



# Executive Summary

## Kilroy Realty

US-based REIT specializing in office, residential, retail, and life sciences properties (NYSE: KRC), founded in 1996, with a \$9.5B+ market cap.

Focused on high-growth innovation clusters.

ESG is viewed as a driver of long-term value creation. Strong ESG performance to date:

Environmental (69% LEED, 54% ENERGY STAR, 47% Fitwel)

Social (employee health and safety programs, environmental quality improvement: “green cleaning” policies)

Governance (10% ESG executive compensation alignment)

## Value Capture

Deep energy retrofits, 11 consecutive ENERGY Star Partner of the Year Awards, and in-house engineering teams

Strong green brand equity supports high rent premiums and high occupancy

ESG rigor affords access to green capital markets

## Proposal for Transition to Transformational Strategy

We propose a three-pillared Transformational Strategy based on the Kilroys top 3 self identified Material issues

This strategy center’s around the creation of meta organizations that we call “*climate districts*”: to improve climate resilience and add value across districts where Kilroy’s assets are located.

# Kilroy Realty: Company Overview

## Business Profile

US-based REIT specializing in office, residential, retail, and life sciences properties (NYSE: KRC), founded in 1996

17M+ sq ft stabilized office space

120+ office properties, 1000+ residential units, 400+ tenants

\$9.5B+ market capitalization

## Strategic Focus

Focused on high-growth innovation clusters in California (e.g., San Francisco, Los Angeles, San Diego), Pacific Northwest (e.g., Seattle), and Texas (e.g., Austin)

Class A office/lab space in supply-constrained markets

Context: REITs are required to distribute 90%+ of taxable income to shareholders under tax law

## Vertical Integration

Vertically integrated: design, property development, leasing, asset management

Enables ESG considerations to be embedded from earliest stages

## Revenue Model

Long-term commercial leases ranging from 5-15 years

Focus on long-term property ownership and stable rental income, rather than "buy flip sell" private equity model

Premium rental rates with high occupancy rates: 80-90% office, 93-95% residential

# Sustainability Context (Pt. 1): Industry-Wide

**Rapid growth in green building certifications:** Across commercial real estate, more REITs pursue LEED, ENERGY STAR, Fitwel, WELL, and BREEAM certifications for existing and new properties. For all REITs overall, 92% include green buildings and 82% are LEED certified, while a smaller 68% are ENERGY STAR-certified. These serve as market signals for tenants and investor alike, not just as technical compliance. Increasing square footage per year that is certified.

**Decarbonization targets are rising:** Many large REITs are publicly announcing net-zero carbon targets for 2030-2050, shifting focus from discrete efficiency upgrades to holistic emissions strategies. Around 66% of REITs have net-zero related targets in place. This has driven strategies such as on-site renewables and building electrification. However, broader operational change for value creation has been rarer.

**Trend towards isomorphism:** REITs face pressures to mimic peers, particularly first movers who acquire green certifications, meet reporting metrics (e.g., GRI, TCFD), and implement energy efficiency initiatives. In 2023, 76% of REITs showed LEED certification, which is more than double the share in 2018. Isomorphic behavior can reinforce incremental behavior (not transformational) and a new baseline norm. This can paradoxically limit a truly transformational strategy as the risk of "falling from the pack" is higher in this fast-moving environment.

# Sustainability Context (Pt. 2): Kilroy's Platform

## Strategic Integration of ESGs

ESG is viewed as a driver of long-term value creation, operational efficiency, and tenant satisfaction

Across entire property lifecycle: design → construction → operations → tenant use

Multiple committees including Task Force for Climate-Related Financial Disclosures (TCFD) and Corporate Social Responsibility and Sustainability (CSRS)

## Social Impact

Employee health and safety programs (0% occ injury rate)

Environmental quality improvement: air filtration; low-emitting materials; “green cleaning” policies

Community engagement: disaster recovery support (e.g., LA Fire), breast cancer funding, Meals on Wheels

Wellness: public transit proximity, fitness amenities

## Environmental Initiatives

Certifications: 69% LEED, 54% ENERGY STAR, 47% Fitwel

Energy and emissions: Scope 1-3; portfolio-wide energy management with Gridium; energy-efficient lighting, HVAC; on-site solar and battery storage; all-electric buildings and EV charging infrastructure

Water stewardship: drought-tolerant landscaping; smart irrigation; low-flow fixtures; leak detection; composting; biodiversity

## Governance

ESG Steering Committee

10% executive compensation tied to ESG performance

\$1.2B+ in green bond financing

Industry engagement with Nareit, Greenbuild, ULI

# Competitive Forces (Pt. 1): Industry Trends

## Standardized ESG Disclosures

Frameworks (GRI, SASB, TCFD) to standardize disclosure of risks, emissions, and governance practices

E.g., NNN publishes sustainability reports aligned with GRI and UN Sustainable Development Goals

*Summary:* Sustainability disclosure is often an expected baseline practice for publicly traded REITs

## Energy and Emissions Focus

Energy efficiency improvements seen across REITs: smart buildings, energy-efficient appliances, renewables deployment

Emissions: scope 1-3 accounting, portfolio-wide carbon reductions

E.g., First Industrial has 95% of square footage in energy-efficient lighting and LED lighting in 64%, with skylights, cool roofs, and 22% carbon emissions reductions since 2019

