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Kennedy-Wilson Holdings, Inc.

Form 424B3

March 04, 2014

Filed by Kennedy-Wilson Holdings, Inc.

pursuant to Rule 424(b)(3) under the Securities Act of 1933

Commission File No.: 333-164926

ANNUAL REPORT ON FORM 10-K

On March 3, 2014, Kennedy-Wilson Holdings, Inc. filed with the Securities and Exchange Commission its Annual Report on Form 10-K for the year ended December 31, 2013, which is reproduced below as Appendix A to this filing.

The exhibits filed with the Annual Report are attached to Appendix A to this filing.

In connection with the offering (the "Offering") of up to 20,278,690 shares of common stock and 4,993,471 warrants to purchase common stock of Kennedy-Wilson Holdings, Inc. (the "Company") by certain selling security holders, the Company has filed with the Securities and Exchange Commission ("SEC") a registration statement (the "Registration Statement") on Form S-1 (No. 333-164926), as amended, which was declared effective on June 11, 2010. A prospectus, dated June 11, 2010, covering the Offering was filed with the SEC on June 11, 2010 (as supplemented from time to time, the "Prospectus").

ANY POTENTIAL INVESTORS IN THE SECURITIES OF THE COMPANY ARE URGED TO READ THE PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE OFFERING.

This Prospectus Supplement and the Prospectus are required to be delivered by the selling security holders of the above-referenced securities or by certain of their transferees, pledges, donees or their successors in connection with the offer and sale of the above-referenced securities.

The information contained herein, including the information attached hereto, supplements and supersedes, in part, the information contained in the Prospectus. This Prospectus Supplement should be read in conjunction with the Prospectus and all prior prospectus supplements, and is qualified by reference to the Prospectus and all prior prospectus supplements except to the extent that the information in this Prospectus Supplement supersedes the information contained in the Prospectus or any prior prospectus supplement.

You may obtain a copy of the Registration Statement, the Prospectus, this Prospectus Supplement and all prior prospectus supplements, as well as other filings containing information about the Company, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the Registration Statement, the Prospectus and this Prospectus Supplement can also be obtained, without charge, from the Company's corporate website at www.kennedywilson.com, or by directing a request to the Company, Attention: Investor Relations, 9701 Wilshire Blvd., Suite 700, Beverly Hills, California 90212.

In addition to the documents described above, the Company files annual, quarterly and current reports, proxy statements and other information with the SEC, which are available at the SEC's website at www.sec.gov or at the Company's website at www.kennedywilson.com.

The information contained in, or that can be accessed through, the Company's website is deemed not to be a part of this filing.

THIS FILING IS FOR INFORMATION PURPOSES ONLY AND SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES, NOR SHALL THERE BE ANY SALE OF SECURITIES IN ANY JURISDICTION IN WHICH SUCH SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF SUCH JURISDICTION.

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Appendix A

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 2013

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: 001-33824

Kennedy-Wilson Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

26-0508760

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

9701 Wilshire Blvd., Suite 700

90212

Beverly Hills, CA

(Address of Principal Executive Offices)

(Zip Code)

(310) 887-6400

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on which Registered

Common Stock, \$.0001 par value

NYSE

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 ☒ No ☐

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

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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. ☐

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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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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 ☒

Based on the last sale at the close of business on June 28, 2013, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$923,342,784.

The number of shares of common stock outstanding as of February 28, 2014 was 91,688,412.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates certain information by reference from the registrant’s proxy statement for the annual meeting of stockholders to be held on or around June 19, 2014, which proxy statement will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2013.

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FORWARD-LOOKING STATEMENTS

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results, to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we do not guarantee that the transactions and events described will happen as described (or that they will happen at all). For a further discussion of these and other factors that could impact our future results, performance or transactions, please carefully read “Risk Factors” in Part I, Item 1A below in addition to the following factors:

- disruptions in general economic and business conditions, particularly in geographies where our business may be concentrated;
- volatility and disruption of the capital and credit markets, higher interest rates, higher loan costs, less desirable loan terms and a reduction in the availability of mortgage loans, all of which could increase costs and could limit our ability to acquire additional real estate assets;
- continued high levels of, or increases in, unemployment and general slowdowns in commercial activity;
- our leverage and ability to refinance existing indebtedness or incur additional indebtedness;
- an increase in our debt service obligations;
- our ability to generate a sufficient amount of cash to satisfy working capital requirements and to service our existing and future indebtedness;
- our ability to achieve improvements in operating efficiency;
- foreign currency fluctuations;
- adverse changes in the securities markets;
- our ability to retain our senior management and attract and retain qualified and experienced employees;
- our ability to retain major clients and renew related contracts;
- trends in use of large, full-service commercial real estate providers;
- changes in tax laws in the United States, Ireland, United Kingdom, Spain or Japan that reduce or eliminate deductions or other tax benefits we receive;
- future acquisitions may not be available at favorable prices or upon advantageous terms and conditions; and
- costs relating to the acquisition of assets we may acquire could be higher than anticipated.

Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in this Annual Report. Except as required under the federal securities laws and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

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In this report, Kennedy-Wilson Holdings, Inc. is referred to as “Kennedy Wilson” or “KWH”, and Kennedy-Wilson Holdings, Inc. and its subsidiaries are collectively referred to as “The Company,” “we,” “us” or “our”, unless the context requires otherwise.

Assets Under Management or “AUM”

AUM generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is principally intended to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our AUM consist of the total estimated fair value of the real estate properties and other real estate related assets either owned by third parties, wholly owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our AUM. The estimated value of development properties is included at estimated completion cost.

Operating Associates

Operating associates generally refer to individuals that are employed by or affiliated with third-party consultants, contractors, property managers or other service providers that we manage and oversee on a day-to-day basis with respect to our investments and services businesses.

