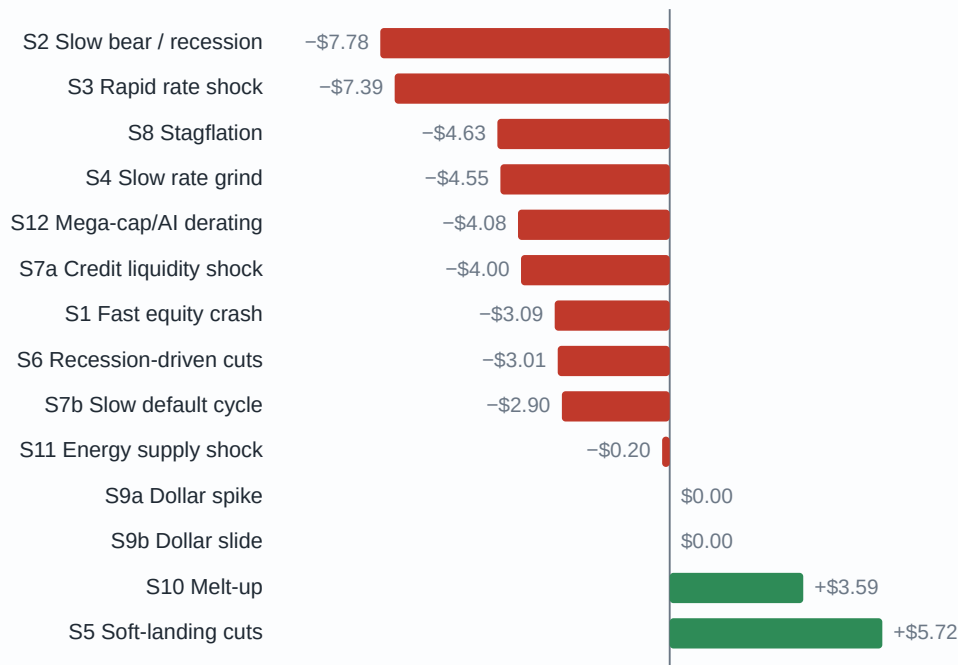
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	A levered office equity with beta 1.19 de-rates; private cap rates barely move	Med	–\$3.09
S2 Slow bear / recession	–	Tech layoffs stop leasing and SNO deals slip. Milder than Base – Bear (\$13.64) because it lasts two years without the bear case's refinancing and exit-multiple reset	High	–\$7.78
S3 Rapid rate shock	–	Cap rates track real yields, and 2026–2028 maturities refinance higher	High	–\$7.39
S4 Slow rate grind	–	Multi-year repricing of 2.5–3.7% coupons; cap rates drift up	Med	–\$4.55
S5 Soft-landing cuts	+	Financing reopens and cap rates compress while tech hiring holds	High	+\$5.72
S6 Recession-driven cuts	–	Lower rates don't offset a breaking labor market for an office landlord	Med	–\$3.01
S7a Credit liquidity shock	–	Forced selling hits the most levered REIT subsector; the revolver covers 2027	Med	–\$4.00
S7b Slow default cycle	–	Venture-backed tenants default; office credit spreads widen	Med	–\$2.90
S8 Stagflation	–	Higher rates outweigh fixed rent bumps; leasing slows	Med	–\$4.63
S9a Dollar spike	0	No material effect, not modeled — domestic rents	—	\$0.00
S9b Dollar slide	0	No material effect, not modeled — as S9a	—	\$0.00
S10 Melt-up	+	Tech funding lifts SF leasing and REIT multiples	Med	+\$3.59
S11 Energy supply shock	–	No operating channel; yields and financing costs rise	Low	–\$0.20
S12 Mega-cap/AI derating	–	AI and tech tenants drove the 2026 SF recovery; a funding pullback stalls it	Med	–\$4.08

Currently active/on watch per the playbook:

- S3 is partially active per `state.md`; the 10Y was back at 5.00% on 2026-10-23 per the macro log.
- S8, S10 and S11 are on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- 2027 guidance shows average occupancy $\geq 80\%$ ($\geq 83\%$ ex-KOP 2) and same-property cash NOI $\geq 3\%$; or
- KOP 2 passes 65% leased; or
- An office sale in its markets prices below a 7% cap rate.

Downgrades if:

- Retention stays below 50% through 2027 renewals; or
- Cruise or another top-10 tenant defaults; or
- The 2027 notes refinance above 7%; or
- Flower Mart is impaired.

Watch items

- **W1:** 2027 guidance for same-property cash NOI and average occupancy, against Base +4% and the 2026 average of 77.0–77.5%. Source: Q4 2026 release (early February 2027). *Model: ss_noi_growth*
- **W2:** The leased–occupied gap (610bp at 9/30/2026) narrowing as \$14.2mm of SNO rent commences in Q4 2026. Source: Q4 2026 supplemental. *Model: ss_noi_growth*
- **W3:** KOP 2 leased percentage, from 49%. Source: Q4 2026 supplemental. *Model: acq_noi*
- **W4:** Refinancing rate on the \$145.8mm December 2026 mortgage and the \$175mm February 2027 notes, against a ~6% Base. Source: Q4 2026 release or 8-K. *Model: cost_of_debt*

Sources

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- Daily macro log, 2026-10-23 (10Y 5.00%, S3 status) — `logs/macro-2026-10.md`

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.