*Summary:* Quantifiable building metrics increasingly used

## Tenant Engagement and Ops

Though REITs have limited operational control over tenant activities (especially in triple net), frameworks are deployed: green leasing; resource efficiency; recycling

E.g., NNN emphasizes tenant engagement to improve sustainability practices across properties

*Summary:* Landlord-tenant collaboration is increasingly common

## Social and Community Programs

Community engagement and workforce initiatives are common

E.g., volunteer programs, community investment, resident well-being

Negative example: INVH building cheaply, to low standards, create a cheap market product that dilutes quality of housing

*Summary:* Social sustainability initiatives often used to strengthen brand reputation

# Competitive Forces (Pt. 2): The Kilroy Case

## Strategic Opportunities

Growing demand for environmentally-responsible buildings as corporate tenants adopt climate commitments

Green certifications (e.g., LEED, ENERGY STAR) attract tenants and reduce OpEx, while expansion of renewable energy and green buildings support long-term growth

Sustainability leadership strengthens tenant retention, brand positioning, and innovation edge

## Operational and Financial Risks

Stricter environmental regulations may require major CapEx to stay in compliance

Electrification, retrofitting, and adoption of new energy tech are pricey but offer advantage

Climate exposure increases insurance premiums and OpEx

## 2030 Sustainability Targets

10% reduction in portfolio energy use intensity

8 MW onsite solar capacity goal

10% greenhouse gas emissions reductions by 2030

Market pressure: 70% of Kilroy's top 20 tenants have announced carbon neutrality or 100% renewable electricity goals

## Successful Case Example: Kilroy Airport Center

Major 720K+ square-foot commercial office campus located in El Segundo, CA, adjacent to LAX Airport

Two 12-story high-rises and one 13-story mixed office/parking space

Significant upfront investment for HVAC optimization and building management upgrades

Expected annual savings: 530K+ kWh energy; \$150K+ electricity

# Competitive Forces (Pt. 3): Opportunities & Threats

## Industry Sustainability Response Overview

REIT sector sustainability initiatives becoming increasingly standardized: investor expectations, tenant demand, regulations

Portfolio-wide energy efficiency programs, emissions tracking, and risk disclosures

Sustainability → baseline operational expectation

## Opportunities for Kilroy

Kilroy primarily operates in innovation markets where tenants in tech/life sciences place strong emphasis on sustainable building ops

Kilroy's high certification rates and full-lifecycle ESG integration → able to capture tenant demand and raise capital

Premium “green rents” or tenant retention

## Threats and Risks

Competitors can close the performance gap: high certification rates and similar technology adoption/isomorphism

High CapEx that strains profitability

## Market Pressure

Market expectations intensifying

Large tenants incorporate ESG into real estate decisions

REITs must demonstrate measurable progress on climate targets

# Institutional Forces (Pt. 1): Cognitive

**Triple-net lease and REIT/tenant separation:** With a triple-net structure, REITs are often operationally separate from the individual tenants that occupy their facilities. Since square footage equals value, there is little incentive for tenants to prioritize “longshot” or long time-horizon sustainability improvements. To fully vertically integrate a transformational sustainability strategy, REITs like Kilroy may have limited leverage in encouraging tenants to adopt certain tech/behaviors.

**Sustainability framed as measurement rather than transformation:** Within the REIT sector, sustainability can be often understood as tracking and disclosing environmental performance rather than fundamentally changing building development/operations models. For instance, Kilroy aligns its disclosure with California Assembly Bill 1305 and management frameworks like ISO 14001. Kilroy also leverages tools like Gridium platform for energy monitoring and EC3 calculator to quantify carbon in development projects. Yet, these commonly-followed frameworks (in both the industry and the state) reinforce that sustainability progress comes from measurement and reporting.

# Institutional Forces (Pt. 2): Normative

**Tenant expectations underscore baseline ESG rather than transformation:** Many of Kilroy's tenants (particularly tech/life science firms) have their own sustainability commitments, and prefer LEED certified/energy efficient buildings. This creates an "upward pressure" for REITs like Kilroy to adopt similar sustainability strategies at baseline. Certifications like LEED and ENERGY STAR are pursued. However, this prioritizes certification compliance over deeper ops transformation. Incremental improvements are prioritized more highly than deeper systemic change across portfolios.

**Investor expectations of returns within REIT sector:** As a publicly traded REIT, Kilroy must maintain predictable financial returns. Asset performance and return on investment is highly valued historically. This industry therefore prioritizes risk management. However, many transformational sustainability changes require higher risk investments that don't guarantee immediate returns.

**Industry reporting standards reinforce incremental change:** Kilroy's sustainability strategy aligns with widely-accepted disclosure frameworks like Greenhouse Gas Protocol and Task Force on Climate-Related Financial Disclosures. However, this can shift focus and attention to improving a limited subset of reported metrics, rather than pursuing fundamental changes to development models or portfolio-wide sustainability.

# Institutional Forces (Pt. 3): Regulatory

**Building codes and energy efficiency standards drive compliance:** Environmental regulation is embedded in building codes and energy benchmarks. Policies such as the Energy Independence and Security Act of 2007 and ASHRAE Standard 90.1 shape requirements for lighting, insulation, and building performance. LED retrofits and cool roofs are incentivized, yet regulatory compliance is the driver. Deeper decarbonization strategies are not at the forefront.