Non-GAAP Measures

EBITDA represents net income before noncontrolling interest income, interest expense, our share of interest expense included in income from investments in joint ventures and loan pool participations, depreciation and amortization, our share of depreciation and amortization included in income from investments in joint ventures, loss on early extinguishment of corporate debt and income taxes for the Company. We do not adjust EBITDA for gains or losses on the extinguishment of mortgage debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

Adjusted EBITDA represents EBITDA, as defined above, adjusted to exclude corporate merger and acquisition related expenses and share based compensation expense for the Company. Our management uses Adjusted EBITDA to analyze our business because it adjusts EBITDA for items we believe do not have an accurate reflection of the nature of our business going forward. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations. However, EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA and Adjusted EBITDA also

differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

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PART I

Item 1. Business

Company Overview

Kennedy Wilson is a vertically integrated global real estate investment and services company with over \$14.8 billion in assets under management. Founded in 1977, we have owned and operated real estate related investments for over 35 years on behalf of our shareholders and our clients. We have approximately 400 employees in 24 offices throughout the United States, the United Kingdom, Ireland, Spain and Japan and manage and work with over 2,000 operating associates. We focus on adding value for our shareholders through opportunistic investing and strategic asset management. Also, our services business creates additional value through fee generation.

The following is our business model:

Identify countries and markets with an attractive investment landscape

- Establish operating platforms and service businesses in our target markets

Develop local intelligence and create long-lasting relationships; primarily with financial institutions

Leverage relationships and local knowledge to drive proprietary investment opportunities with a focus on off-market transactions

Acquire high quality assets, either on our own or with strategic partners, utilizing cash from our balance sheet and typically financing them on a long-term basis

Reposition assets and enhance cash flows post-acquisition

Continuously evaluate and selectively harvest asset and entity value through strategic realizations utilizing both the public and private markets

Utilize our services businesses to meet client needs, strengthen relationships with financial institutions, and position the Company as a valuable resource and partner to these institutions for any future real estate opportunities

Our strategy has resulted in a strong track record of creating both asset and entity value for the benefit of our shareholders and partners over various real estate cycles.

Since our initial public offering on November 13, 2009 through December 31, 2013, the annualized total rate of return (including dividends) of our common stock (NYSE: KW) was 23.0%, compared to the return of the S&P 500 index of 16.0%. Past stock price performance is not necessarily indicative of future stock price performance.

Recent Developments

On October 14, 2013, we announced the launch of Zonda™ a mobile application designed to provide market insight for the homebuilding industry by combining interactive tools, real-time data on approximately 250 metrics impacting housing and thoughtful analysis driven by Meyers Research.

In January 2014, we issued and sold 9.2 million shares of common stock, resulting in gross proceeds of \$197.3 million.

On January 21, 2014, we completed the purchase of notes with an unpaid principal balance of approximately \$310.0 million secured by the Shelbourne Hotel in Dublin, Ireland. We acquired the notes for \$152.0 million. The purchase price consisted of \$70.0 million of equity from the Company and \$82.0 million in bank financing.

On February 28, 2014, we subscribed for a total of £122.0 million (approximately \$203.0 million) of ordinary shares in the initial public offering of Kennedy Wilson Europe Real Estate Plc (“KWE”, LSE:KWE). Our investment consists of £87.0 million (approximately \$145.0 million) of cash subscription and the contribution of £35.0 million (approximately \$58.0 million) of assets acquired by Kennedy Wilson in the first quarter of 2014. KWE announced the closing of its initial public offering on February 28, 2014, raising approximately £1 billion (approximately \$1.7

billion) in gross proceeds (including the exercise of the £91 million (approximately \$151 million) over-allotment option). Immediately following the closing, Kennedy Wilson's investment represented approximately 12.2% of KWE's total share capital, making Kennedy Wilson the largest shareholder of KWE. One of our wholly-owned subsidiaries is acting as KWE's external manager, in which capacity we will be entitled to receive certain management and performance fees. In addition, KWE will be provided priority access to all investment opportunities sourced by us in Europe.

On February 26, 2014 our board of directors approved a \$0.09 per share quarterly dividend, a 29% increase from the previous quarter, to common shareholders of record as of March 31, 2014 with a payment date of April 8, 2014. The quarterly payment equates to an annual dividend of \$0.36 per common share.

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Business Segments

Our operations are defined by two core business units: KW Investments and KW Services. KW Investments invests our capital in real estate-related assets. KW Services provides a full array of real estate-related services to owners and lenders, with a strong focus on financial institution based clients. The two segments have a symbiotic relationship and work closely together. KW Services provides insight and creates investment opportunities for KW Investments while KW Investments provides clients the ability to utilize the capabilities of KW Services.

KW Investments

We invest our capital in real estate assets and loans secured by real estate either on our own or with strategic partners through joint ventures, separate accounts, and funds. We are typically the general partner in these joint ventures with a promoted interest in the profits of our investments beyond our ownership percentage. The Company has an average ownership interest across all investments of approximately 40%. Our equity partners include financial institutions, foundations, endowments, high net worth individuals and other institutional investors.

The following are product types we invest in through the KW Investments segment:

Commercial

We source, acquire, and finance various types of commercial real estate which includes office, industrial, retail, and mixed-use assets. After acquisition, the properties are repositioned to enhance market value. Assets are either sold as part of property-specific investment strategies designed to deliver above-market returns to our clients and shareholders or held if producing above average returns. We own interests in 85 commercial properties, totaling over 10 million square feet, located throughout the United States, United Kingdom, Ireland, and Japan.

