



Kilroy Realty Corporation (KRC)

Updated November 7th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	14.9%	Market Cap:	\$3.70 B
Fair Value Price:	\$45	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	12/29/23 ¹
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	8.1%	Dividend Payment Date:	01/11/24
Dividend Yield:	6.9%	5 Year Price Target	\$50	Years Of Dividend Growth:	7
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Kilroy Realty Corporation is a self-administered real estate investment trust (REIT). The company operates in office and mixed-use submarkets along the West Coast. The company owns, develops, acquires, and manages real estate assets, consisting primarily of properties in the coastal regions of Greater Los Angeles, San Diego County, the San Francisco Bay Area, and Greater Seattle. KRC's stabilized portfolio totaled approximately 14.2 million square feet of primarily office and life science space. The company also had more than 1,000 residential units in Hollywood and San Diego. KRC has been developing, acquiring, and managing office space, life science, and mixed-use projects for the past seven decades. Kilroy Realty Corporation trades on the New York Stock Exchange under the ticker symbol KRC. The company is also a member of the S&P MidCap 400 Index. The company has a seven-year dividend growth history and a current market capitalization of \$3.70 billion.

On October 25th, 2023, Kilroy Realty Corporation reported its third-quarter financial results for Fiscal Year (FY)2023. The Company demonstrated a stable financial performance amidst market fluctuations. The company reported a 2.8% growth in revenues, reaching \$283.6 million, compared to the previous year's \$276.0 million. However, there was a decrease in net income available to common stockholders, with earnings of \$0.45 per diluted share in Q3 2023, down from \$0.68 per diluted share in the same period of 2022. This decline was influenced by the absence of a gain on the sale of an operating property, which was included in the previous year's figures. Despite this, Kilroy maintained a robust position, with funds from operations (FFO) available to common stockholders and unitholders at \$134.0 million, or \$1.12 per diluted share, indicating the company's resilience in the face of market challenges. Kilroy's leasing and occupancy metrics underscored its strong market presence. The stabilized portfolio showed an occupancy rate of 86.2% and a lease rate of 87.5% as of September 30, 2023. During the quarter, the company signed new and renewing leases totaling approximately 188,000 square feet. Notably, Kilroy experienced a significant 16.1% increase in GAAP rents within its stabilized portfolio. Additionally, the company successfully executed its development and redevelopment strategies, exemplified by the addition of 9514 Towne Centre Drive, a fully leased 71,000 square foot office building in San Diego, to its stabilized portfolio. These strategic moves affirm Kilroy's position as a leading player in the real estate market.

Furthermore, Kilroy Realty Corporation maintained a robust balance sheet and liquidity position, ensuring its financial stability and flexibility. The company secured a non-recourse mortgage note of \$375.0 million in July, featuring a fixed interest rate of 5.90% and maturing on August 10, 2034.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$2.66	\$2.85	\$3.39	\$3.46	\$3.40	\$3.48	\$3.91	\$3.71	\$3.89	\$4.68	\$4.52	\$4.99
DPS	\$1.40	\$1.40	\$1.40	\$1.48	\$1.65	\$1.79	\$1.91	\$2.01	\$2.04	\$2.04	\$2.16	\$2.38
Shares²	77.0	85.0	90.0	93.0	99.0	100.0	104.0	114.0	118.0	119.0	119.0	119.0

¹ Ex-Dividend and Dividend Payment Dates are estimates.

² Share count is in millions.

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Kilroy's growth prospects will be its management's ability to continue and successfully find and acquire attractive properties. Also, management's ability to construct new mixed-use properties. Thus, we expect KRC to grow FFO at a CAGR of 2% for the next five years. This will give an FFO of \$4.99 per share for 2028. Our growth estimate is lower than KRC's ten-year average of 6.5%. FFO growth can be higher as the company has a quality balance sheet, which will help fund future projects. We anticipate that KRC will grow its dividend at a 2% CAGR for the next five years for the dividend growth rate.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	18.9	24.2	18.7	21.2	22	18.1	21.5	15.5	17.1	8.3	6.8	10.0
Avg. Yld.	2.8%	2.0%	2.2%	2.2%	2.2%	2.9%	2.3%	3.4%	3.1%	5.5%	6.9%	4.8%

Kilroy Realty Corporation's stock price looks undervalued compared to our fair P/FFO ratio of 10.0x. Thus, this will provide a multiple expansion of 8.1% annually for the next five years. The dividend yield is also higher than its ten-year average of 2.9%, which is a good indicator for valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