**Tax shield incentives encourage incremental upgrades:** Federal policy such as the Inflation Reduction Act provide tax incentives for energy-efficient building improvements (e.g., Section 179D). These tend to be cost-efficient retrofits, as opposed to transformative changes to the entire REIT industry. Efficiency upgrades are thus entrenched.

**Labor and workplace regulations for social compliance:** Laws such as the Occupational Safety and Health Act, the Fair Labor Standards Act of 1938, and Civil Rights Act of 1964 set mandatory standards for worker safety, wages, and non-discrimination. Social responsibility is ensured at baseline. Many workplace compliances are driven by legal compliance and social reputation, rather than systemically transformative strategies.

**Water resources are driven by regulations:** Clean Water Act require baseline water stewardship. Kilroy reports low-flow fixtures and drought-tolerant landscaping, but these may reflect compliance more so than transformational thinking.

## Value Creation – Expanding the Value Pool Through Shared Value

Stakeholder Group	Value Creation Mechanism	Economic and Social Value Created
<b>Corporate Tenants</b>	Integration of WELL and Fitwel standards into asset management	Enhanced human capital ROI and employee retention
<b>Investors and Lenders</b>	ESG reporting discipline and Green Finance Framework	Lower cost of debt and reduced WACC via Greenium
<b>Environment</b>	100% Operational Decarbonization and Green Power procurement	Systematic elimination of Scope 1 and 2 carbon externalities
<b>Communities and Cities</b>	Focus on LEED Infill and Transit Oriented Development	Reduced urban heat island effect and improved infrastructure resilience

# Value Creation: Evidence in Report

## Corporate Tenants

The sustainability representatives of several tenants work directly with our sustainability team on projects like obtaining environmental and health certifications such as LEED and Fitwel

## Investors & lenders

### Best in Building Health

Fitwel Excellence Award, Most Certifications of All-Time, 2019–2022

## Environment

Economic Performance, Anti-Corruption, Anti-Competitive Behavior, Product and Service Labeling, GRESB Participation, Transparency, Governance, Emissions, Energy, Water, Building Certifications, Community Relations, Resilience, Health and Wellness

## Communities & cities

### Green Cleaning

We continue to use the high-performance green cleaning program that aligns with the requirements of LEED, WELL, and Fitwel certification programs. All cleaning products we use meet the relevant LEED environmental standard, either GreenSeal or the California Volatile Organic Compound (VOC) limit. Our vacuums achieve the Carpet and Rug Institute

# Value Capture – Competitive Advantage via VRIO Framework

Sustainability Competency	Value	Rarity	Inimitability	Organization	Evidence
<b>Deep Energy Retrofit Expertise</b>	High: Drives NOI by reducing energy OpEx.	High: 11 years of Energy Star Sustained Excellence.	Path Dependent: Built over a decade of complex asset upgrades.	Fully Integrated: In-house engineering teams manage all retrofits.	P2 "ENERGY STAR Partner of the Year: 11 consecutive years"
<b>Green Brand Equity</b>	High: Commands rent premiums and high occupancy.	High: Most Fitwel certifications of all-time globally.	Socially Complex: Embedded in KRC's reputation and leasing culture.	Top-down Governance: Sustainability is a board-level strategic priority.	P2 "Fitwel Excellence Award: Most certifications of all-time".
<b>ESG Reporting Rigor</b>	High: Essential for access to Green Capital.	Moderate: Becoming common, but KRC's quality is superior.	Causal Ambiguity: Proprietary data systems link ESG to financial ROI.	Integrated Systems: Real-time monitoring across 100% of the portfolio.	P2 "GRESB 5-Star Designation for 10 consecutive years"

# Mechanisms: How Kilroy Operationalizes Sustainability at Scale

## Process Integration Table

Step	Primary Purpose	Typical Outputs	Evidence from Kilroy 2024 Report
<b>Market Assessment</b>	Evaluation of asset level materiality and climate hazard exposure	Risk heat maps and stakeholder materiality matrices	p 2 GRESB 5 Star leadership and p 15 environmental highlights
<b>Action Planning</b>	Strategic capital allocation and integration into multi year CapEx	Budget for deep energy retrofits and green financing targets	p 69 1.1 Billion Green Senior Notes and p 64 Board Audit Committee oversight
<b>Implementation</b>	Standardization of sustainable building practices and lease alignment	Green lease execution and 100 percent renewable energy procurement	p 2 Green Lease Champion of the Decade and p 2 National Top 100 Green Power User
<b>Performance Review</b>	Third party data assurance and verification of operational outcomes	Audit ready KPI updates and verified decarbonization results	P 2 Carbon Neutral Operations and p 55 health and wellness metrics

# Key Mechanism 1: Portfolio Data Platform and Operational Optimization

## Data Integration and Operational Table

Data Capability	Operational Application	Business Relevance and Value Capture	Evidence from Kilroy 2024 Report
<b>Energy and Utility Metrics</b>	Automated benchmarking and anomaly detection for HVAC systems	Direct reduction in OpEx and protection of Net Operating Income	p 2 ENERGY STAR Partner of the Year for 11 years
<b>System Performance Signals</b>	Predictive maintenance and real time commissioning of equipment	Asset life cycle extension and mitigation of business disruption	p 2 GRESB 5 Star Designation for 10 years
<b>Portfolio Comparability</b>	Ranking assets by Energy Use Intensity to prioritize capital allocation	Scalable efficiency through standardized operational playbooks	p 15 Environmental Highlights and data tracking systems
<b>Measurement and Verification</b>	Auditable progress tracking against Science Based Targets (SBTi)	Financial legitimacy for Green Bond compliance and reporting	p 69 1.1 Billion Green Senior Notes outstanding
<b>Tenant Utility Signals</b>	Scope 3 data capture via integrated submetering systems	Resolution of the split incentive through collaborative decarbonization	p 2 Green Lease Leader Champion of the Decade