Multifamily

We pursue multifamily acquisition opportunities where we believe we can unlock value through a myriad of strategies, including institutional management, asset rehabilitation, repositioning and creative recapitalization. We focus primarily on apartments in supply-constrained, infill markets. We hold investments in 17,355 multifamily apartment units, of which 2,327 units are owned by our consolidated subsidiaries and 15,028 units are owned through joint ventures.

Loan Originations/Discounted Loan Purchases

We acquire and/or originate loans secured by real estate. Our acquisitions and originations include individual notes on all real estate property types as well as portfolios of loans purchased from financial institutions, corporations and government agencies. We deliver value through loan resolutions, discounted payoffs, and sales. We also foreclose on certain loans to acquire the underlying real estate collateral. Our discounted loan pool portfolio as of December 31, 2013 had an initial unpaid principal balance ("UPB") of \$4.7 billion at origination. As of December 31, 2013, the UPB was \$1.0 billion due to collections of over \$3 billion on the portfolio. Also, as of December 31, 2013, our loan originations portfolio has an unpaid principal balance of \$57.2 million with a weighted average interest rate of 10.1%.

Residential, Hotel and Other

In certain cases, we may pursue residential for sale housing acquisition opportunities, including land for entitlements, finished lots, urban infill condominium sites and partially finished and finished condominium projects. This group also includes our investment in hotels and our investments in marketable securities.

While our core investments have been in the specific markets and locations listed above, we will evaluate opportunities to earn above market returns across many other segments and geographic locations.

Investment account

In 2013, together with our equity partners, we made investments in \$2.8 billion of real estate and loans secured by real estate. These acquisitions were comprised of the following: 46% loans secured by real estate, 32% commercial, 18% multifamily, and 4% other.

At December 31, 2013, we and our equity partners held a real estate and real estate related investment portfolio with assets of approximately \$6.2 billion, at cost, with approximately 56% leverage. The Company has an average ownership interest across all investments of approximately 40%. The following table describes the breakdown of our equity in the portfolio, which

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includes the following financial statement captions below, and is derived from our audited consolidated balance sheet as of December 31, 2013:

(Dollars in millions)

Investment in joint ventures ⁽¹⁾	\$724.5
Real estate, net of depreciation	668.8
Mortgage debt	(407.7)
Notes receivable	56.8
Loan pool participations	34.7
Other ⁽²⁾	23.2
Total net investment account	1,100.3
Add back:	
Accumulated depreciation and amortization	29.7
Kennedy Wilson's share of accumulated depreciation and amortization included in investment in joint ventures	106.0
Total gross investment account	\$1,236.0

⁽¹⁾ Excludes \$26.9 million related to our investment in a real estate and asset management servicing platform in Spain.

⁽²⁾ Includes acquired in-place lease value, net of amortization and marketable securities both of which are included in other assets.

The following table breaks down our net investment account information derived from our audited consolidated balance sheet by investment type and geographic location as of December 31, 2013:

(Dollars in millions)	Commercial	Multifamily	Loans Secured by Real Estate	Residential, Hotel, and Other	Total
Western U.S.	\$212.8	\$221.9	\$112.5	\$182.8	\$730.0
Other U.S.	3.4	0.2	—	7.8	\$11.4
Japan	4.1	68.8	—	0.4	73.3
United Kingdom	104.5	—	27.3	—	131.8
Ireland	97.3	48.2	8.3	—	153.8
Total	\$422.1	\$339.1	\$148.1	\$191.0	\$1,100.3

KW Services

KW Services offers a comprehensive line of real estate services for the full lifecycle of real estate ownership to clients that include financial institutions, institutional investors, insurance companies, developers, builders and government agencies. KW Services has five main lines of business: investment management, property services, research, brokerage, and auction and conventional sales. These five business lines generate revenue for us through fees and commissions.

We manage over 68 million square feet of properties for institutional clients and individual investors in the United States, Europe, and Asia, which includes assets we have ownership interests in and third party owned assets. With 24 offices throughout the United States, the United Kingdom, Ireland, Spain and Japan, we have the capabilities and resources to provide property services to real estate owners as well as the experience, as a real estate investor, to understand client concerns. The managers of KW Services have an extensive track record in their respective lines of business and in the real estate community as a whole. Their knowledge and relationships are an excellent driver of businesses through the services business as well as on the investment front.

Additionally, KW Services plays a critical role in supporting our investment strategy by providing local market intelligence and real-time data for evaluating investments, generating proprietary transaction flow and creating value through efficient implementation of asset management or repositioning strategies.

Investment Management

Our investment management division, provides acquisition, asset management and disposition services to our equity partners as well as to third parties. Our fund management division has invested in real estate deals totaling \$3 billion since its inception in 2000. Today, through six closed end funds (two traditional funds, two club funds and two double bottom line funds), we serve as general partner and manager of \$2 billion in real estate, 10.6 million square feet of office and retail space, and over 7,200 apartment units.

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Property Services

Our property services division manages commercial real estate for third-party clients, fund investors, and investments held by Kennedy Wilson. In addition to earning property management fees, consulting fees, leasing commissions, construction management fees, disposition fees, and accounting fees, the property services division gives Kennedy Wilson insight into local markets and potential acquisitions. Leveraging over 35 year of real estate experience, we approach property management from the perspective of an owner and are active in identifying and implementing value creation strategies. The division has a proven track record of success in managing stabilized as well as value-add investments.

Research

Meyers Research LLC or Meyers, a wholly-owned subsidiary of Kennedy Wilson, is a premier consulting practice and provider of data for residential real estate development and new home construction. Meyers' offers a national perspective as well as local expertise to homebuilders, multifamily developers, lenders and financial institutions. These relationships have led to investment opportunities with homebuilders in the Western US region. Zonda™, a Meyers innovation launched in October 2013, is the housing industry's most comprehensive solution for smart business analysis, real-time market data reporting, economic and housing data in one place and on-the-go.