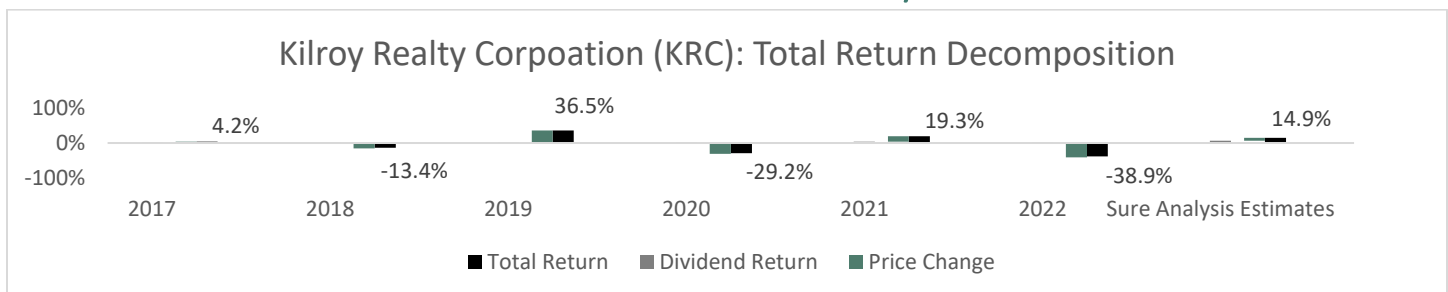
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52.6%	49.1%	41.3%	42.6%	48.5%	51.4%	48.8%	54.2%	52.4%	43.6%	48%	48%

Management execution of new properties, either through acquisition or construction of new properties, is its most significant competitive advantage going forward. Thus, the efficiency to scale is its most crucial growth driver. During the Great Recession, FFO grew 8% in 2008. However, in 2009, FFO was down (24)% from \$3.42 per share, in 2008, to \$2.60 per share 2009. It took the Company four years to get above \$2.60 per share. The company fared much better during the COVID-19 pandemic as FFO only fell by (5)% in 2020, but FFO is expected to be higher this year than in 2020. Kilroy Realty has an S&P credit rating of BBB, considered investment grade. The company sports a solid and healthy balance sheet with interest coverage of a 3.3 ratio and a debt/equity ratio of 0.9. Both ratios are of quality. KRC's long-term debt to cap ratio is also good at only 48.2%. Thus, the dividend payout ratio, well below a typical REIT ratio, of only 48% based on FY2023 FFO, is safe and well covered.

Final Thoughts & Recommendation

Kilroy Realty Corporation is a solid, high-quality REIT with experience and a long track record of expertise in the West Coast markets. The company continues to expand its portfolio in different markets, such as Austin, Texas. Thus, we see a 14.9% annual rate of return over the next five years. Of the 14.9%, it will come from FFO growth of 2%, a dividend yield of 6.9%, and multiple expansion of 8.1%. Thus, we rate Kilroy Realty Corporation a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	457	522	581	643	719	747	837	898	955	1097
Gross Profit	320	373	423	470	516	537	584	638	685	776
Gross Margin	70.0%	71.5%	72.7%	73.1%	71.8%	71.8%	69.7%	71.0%	71.8%	70.7%
SG&A Exp.	40	46	48	57	61	90	88	99	93	94
D&A Exp.	201	204	204	217	246	254	274	300	311	
Operating Profit	91	124	169	196	207	186	222	239	283	325
Operating Margin	19.9%	23.8%	29.2%	30.5%	28.7%	24.9%	26.5%	26.6%	29.6%	29.6%
Net Profit	44	180	234	294	165	258	195	187	628	233
Net Margin	9.6%	34.5%	40.3%	45.7%	22.9%	34.6%	23.3%	20.8%	65.8%	21.2%
Free Cash Flow	-515	-656	-384	-545	-159	-814	-966	-160	-1,281	

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,111	5,634	5,926	6,707	6,803	7,766	8,900	10,001	10,583	10797
Cash & Equivalents	35	24	57	193	58	52	60	732	414	347
Accounts Receivable	11	7	11	13	17	20	26	12	14	21
Inventories	213	8	118	9						
Goodwill & Int. Ass.	71	61	44	58	37	31	27	15	57	
Total Liabilities	2,595	2,910	2,692	2,947	2,843	3,564	4,329	4,723	4,894	5,122
Accounts Payable	198	226	246	202	250	374	419	445	391	392
Long-Term Debt	2,205	2,469	2,225	2,320	2,347	2,933	3,553	3,924	4,069	4,263
Shareholder's Equity	2,269	2,474	2,979	3,351	3,701	3,930	4,294	5,030	5,440	5,437
LTD/E Ratio	0.90	0.93	0.70	0.65	0.63	0.75	0.83	0.78	0.75	0.78

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	3.4%	4.0%	4.7%	2.4%	3.5%	2.3%	2.0%	6.1%	2.2%
Return on Equity	2.1%	7.6%	8.6%	9.3%	4.7%	6.8%	4.8%	4.0%	12.0%	4.3%
ROIC	1.0%	3.6%	4.4%	5.1%	2.7%	3.8%	2.6%	2.2%	6.6%	2.4%
Shares Out.	77.0	85.0	90.0	93.0	99.0	100.0	104.0	114.0	118.0	117.2
Revenue/Share	5.91	6.14	6.43	6.91	7.28	7.44	8.06	7.90	8.17	9.36
FCF/Share	-6.66	-7.72	-4.25	-5.86	-1.61	-8.10	-9.30	-1.41	-10.96	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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