# Key Mechanism 2: Key Mechanism 2 – Sustainable Development and Supply Chain Rigor

## Lifecycle Integration Table

Lifecycle Phase	Sustainability Intervention	Economic and Strategic Value	Evidence from Kilroy 2024 Report
<b>Site Selection and Planning</b>	Prioritization of transit oriented and urban infill development	Minimizes Scope 3 transportation emissions and enhances asset liquidity	p 15 focus on transit oriented development and p 34 sustainable development strategy
<b>Design and Construction</b>	Implementation of LEED Gold and Platinum standards and healthy material screening	Future proofs assets against regulation and optimizes long term CapEx efficiency	p 15 72 percent LEED certified portfolio and p 2 Jardine WELL Gold project
<b>Procurement and Supply Chain</b>	Rigorous environmental and social screening of tier one suppliers	Mitigates reputational risk and improves supply chain resilience	p 62 supplier screening processes and p 64 governance oversight
<b>Operations and Asset Management</b>	Integration of high efficiency systems and wellness certifications	Drives NOI through lower OpEx and supports higher occupancy rates	p 2 Carbon Neutral Operations and p 55 Health and Wellness Metrics

# Key Mechanism 3: Green Leasing as a Scalable Tenant Collaboration System

Strategic Pillar	Core Mechanisms	Functional Impact on Value Capture	Evidence from Kilroy 2024 Report
<b>Data Transparency</b>	Tenant energy data sharing and submetering provisions	Eliminates information asymmetry and enables accurate Scope 3 benchmarking	p 2 Green Lease Leader Champion of the Decade
<b>Operational Alignment</b>	Efficiency standards for fit outs and waste collaboration	Prevents performance backsliding and ensures building level efficiency gains	100 percent of top tenants in green leases p 6
<b>Financial Reciprocity</b>	Cost recovery and cost sharing frameworks	Resolves the split incentive by allowing KRC to recoup sustainable CapEx	p 2 Gold Level Green Lease Leader 2018 2024
<b>Risk Resilience</b>	Climate preparedness and business continuity coordination	Minimizes post disaster downtime and protects long term rental stability	p 64 Audit Committee oversight of climate risk

# Competitive Advantage: Where Kilroy Captures Value from an Embedded Strategy

Advantage	Value capture pathway	Evidence to cite	What to strengthen
Operating discipline and repeatable execution	Supports confidence in operational performance and management quality	Kilroy states sustainability is embedded through design and operations and treated as strategy.	Report stable, year-over-year KPIs with clear portfolio boundaries
Tenant-facing product standards (certifications and wellbeing)	Makes building quality comparable for tenant decision-makers	Fitwel Excellence Award Most Certifications of All-Time: Kilroy Realty Corporation.	Pair certification coverage with a short standard-to-metric mapping (e.g., energy intensity coverage, recertification cadence)
Credibility infrastructure (independent assurance and verification)	Reduces information asymmetry and claims risk	DNV was commissioned by Kilroy to conduct independent assurance (assurance statement PDF).	Clarify assurance scope on the most decision-relevant KPIs and disclose scope changes over time
Financing alignment (green bond governance and allocation)	Expands access to aligned capital pools and imposes reporting discipline	Kilroy issued three green bonds (2018, 2020, 2021) and reports allocation to eligible green projects.	Avoid pricing claims; instead report allocation completeness, project categories funded, and KPI changes linked to proceeds