Brokerage

Our brokerage division represents tenants and landlords on every aspect of site selection, negotiation and occupancy. The division also specializes in innovative marketing programs tailored to client objectives for all types of investment grade and income producing real estate. The division's property marketing programs combine proven techniques with its detailed market knowledge to create optimum results.

Auction and Conventional Sales

The auction and conventional sales division provides innovative marketing and sales strategies for all types of commercial and residential real estate, including single family homes, mixed-use developments, estate homes, multifamily dwellings, new home projects, and conversions. Generally the division's auction sales business is countercyclical to the traditional sales real estate market and has been a bellwether for us on forecasting market conditions.

Value Creation

Kennedy Wilson's differentiated and unique approach to investing is the cornerstone of how we create value for our shareholders. Our investment philosophy is based on three core fundamentals:

- Leverage our global footprint and complementary investments and services businesses to identify attractive investment markets across the world.

- Selectively invest in opportunities across many real estate product types with a goal of maximizing cash flow and return on capital.

- Actively manage assets and finance them conservatively to generate stable, predictable, and growing cash flows for shareholders and clients.

Kennedy Wilson is able to create value for its shareholders in the following ways:

- We are able to identify and acquire attractive real estate assets across many markets, in part due to the significant proprietary deal flow driven from an established global network of industry relationships, particularly with financial institutions. This can create value by allowing us to maintain and develop a large pipeline of attractive opportunities.

Our operating expertise allows us to focus on opportunistic investments where we can increase the value of assets and cash flows, such as distressed real estate owners or lenders seeking liquidity, under-managed or under-leased assets,

and repositioning opportunities.

Many times, these investments are acquired at a discount to replacement cost or recent comparative sales, thereby offering opportunities to achieve above average total returns. In many cases this may lead to significant additional returns, such as promoted interest, based on the performance of the assets.

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KW Services plays a critical role in supporting our investment strategy by providing local market intelligence and real-time data for evaluating investments, generating proprietary transaction flow and creating value through efficient implementation of asset management or repositioning strategies.

We understand that real estate is cyclical. Our management team employs a multi-cyclical approach that has resulted in our AUM being globally diversified across many sectors of real estate while maintaining a healthy liquidity position and adequate access to capital.

Industry Overview

United States

The U.S. recovery gained further momentum in 2013 as equity and real estate prices continued their upward trend. The S&P 500 posted its highest annual gain since 1997 and home prices (as measured by the S&P/Case-Shiller 20 city home price index) posted their largest annual gains since 2005. The Federal Reserve's decision in January 2014 to begin tapering its bond purchasing program is another strong indicator of the economy's overall strength and sustainability.

Commercial real estate fundamentals have strengthened since the economic downturn and have now stabilized across most property types. Corporate profits margins remained well above their long term averages, and business confidence grew amid upbeat economic news.

Looking ahead, the U.S. economy could see rising GDP growth, driven by further improvements in employment and rising household wealth. We believe that continued growth in the US economy will sustain the labor market recovery and drive improvements in fundamentals for all real estate types, including the prospects of higher occupancies, rent growth, property values, and increases in capital availability.

Europe

The real estate market in Europe has begun to show signs of improving confidence and market sentiment. Many European countries appear to be at or have moved past their cyclical "trough." Against this backdrop of improving market sentiment and positive signals from leading indicators, commercial real estate investment activity has continued to increase, driven by strong cross-regional capital flows into the direct investment market and improved availability of debt. We believe that continued improvement in the underlying economic fundamentals of Europe will result in a favorable investment outlook for European commercial real estate.

United Kingdom

Since mid-2003, the UK recovery has become more established as investor sentiment has strengthened. London continues to be an attractive real estate market due to foreign capital investment and a strong global presence. Much of the foreign capital has targeted the London location, causing a polarization (in terms of pricing and levels of activity) between London and the rest of the country. Though vacancy rates may have dropped, the UK's economic recovery remains fragile, though forecasts of GDP growth for 2014 are encouraging.

Ireland

Ireland's economic turnaround is gathering pace. Unemployment has fallen to its lowest level since 2009, and the government has forecasted 2% GDP growth for 2014. The residential market is also recovering, with double digit gains for certain well-located properties in 2013. The National Asset Management Agency's ("NAMA") is in the early stages of unwinding its approximately €70.0 billion portfolio of real estate related assets, which will be a source of

investment opportunity. In addition to the NAMA portfolio, domestic Irish banks are expected to deleverage their portfolios of assets that were not transferred to NAMA. Although the Irish economy remains susceptible to macroeconomic developments, we believe 2014 will be an even busier year for the Irish property market, fueled to a large extent by improving domestic economic indicators and by some improvement in the availability of debt funding.

Spain

The Spanish recovery lags that of the UK and Ireland. Real GDP growth remains negative, and there are only limited signs that occupier demand is improving. However, commercial real estate transaction volumes rose sharply in the second half

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of 2013, signaling an increase in investor risk appetite. Also, the Spanish government established the Sociedad de Gestion de Activos de la Reestructuracion Bancaria ("SAREB") in November 2012 which assumed €50 billion worth of assets to aid the restructuring of the Spanish financial sector. SAREB began its divestment program in the second quarter of 2013 and should provide a source of future investment opportunities going forward.

Japan

The Japanese real estate market has experienced an upswing since the beginning of 2013. Japan's current demographic trends include an influx of migration to major cities, creating strong demand for housing. With diminishing supply of new inventory due to stricter building regulations imposed in 2007, rents for quality assets are expected to remain strong while vacancy rates remain stable. Recent monetary stimulus has focused on returning the economy to an inflationary state, which has weakened the Yen against the US Dollar and nearly all other major currencies and created a tailwind for asset prices and the overall real estate market. We believe that Japan's recovering market fundamentals and attractive exchange rate will draw international attention to the country's real estate market.

Competition
We compete with a range of global, national and local real estate firms, individual investors and other corporations. Because of our unique mix of investments and services businesses, we compete with brokerage and property management companies as well as companies that invest in real estate and loans secured by real estate. Our investment business competes with real estate investment partnerships, real estate investments trusts, private equity firms and other investment companies and regional investors and developers. We believe that our relationships with the sellers and our ability to close an investment transaction in a short time period at competitive pricing provide us a competitive advantage. The real estate services business is both highly fragmented and competitive. We compete with real estate brokerage and auction companies on the basis of our relationship with property owners, quality of service, and commissions charged. We compete with property management and leasing firms also on the basis of our relationship with clients, the range and quality of services provided, and fees and commissions charged.

Competitive Advantages

We have a unique platform from which to execute our investment and services strategy. The combination of a service business and an investment platform provides several competitive advantages over other real estate buyers operating stand-alone or investment-focused firms and may allow us to generate superior risk-adjusted returns. Our investment strategy focuses on investments that offer significant appreciation potential through intensive property management, leasing, repositioning, redevelopment and the opportunistic use of capital. We differentiate ourselves from other firms in the industry with our full service, investment oriented structure. Whereas most other firms use an investment platform to obtain additional service business revenue, we use our service platform to enhance the investment process and ensure the alignment of interests with our investors.

Our competitive advantages include:

Transaction experience: Our Executive Committee has more than 125 years of combined real estate experience and has been working and investing together on average for over 15 years. Members of the Executive Committee have collectively acquired, developed and managed in excess of \$20 billion of real estate investments in the United States, the United Kingdom, Ireland, Spain and Japan throughout various economic cycles, both at our Company and throughout their careers.

Extensive relationship and sourcing network: We leverage our services business in order to source off-market deals. In addition, the Executive Committee and our acquisition team have transacted deals in nearly every major metropolitan market on the West Coast of the United States, as well as in the United Kingdom, Ireland, Spain and Japan. Their local presence and reputation in these markets have enabled them to cultivate key relationships with major holders of property inventory, in particularly financial institutions, throughout the real estate community.

Structuring expertise and speed of execution: Prior acquisitions completed by us have taken a variety of forms including direct property investments, joint ventures, exchanges involving stock or operating partnership units, participating loans and investments in performing and non-performing mortgages at various capital stack positions with the objective of long-term ownership. We believe we have developed a reputation of being able to quickly

execute, as well as originate and creatively structure acquisitions, dispositions and financing transactions.

Vertically integrated platform for operational enhancement: We have approximately 400 employees in both KW Investments and KW Services, with 24 regional offices throughout the United States, the United Kingdom, Ireland, Spain and Japan and manage and oversee over 2,000 operating associates. We have a hands-on approach to real estate investing

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and possess the local expertise in property management, leasing, construction management, development and investment sales, which we believe enable us to invest successfully in selected submarkets.

Risk protection and investment discipline: We underwrite our investments based upon a thorough examination of property economics and a critical understanding of market dynamics and risk management strategies. We conduct an in-depth sensitivity analysis on each of our acquisitions. This analysis applies various economic scenarios that include changes to rental rates, absorption periods, operating expenses, interest rates, exit values and holding periods. We use this analysis to develop our disciplined acquisition strategies.

Transaction-based Results

A significant portion of our cash flow is tied to transaction activity and joint venture investments, both of which can affect an investor's ability to compare our financial condition and results of operations on a quarter-by-quarter basis or easily evaluate the breadth of our operation. Historically, this variability has caused our revenue, operating income, net income and cash flows to be tied to transaction activity, which is not necessarily concentrated in any one quarter.

Employees

As of December 31, 2013, we have approximately 400 employees in 24 offices throughout the United States, the United Kingdom, Ireland, Spain and Japan and manage and oversee over 2,000 operating associates. We believe that we have been able to attract and maintain high quality employees. There are no employees subject to collective bargaining agreements. In addition, we believe we have a good relationship with our employees.

Available Information

Information about us is available on our website (<http://www.kennedywilson.com>) (this website address is not intended to function as a hyperlink, and the information contained in, or accessible from, our website is not intended to be a part of this filing). We make available on our website, free of charge, copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those reports and other statements filed or furnished pursuant to Section 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after filing or submitting such material electronically or otherwise furnishing it to the SEC. In addition, we have previously filed registration statements and other documents with the SEC. Any document we file may be inspected, without charge, at the SEC's public reference room at 100 F Street NE, Washington, D.C. 20549 or at the SEC's internet address at <http://www.sec.gov> (this website address is not intended to function as a hyperlink, and the information contained in, or accessible from, the SEC's website is not intended to be a part of this filing). Information related to the operation of the SEC's public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

Our results of operations and financial condition can be adversely affected by numerous risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this report. If any of the following risks actually occur, our business, financial condition, operating results, cash flows and future prospects could be materially adversely affected.

Risks Related to Our Business

The success of our business is significantly related to general economic conditions and the real estate industry, and, accordingly, our business could be harmed by an economic slowdown and downturn in real estate asset values, property sales and leasing activities.

Our business is closely tied to general economic conditions in the real estate industry. As a result, our economic performance, the value of our real estate and real estate secured notes, and our ability to implement our business strategies may be significantly and adversely affected by changes in national and local economic conditions. The condition of the real estate markets in which we operate is cyclical and depends on the condition of the economy in the United States, United Kingdom, Ireland, Spain and Japan as a whole and to the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate,

declining real estate values or periods of general economic slowdown or recession or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our operating performance. In addition, the economic condition of each local market where we operate may depend on one or more key industries within that market, which, in turn, makes our business sensitive to the performance of those industries.