# Value Capture Pathways

**Leasing channel:** certifications / workplace quality signals → leasing confidence indicators

**Operations channel:** data platform / performance management → intensity trends, verified outcomes

**Capital channel:** assurance + use-of-proceeds governance → allocation completeness, reporting discipline



# Value Creation: Expanding the Value Pool

Value pool dimension	Embedded mechanism	Primary value created	Primary beneficiaries	Reportable indicators
Workplace quality and wellbeing	Certification-based workplace standards for health and wellbeing	<ul style="list-style-type: none"> <li>• Clearer workplace quality signals</li> <li>• Supports tenant decision-making</li> <li>• Supports workplace experience</li> </ul>	Tenants/Building users	<ul style="list-style-type: none"> <li>• Certification coverage</li> <li>• Recertification cycle</li> <li>• Program participation where reported</li> </ul>
Operational performance and resource efficiency	Energy-performance standards supported by operational discipline	<ul style="list-style-type: none"> <li>• Improved comparability and management of building performance</li> <li>• Supports efficiency</li> <li>• Supports transparency</li> </ul>	Tenant/Investors/Internal operations teams	<ul style="list-style-type: none"> <li>• Energy intensity and related performance indicators</li> <li>• ENERGY STAR coverage or benchmarking status</li> <li>• Boundary and methodology disclosures</li> </ul>
Data transparency and performance management	Green lease provisions for data sharing and measurement	<ul style="list-style-type: none"> <li>• Improved access to tenant-related performance data</li> <li>• Supports benchmarking</li> <li>• Supports verification</li> </ul>	Tenants/Owners/Investors	<ul style="list-style-type: none"> <li>• Tenant data coverage rate</li> <li>• Share of leases with data-sharing provisions</li> <li>• Metering coverage where reported</li> </ul>
Coordination and shared accountability	Green lease coordination provisions and fit-out performance expectations	<ul style="list-style-type: none"> <li>• Improved alignment across owner and tenant actions</li> <li>• Helps preserve performance through tenant changes</li> </ul>	Tenants/Owners	<ul style="list-style-type: none"> <li>• Share of fit-outs subject to performance expectations</li> <li>• Adoption of coordination practices</li> <li>• Compliance review cadence</li> </ul>
Credibility and disclosure integrity	Use of third-party standards and independent verification posture	<ul style="list-style-type: none"> <li>• Improved credibility of disclosed performance</li> <li>• Improved interpretability of disclosed performance</li> </ul>	Investors/Regulators/Tenants	<ul style="list-style-type: none"> <li>• Assurance scope and standard</li> <li>• KPI consistency year over year</li> <li>• Alignment with reporting frameworks as disclosed</li> </ul>
Capital allocation discipline	Use-of-proceeds green financing governance	<ul style="list-style-type: none"> <li>• Capital directed to eligible projects</li> <li>• Defined reporting discipline</li> </ul>	Investors/Company	<ul style="list-style-type: none"> <li>• Allocation reporting completeness</li> <li>• Project categories funded</li> <li>• Linkage between funded projects and disclosed KPIs where reported</li> </ul>

# Core Exhibit: Value Creation Chain

<b>Material issue</b>	<b>Embedded mechanism</b>	<b>Value created</b>	<b>Primary beneficiaries</b>	<b>Metric to report (portfolio-level)</b>
Operational emissions and energy performance	Certification-based performance standards (LEED, ENERGY STAR as applicable)	Comparable building performance signals and operational discipline	Tenants; investors	Energy intensity; ENERGY STAR coverage; boundary definition
Operational emissions and energy performance	Portfolio data platform and operational optimization	Identification of inefficiencies and continuous performance improvement	Owners and operations teams; tenants	Asset coverage of platform; verified savings summaries; performance variance tracking
Operational emissions and energy performance	Green lease data-sharing provisions	Improved access to performance data for benchmarking and verification	Tenants; owners	Share of leases with data-sharing provisions; tenant utility-data coverage rate
Tenant experience and workplace wellbeing	Wellbeing certification as product attribute (Fitwel or equivalent)	Clear workplace quality signal aligned to tenant priorities	Tenants; building users	Certification coverage; recertification cycle; program participation where reported
Coordination and shared accountability	Green lease coordination and fit-out performance expectations	Improved alignment across owner and tenant actions; preservation of performance through tenant changes	Tenants; owners	Share of fit-outs subject to performance expectations; compliance review cadence
Climate resilience and physical risk preparedness	Investment screening and project design practices aligned to resilience priorities	Improved decision quality and reduced exposure over time	Investors; communities	Share of assets screened; exposure share by key hazards; decision thresholds where used

# What's Missing: Where Evidence Is Thinner Than the Mechanisms

Gap area	Why it matters (materiality)	What is typically disclosed today	What is missing	Recommended disclosure metric
Green leasing adoption coverage	Embedded impact depends on scale across leases and tenant base	Policy intent and clause direction	Coverage rates and adoption trend over time	% leases with green clauses; % leased area covered; year-over-year change
Tenant energy/data coverage	Scope 3 and operational performance are tenant-influenced	Data platform description; data-sharing approach	Extent and quality of tenant data available	% tenant utility data captured; % space submetered; data completeness score
Carbon-neutral approach boundaries	Stakeholders assess credibility based on reduction versus instruments	Carbon neutrality claims / green power description	Breakdown of instruments, quality criteria, and reduction pathway	Share of reductions vs instruments; criteria for offsets/RECs; trajectory milestones
Scope 3 pathway beyond assessment	Value-chain impacts are increasingly expected in mainstream markets	Preliminary assessment language	Prioritized categories, targets, and governance for follow-through	Scope 3 category priorities; interim milestones; engagement plan coverage
Physical risk outcomes beyond policy	Insurance and monitoring do not equal resilience outcomes	Risk management and preparedness framing	Exposure metrics and outcome indicators for recovery and cost	Share of assets in relevant hazard zones; premium/deductible trend; downtime proxy
Mechanism-to-outcome linkage	External audiences need evidence that systems change performance	Program descriptions and recognitions	Attribution and persistence of improvements	Initiative-to-KPI mapping; M&V summaries for top initiatives