We have only a limited ability to change our portfolio promptly in response to economic or other conditions. Certain significant expenditures, such as debt service costs, real estate taxes, and operating and maintenance costs, are generally not reduced when market conditions are poor. These factors impede us from responding quickly to changes in the performance of our investments and could adversely impact our business, financial condition and results of operations. We have experienced in past years, and expect in the future to be negatively impacted by, periods of economic slowdown or recession, and corresponding declines in the demand for real estate and related services, within the markets in which we operate. The previous recession and the downturn in the real estate market have resulted in and may result in:

- a general decline in rents due to defaulting tenants or less favorable terms for renewed or new leases;
- fewer purchases and sales of properties by clients, resulting in a decrease in property management fees and brokerage commissions;
- a decline in actual and projected sale prices of our properties, resulting in lower returns on the properties in which we have invested;
- higher interest rates, higher loan costs, less desirable loan terms and a reduction in the availability of mortgage loans, all of which could increase costs and limit our ability to acquire additional real estate assets; and
- a decrease in the availability of lines of credit and the public equity and debt markets and other sources of capital used to purchase real estate investments and distressed notes.

If the economic and market conditions that prevailed in 2008 and 2009 were to return, our business performance and profitability could deteriorate. If this were to occur, we could fail to comply with certain financial covenants in our unsecured revolving credit facilities, which would force us to seek an amendment with our lenders. We may be unable to obtain any necessary waivers or amendments on satisfactory terms, if at all, which could result in the principal and interest of the debt to become immediately due. In addition, in an extreme deterioration of our business, we could have insufficient liquidity to meet our debt service obligations when they come due in future years.

Adverse developments in the credit markets may harm our business, results of operations and financial condition.

Disruptions in the credit markets may adversely affect our business of providing advisory services to owners, investors and occupiers of real estate in connection with the leasing, disposition and acquisition of property. If our clients are unable to procure credit on favorable terms, there may be fewer completed leasing transactions, dispositions and acquisitions of property. In addition, if purchasers of real estate are not able to procure favorable financing, resulting in the lack of disposition opportunities for our funds and projects, our services businesses will generate lower incentive fees and we may also experience losses of co-invested equity capital if the disruption causes a permanent decline in the value of investments made.

In recent years, the credit markets have experienced significant price volatility, dislocations and liquidity disruptions. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and, in some cases, have resulted in the unavailability of financing, even for companies that are otherwise qualified to obtain financing. In addition, several banks and other institutions that historically have been reliable sources of financing have gone out of business, which has reduced significantly the number of lending institutions and the availability of credit. Continued volatility and uncertainty in the credit markets may negatively impact our ability to access additional financing for our capital needs. Additionally, due to this uncertainty, we may be unable to refinance or extend our existing debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. A prolonged downturn in the financial markets may cause us to seek alternative sources of

potentially less attractive financing and may require us to adjust our business plan. These events also may make it more difficult or costly for us to raise capital through the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

We could lose part or all of our investments in real estate assets, which could have a material adverse effect on our financial condition and results of operations.

There is the inherent possibility in all of our real estate investments that we could lose all or part of our investment. Real estate investments are generally illiquid, which may affect our ability to change our portfolio in response to changes in economic and other conditions. Moreover, we may not be able to unilaterally decide the timing of the disposition of an investment, and as a result, we may not control when and whether any gain will be realized or loss avoided. The value of our investments can also be diminished by:

- civil unrest, acts of war and terrorism and acts of God, including earthquakes, hurricanes and other natural disasters (which may result in uninsured or underinsured losses);
- the impact of present or future legislation in the United States, United Kingdom, Ireland, Spain and Japan (including environmental regulation, changes in laws concerning foreign ownership of property, changes in tax rates, changes in

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zoning laws and laws requiring upgrades to accommodate disabled persons) and the cost of compliance with these types of legislation; and
liabilities relating to claims, to the extent insurance is not available or is inadequate.

We may be unsuccessful in renovating the properties we acquire, resulting in investment losses.

Part of our investment strategy is to locate and acquire real estate assets that we believe are undervalued and to improve them to increase their resale value. Acquiring properties that are not yet fully developed or in need of substantial renovation or redevelopment entails several risks, particularly the risk that we overestimate the value of the property or that the cost or time to complete the renovation or redevelopment will exceed the budgeted amount. Such delays or cost overruns may arise from:

- shortages of materials or skilled labor;
- a change in the scope of the original project;
- difficulty in obtaining necessary zoning, land-use, environmental, building, occupancy and other governmental permits and authorizations;
- the discovery of structural or other latent defects in the property after we acquire the property; and
- delays in obtaining tenants.

Any failure to complete a redevelopment project in a timely manner and within budget or to sell or lease the project after completion could have a material adverse effect upon our business, results of operation and financial condition.

Our significant operations in the United Kingdom, Ireland, Spain and Japan expose our business to risks inherent in conducting business in foreign markets.

As of December 31, 2013, approximately 30% of our revenues were sourced from our foreign operations in the United Kingdom, Ireland, Spain and Japan. Accordingly, our firm-wide results of operations depends significantly on our foreign operations. Conducting business abroad carries significant risks, including:

- restrictions and problems relating to the repatriation of profits;
- difficulties and costs of staffing and managing international operations;
- the burden of complying with multiple and potentially conflicting laws;
- laws restricting foreign companies from conducting business;
- unexpected changes in regulatory requirements;
- the impact of different business cycles and economic instability;
- political instability and civil unrest;
- greater difficulty in perfecting our security interests, collecting accounts receivable, foreclosing on secured assets and protecting our interests as a creditor in bankruptcies in certain geographic regions;
- potentially adverse tax consequences;
- share ownership restrictions on foreign operations;
- tariff regimes of the countries in which we do business; and
- geographic, time zone, language and cultural differences between personnel in different areas of the world.