# Recommendations: Strengthening the Embedded Business Case

Recommendation	Primary owner	Operational mechanism	KPI to track	Implementation timing	External reporting output
<b>Disclose green lease coverage</b>	Leasing; Sustainability	Standard clause set applied at new leases and renewals	Coverage rate; leased area covered; year-over-year change	Begin immediately; first cycle within 12 months	Annual coverage table with stable boundary and methodology
<b>Disclose tenant data coverage</b>	Asset Management; Engineering; Sustainability	Utility authorization workflow and data quality checks	Tenant data coverage rate; metering coverage; completeness indicator	6–12 months baseline; 12–24 months expansion	Annual coverage chart with definition of coverage
<b>Standardize a small portfolio KPI set</b>	Engineering; Asset Management	Monthly performance review with variance escalation	Energy intensity; GHG intensity as disclosed; ENERGY STAR coverage; water intensity	Define within 3 months; embed into monthly cadence	Annual KPI dashboard with consistent definitions
<b>Embed KPIs into capital prioritization</b>	Finance; Asset Management; Engineering	KPI-based project pipeline and M&V requirement	Share of CapEx linked to KPI gaps; verified persistence summary	6–18 months to fully operationalize	Annual summary of projects funded and KPI impacts
<b>Link green finance to measured outcomes</b>	Treasury/Finance; Sustainability	Allocation tracking and impact reporting	Allocation completeness; project categories funded; KPI linkage where reported	Next green finance reporting cycle	Concise allocation and impact table in sustainability reporting
<b>Add physical risk screening and disclosure</b>	Investments/Development; Risk; Sustainability	Hazard screening with documented decision thresholds	Share of assets screened; exposure share by hazard; insurance cost trend indicator	6–12 months baseline; 12–24 months refinement	Annual exposure and trend disclosure with decision thresholds
<b>Publish initiative-to-outcome mapping</b>	Sustainability; Engineering	Top initiative selection with defined expected KPI and verification	Top initiatives with verified KPI impacts; M&V summaries	First version within 12 months	One-page program-to-KPI-to-result table

# Kilroy's Path to a Transformational Strategy

Kilroy's 2024 Sustainability report identified **Energy & Carbon, Climate Resilience, and Employee Tenant Wellbeing** as the 3 material topics with the greatest impact on their core business and stakeholders

These topics also reflect some of Kilroy's strongest core competencies and differentiators from the rest of the market.

We will therefore focus on these 3 topics as the core areas for Kilroy's expansion into a transformational strategy

## Materiality Matrix



### 2024 Materiality Topics

- Environmental
- Social
- Governance

(Kilroy Annual Sustainability Report 2024)

# Notes on Customer/Tenant Acquisition

The proposed strategy does not intend to significantly change Kilroys approach towards tenant acquisition.

Kilroy vertically integrated and diversified management strategy is already a sound operating model and succeeds in capturing high value tenants such as life sciences and high tech companies.

Rather, the goal of the proposed strategy is to further capitalize on Kilroys core competencies, solidifying its place as market leader by exploring new avenues for value creation through coalition and network building.



# Energy and Carbon

## Current:

Kilroy has already made significant efforts to monitor its the energy use and carbon impact of its own buildings.

They have set clear goals to reduce emissions and energy use intensity and already operate carbon neutrally through the purchase of renewable energy credits and carbon offsets.

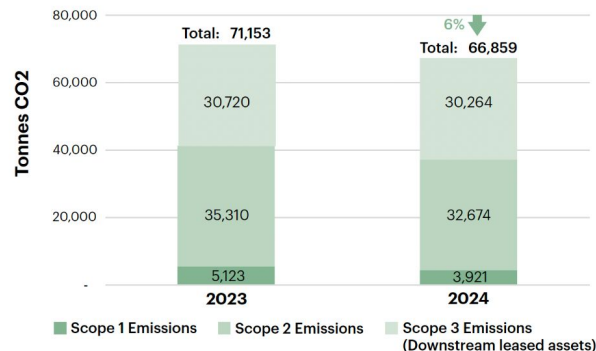
## Potential:

Scope 2 Emissions, which are directly related to energy generation, make up nearly half of Kilroy's total emissions.

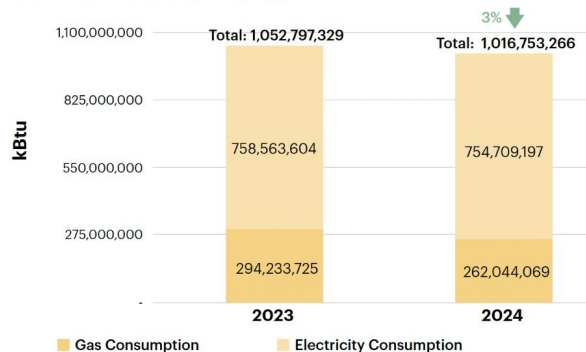
These emissions can fluctuate due to factors outside of Kilroys control as they note :

*“Additional reductions were a result of lower grid emissions factors for purchased electricity in multiple regions compared to 2023 levels.”*

Year-over-Year Absolute GHG Emissions



Year-over-Year Absolute Energy



# Energy and Carbon

## Strategy

In order to meet energy and emission goals Kilroy must influence an industry, energy generation, which is outside their scope of direct influence.

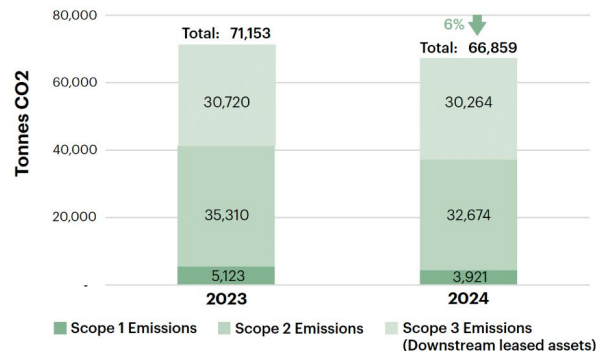
Coalition building will be necessary to to both support the expansion of renewable energy and facilitate adoption by other managers and developers in the regions where Kilroy is active to not only improve the Kilroys energy mix but that of the entire grid.