Our investment in, and relationship with, Kennedy Wilson Europe Real Estate Plc presents risks to our business.

In February 2014, we invested approximately \$203 million in cash and non-cash assets in Kennedy Wilson Europe Real Estate Plc, or KWE, in connection with its initial public offering. We currently own a 12.2% interest in KWE and act as its investment manager pursuant to an investment management agreement that provides for the payment to

us of certain management and performance fees.

Subject to certain exceptions, the investment management agreement requires us to provide KWE with priority access to all real estate or real estate loan opportunities that we source in Europe and that are within the parameters of KWE's investment policy. Accordingly, we will be required to offer to KWE investment opportunities in Europe that we otherwise would have been able to pursue ourselves, and the management and performance fees, if any, we may earn with respect to these opportunities may be less than the profits we would have earned had we invested in these opportunities directly. There are exceptions to our requirement to offer European investment opportunities to KWE, and, if we believe an exception applies and we pursue the relevant opportunity ourselves, KWE may disagree.

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Although we are entitled to receive management and performance fees pursuant to the management agreement, the fees we actually receive may not be significant. Moreover, if KWE's portfolio does not perform favorably, we may not receive any performance fees.

In addition, the management agreement may be terminated, including for reasons that are beyond our control, in which case we will receive no management or performance fees. Although we are entitled to a termination fee if we are terminated as manager under certain circumstances, KWE may disagree that such a fee is owed or otherwise refuse to pay us a termination fee. In such an event, we may become involved in expensive legal proceedings and may never recover a termination fee.

Our joint venture activities subject us to unique third-party risks, including risks that other participants may become bankrupt or take action contrary to our best interests.

We have used joint ventures for large real estate investments, real estate developments, and the purchase of loans secured by real estate. We plan to continue to acquire interests in additional limited and general partnerships, joint ventures and other enterprises, which we collectively refer to as joint ventures, formed to own or develop real property or interests in real property or note pools. We have acquired and may acquire non-controlling interests in joint ventures, and we may also acquire interests as a passive investor without rights to actively participate in the management of the joint ventures. Investments in joint ventures involve additional risks, including the possibility that the other participants may become bankrupt or have economic or other business interests or goals that are inconsistent with ours, that we will not have the right or power to direct the management and policies of the joint ventures and that other participants may take action contrary to our instructions or requests and against our policies and objectives. Should a participant in a material joint venture investment act contrary to our interests, our business, results of operations and financial condition could significantly suffer. Moreover, we cannot be certain that we will continue these investments or that we can identify suitable joint venture partners and form new joint ventures in the future.

We purchase distressed loans and loan portfolios that may have a higher risk of default and delinquencies than newly originated loans, and, as a result, we may lose part or all of our investment in such loans and loan portfolios.

We may purchase loans and loan portfolios that are unsecured or secured by real or personal property. These loans and loan portfolios in some cases may be non-performing or sub-performing and may be in default at the time of purchase. In general, the distressed loans and loan portfolios we acquire are speculative investments and have a greater than normal risk of future defaults and delinquencies as compared to newly originated loans. Returns on loan investments depend on the borrower's ability to make required payments or, in the event of default, our security interests, if any, and our ability to foreclose and liquidate whatever property that secures the loans and loan portfolios. We may be unable to collect on a defaulted loan or foreclose on security successfully or in a timely fashion. There may also be instances when we are able to acquire title to an underlying property and sell it but not make a profit on its investment.

We may not be successful in competing with companies in the real estate services and investment industry, some of which may have substantially greater resources than we do.

Real estate investment and services businesses are highly competitive. Our principal competitors include both large multinational companies and national and regional firms, such as Jones Lang LaSalle, Inc. and CBRE Group, Inc. Many of our competitors have greater financial resources and a broader global presence than we do. We compete with companies in the United States, United Kingdom, Ireland, Spain and Japan, with respect to:

- selling commercial and residential properties on behalf of customers through brokerage and auction services;
- leasing and property management, including construction and engineering services;
- purchasing commercial and residential properties, as well as undeveloped land for our own account; and

acquiring secured and unsecured loans.

Our services operations must compete with a growing number of national firms seeking to expand market share. We may be unable to compete effectively, maintain current fee levels or arrangements, purchase investment properties profitably or avoid increased competition.

If we are unable to maintain or develop new client relationships, our service business and financial condition could be substantially impaired.

We are highly dependent on long-term client relationships and on revenues received for services with third-party owners and related parties. A considerable amount of our revenues are derived from fees related to our service business. The majority of our property management agreements are cancelable prior to their expiration by the client for any reason on as little as 30 to 60

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days' notice. These agreements also may not be renewed when their respective terms expire. Our failure to maintain existing relationships or to develop and maintain new client relationships, or our loss of a substantial number of management agreements, could materially and adversely affect our business, financial condition and results of operations.

Decreases in the performance of the properties we manage are likely to result in a decline in the amount of property management fees and leasing commissions we generate.

Our property management fees are generally structured as a percentage of the revenues generated by the properties that we manage. Similarly, our leasing commissions typically are based on the value of the lease commitments. As a result, our revenues are adversely affected by decreases in the performance of the properties we manage and declines in rental value. Property performance will depend upon, among other things, our ability to control operating expenses (some of which are beyond our control), financial conditions generally and in the specific areas where properties are located and the condition of the real estate market generally. If the performance or rental values of the properties we manage decline, the management fees and leasing commissions we derive from such properties could be materially adversely affected.

Our leasing activities depend on various factors, including tenant occupancy and rental rates, which, if adversely affected, could cause our operating results to suffer.