## Example

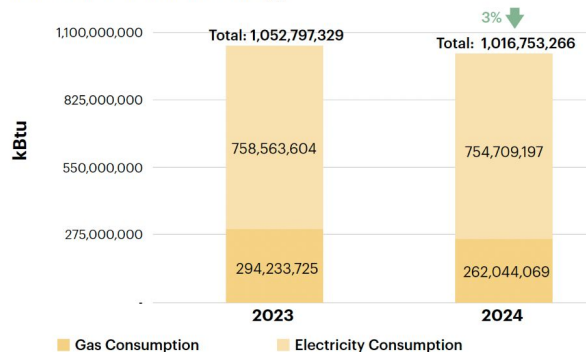
Kilroy is already installing solar panels on its properties. A first step towards a transformational strategy could be work with neighboring properties to create microgrids that extend beyond just its assets.

In jurisdictions like Washington and California which have carbon markets this could create powerful financial incentives for Kilroy and other actors in its network. **Kilroy can also work with neighbors to adopt the same carbon and energy accounting standards it has. With enough buy in this could bring enough renewable energy on the grid to lower costs for everyone.**

Year-over-Year Absolute GHG Emissions



Year-over-Year Absolute Energy



# Employee & Tenant Well Being

## Current:

Kilroy takes steps to ensure occupants wellbeing through *“access to fitness and healthy food amenities; daylight; indoor air quality; green space and biophilic design.”*

About half of their portfolio is fitwel certified, and nearly the whole portfolio is WELL Health-Safety certified

## Potential:

Kilroy can push its tenant well being initiative by integrating their amenities into a comprehensive environment for not only their tenants but community at large.

Strategic opportunity: in an era defined by a lack of “third spaces,” Kilroy can provide these spaces for vibrant community activity.

By ensuring the communities and areas are desirable and in demand this strategy can solidify long term value add for Kilroy’s assets while simultaneously building an ecosystem that extends beyond them.



**Ex.** A common Area in Kilroy’s Jardine in LA offers a perfect venue for community based activation

# Employee & Tenant Well Being

## Strategy

Kilroy networks with nearby buildings owned by other asset managers to expand availability of green space and amenities to more tenants and the public.

This improves the overall civic vibrancy of the district driving demand for all assets in the area

## Example

*Kilroy could provide access to their courtyards as de-facto public park space and neighboring buildings do the same.*

*Kilroy could create a program to work with community groups and lets them use unused conference/events space pro-bono for programming. This activates these properties, getting the community more involved, and makes them more lively and inviting for tenants and occupants.*

*Ex. Hudson Pacific's Washington 1000 in Seattle let Soapbox Project (Climate focused Non-Profit) host a Gala in their lobby and on their rooftop*



**Ex.** A common Area in Kilroy's Jardine in LA offers a perfect venue for community based activation

# Climate Resilience

“A tree can only be as strong as the forest that surrounds it.”  
-Peter Wohlleben, *The Hidden Life of Trees*

## Current:

Kilroy intends to improve the resilience of its own buildings to physical climate risks (severe weather events, extreme heat, drought, wildfire, etc) through construction and design strategies

As of right now though Kilroy has not outlined a specific policy roadmap addressing its overall approach to resilience. Rather resilience shows up as a theme across other material aspects of discussion.

## Potential:

Like a tree a building can only be as resilient as the city that surrounds it so climate resilience can only be addressed at the scale of a city or region.

In order to secure the resilience of its own assets Kilroy can start working with local governments, other asset managers, urban planners etc. to create a comprehensive transformational strategy to ensure climate resilience going forward.

## Stakeholder Engagement

Stakeholder Group	Engagement Approach	Material Aspects and Topics of Discussion
<b>Employees</b>	<ul style="list-style-type: none"> <li>Employee satisfaction survey</li> <li>Training programs and support</li> <li>Annual performance reviews</li> <li>Intranet site for internal communications</li> <li>Whistleblower mechanism</li> <li>Collaboration on projects and certifications</li> <li>Regional Culture Crew team building events</li> <li>Regional Culture Crew service events</li> <li>Employee wellness programs</li> <li>Quarterly townhall meetings</li> <li>Community newsletters</li> </ul>	<ul style="list-style-type: none"> <li>Energy, Water, Waste, Product and Service Labeling, <b>Resilience</b>, Awards, Professional Development, Health and Wellness, Diversity, Nondiscrimination</li> </ul>
<b>Tenants</b>	<ul style="list-style-type: none"> <li>(See Tenant Engagement matrix on page 57)</li> </ul>	<ul style="list-style-type: none"> <li>Energy, Water, Waste, <b>Resilience</b>, Health &amp; Wellness, Awards, Building Certifications, Carbon Neutral Operations, Community Engagement, <b>Climate Resilience</b></li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>TCFD aligned disclosures in the annual Sustainability Report</li> <li>Dedicated investor disclosures</li> <li>Quarterly earnings calls including Q&amp;A with senior management</li> <li>Dedicated investor relations team</li> <li>Investor meetings and investor events</li> <li>Questionnaires and surveys</li> <li>Property tours</li> <li>Green bond disclosures</li> <li>Annual Sustainability Report</li> </ul>	<ul style="list-style-type: none"> <li>Economic Performance, Anti-Corruption, Anti-Competitive Behavior, Product and Service Labeling, GRESB Participation, Transparency, Governance, Emissions, Energy, Water, Building Certifications, Community Relations, <b>Resilience</b>, Health and Wellness</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>Advocacy related to specific development projects</li> <li>Engagement with government representatives on sustainability issues</li> <li>Working group/committee participation for the development of new legislation on local, state, and federal level</li> <li>Collaboration throughout the permitting process</li> <li>Speaking at government-focused events</li> <li>Participation in government-run sustainability programs</li> </ul>	<ul style="list-style-type: none"> <li>Materials, Emissions, Energy, Water, Public Policy, Social &amp; Community Impact, Transit-Oriented Development, Transparency, Barriers to Utility Data Access, Benchmarking Ordinances, Environmental Compliance, Environmental Grievance Mechanisms, Renewable Energy, Electrification, Grid Capacity, <b>Climate Resilience</b></li> </ul>

# Transformational Strategy

Example Implementation:

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-Peter Wohlleben, The Hidden Life of Trees*

## I. Kilroy Engages Local officials and Urban Planners to:

1. Identify Climate Goals of Local Government and Understand where they align with Kilroys
2. Identify climate risk “Districts” which Kilroy’s Assets are located in.

*Climate Risk Districts are areas which share Heat/Flood/Drought/Fire risk etc. They may also share services such as Water systems or Electrical grids.*

*These Districts are formalized entities in California and Connecticut. The intention would be for Kilroy and its partners to define districts which best suit their needs*



Ex. Kilroy’s Oyster Point Project shares flood risk with nearby buildings

## II. Used Newly Created Districts to Form Climate Risk District Councils

- 1.) Include Asset Managers/Owners + Community Members & stakeholders to Coordinate Collective actions

*Ex. Create a district level water reserves during drought in case of fire to reduce risk & insurance premiums across the district*

*Ex. Coordinate local grid/microgrid usage to avoid peak pricing for AC in extreme heat events to reduce energy costs for all district members*

## III. Report Findings/Results/Feedback to Local Gov

1. Coordination and feedback from the District level will help local government manage risk and increase resilience on larger scales

# Transformational Strategy

Example Implementation:

Through creating a forum for coordination through Climate Risk District councils, Kilroy creates a “meta-organization” that also increases the potential for collaboration for the Energy and Tenant wellbeing pillars of its transformational strategy.



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By pursuing this strategy Kilroy will not only be able to capitalize on its core competencies but create additional value by supporting improvements across the markets it operates in further securing the value of its assets.



# Transformational Strategy

## Overcoming Institutional Forces: Cognitive

**Triple-net lease and REIT/tenant separation:** Relying on tenants to independently implement sustainability improvements is not an effective course of action. Under this plan for a transformational strategy Kilroy would rather focus on systemic district level interventions, more horizontally and vertically, that improve the sustainability profile of all users/tenants (as opposed to looking solely downstream to the tenants).

**Sustainability framed as measurement rather than transformation:** The proposed strategy is specifically structured to move beyond this framework. The new framework prioritizes climate district-wide “wins” over individual firm wins. By focusing on collaboration with multiple stakeholders in the markets Kilroy operates in the sustainability moves beyond just metric gathering to become mode of operating the business as a whole.

# Transformational Strategy

## Overcoming Institutional Forces: Normative

**Tenant expectations underscore baseline ESG rather than transformation:** Although tenants will benefit from the proposed transformational strategy Kilroy itself will be the largest beneficiary. By increasing district wide resilience, improving energy use and emission intensity Kilroy will both reduce its overhead and ensuring the stability and value of its assets moving forward. Even tenant focused amenity improvements ultimately accrue toward the value of the assets.

**Investor expectations of returns within REIT sector:** Kilroy has shown a willingness to continue paying dividends which exceed its free cash flows in order to maintain a 27 year uninterrupted streak. This decision speaks to the management's confidence that their current strategy will produce long term returns and the awareness of investor expectation. Likewise embarking on a transformation strategy will likely require similar upfront investments which fortunately Kilroy has shown it is able and willing to provide (Sahm Capital, 02.09.2026)

**Industry reporting standards reinforce incremental change:** While reporting metrics may not capture the full breadth of benefits that are accrued by pursuing a transformation sustainability strategy everything is ultimately reflected in the bottom line. If this strategy works as intended pressure to adhere to specific reporting standards will be superseded by the value generated in terms of both reduced building management expenses and strong tenant demand

# Transformational Strategy

## Overcoming Institutional Forces: Regulatory

**Building codes and energy efficiency standards drive compliance & Tax shield incentives encourage incremental efficiency upgrades:** As Kilroy has noted within their sustainability report, efficiency and decarbonization ultimately rests at the point of generation. Whether it is installing onsite renewable capacity or working across industries to leverage incentives towards renewable energy development this strategy is designed to overcome the trend towards only incremental improvements.

**Labor and workplace regulations for social compliance:** The Employee & Tenant well being pillar of the proposed strategy is built on the conviction that taking measures beyond just compliance is a winning value add strategy to attract top tier tenants and employees.

**Water resources are driven by regulations:** Kilroy is already embarking a comprehensive audit of its water usage. As water becomes more scarce especially in sunbelt states water usage will be driven by concern over the bottom line more than simply regulatory compliance. Firms in a common climate district can hold each other accountable.

# References

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