A significant portion of our property management business involves facilitating the leasing of commercial space. In certain areas of operation, there may be inadequate commercial space to meet demand, and there is a potential for a decline in the number of overall lease and brokerage transactions. In areas where the supply of commercial space exceeds demand, we may not be able to renew leases or obtain new tenants for our owned and managed rental properties as leases expire. Moreover, the terms of new leases and renewals (including renovation costs or costs of concessions to tenants) may be less favorable than current leases. Our revenues may be adversely affected if we fail to promptly find tenants for substantial amounts of vacant space, if rental rates on new or renewal leases are significantly lower than expected, or if reserves for costs of re-leasing prove inadequate. We may be unable to continue to lease properties for our clients and for our own account in a profitable manner.

Our ability to lease properties also depends on:

- the attractiveness of the properties to tenants;
- competition from other available space;
- our ability to provide adequate maintenance and obtain insurance and to pay increased operating expenses, which may not be passed through to tenants;
- the availability of capital to periodically renovate, repair and maintain the properties, as well as for other operating expenses; and
- the existence of potential tenants desiring to lease the properties.

If we are unable to identify, acquire and integrate suitable acquisition targets, our future growth will be impeded.

Acquisitions and expansion have been, and will continue to be, a significant component of our growth strategy. While maintaining our existing business lines, we intend to continue to pursue a sustained growth strategy by increasing revenues from existing clients, expanding the breadth of our service offerings, seeking selective co-investment opportunities and pursuing strategic acquisitions. Our ability to manage our growth will require us to effectively integrate new acquisitions into our existing operations while managing development of principal properties. We expect that significant growth in several business lines occurring simultaneously will place substantial demands on our managerial, administrative, operational and financial resources. We may be unable to successfully manage all factors

necessary for a successful expansion of our business. Moreover, our strategy of growth depends on the existence of and our ability to identify attractive and synergistic acquisition targets. The unavailability of suitable acquisition targets, or our inability to find them, may result in a decline in business, financial condition and results of operations.

Our business is highly dependent upon the economy and real estate market in California, which has the potential for natural disasters.

We have a high concentration of our business activities in California. Consequently, our business, results of operations and financial condition depend on general trends in California's economy and real estate market. California historically has been vulnerable to certain natural disaster risks, such as earthquakes, floods, wild fires and erosion-caused mudslides. The existence of adverse economic conditions or the occurrence of natural disasters in California could have a material adverse effect on our business, financial condition and results of operations.

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We own real estate properties located in Hawaii, which subjects us to unique risks relating to, among other things, Hawaii's economic dependence on fluctuating tourism, the isolated location of Hawaii and the potential for natural disasters.

We conduct operations and own properties in Hawaii. Consequently, our business, results of operations and financial condition depend on and are affected by general trends in Hawaii's economy and real estate market. Hawaii's economy, although it has significantly recovered, experienced a significant downturn in the most recent recession. Real estate market declines may negatively affect our ability to sell property at a profit. In addition, Hawaii's economy largely depends on tourism, which is subject to fluctuation. Hawaii historically has also been vulnerable to certain natural disaster risks, such as tsunamis, hurricanes and earthquakes, which could cause damage to properties owned by us or property values to decline in general. Hawaii's remote and isolated location also may create additional operational costs and expenses, which could have a material adverse impact on our financial results.

If we fail to comply with laws and regulations applicable to us in our role as a real estate broker, property/facility manager or developer, we may incur significant financial penalties.

We are subject to numerous federal, state, local and foreign laws and regulations specific to the services we perform in our business, as well as laws of broader applicability, such as tax, securities and employment laws. Brokerage of real estate sales and leasing transactions and the provision of property management and valuation services require us to maintain applicable licenses in each U.S. state and certain foreign jurisdictions in which we perform these services. If we fail to maintain our licenses or conduct these activities without a license, or violate any of the regulations covering our licenses, we may be required to pay fines (including treble damages in certain states), return commissions received or have our licenses suspended or revoked.

We have certain obligations in connection with our real estate brokerage services that could subject us to liability if litigation is initiated against us for an alleged breach of any such obligation.

As a licensed real estate broker, we and our licensed employees are subject to certain statutory due diligence, disclosure and standard-of-care obligations. Failure to fulfill these obligations could subject us or our employees to litigation from parties who purchased, sold or leased properties that we brokered or managed. In addition, we may become subject to claims by participants in real estate sales claiming that we did not fulfill our statutory obligations as a broker.

We may become subject to claims for construction defects or other similar actions in connection with the performance of our property management services.

In our property management capacity, we hire and supervise third-party contractors to provide construction and engineering services for our properties. While our role is limited to that of a supervisor, we may be subjected to claims for construction defects or other similar actions. Adverse outcomes of property management litigation could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to potential environmental liability.

Under various foreign, federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the cleanup of hazardous or toxic substances and may be liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by governmental entities or third parties in connection with the contamination. Such laws typically impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances, even when the contaminants were associated with previous owners or operators. The costs of

investigation, remediation or removal of hazardous or toxic substances may be substantial, and the presence of those substances, or the failure to properly remediate those substances, may adversely affect the owner's or operator's ability to sell or rent the affected property or to borrow using the property as collateral. The presence of contamination at a property can impair the value of the property even if the contamination is migrating onto the property from an adjoining property. Additionally, the owner of a site may be subject to claims by parties who have no relation to the property based on damages and costs resulting from environmental contamination emanating from the site.

In connection with the direct or indirect ownership, operation, management and development of real properties, we may be considered an owner or operator of those properties or as having arranged for the disposal or treatment of hazardous or toxic substances. Therefore, we may be potentially liable for removal or remediation costs.

Certain foreign, federal, state and local laws, regulations and ordinances also govern the removal, encapsulation or disturbance of asbestos-containing materials during construction, remodeling, renovation or demolition of a building. Such laws may impose liability for the release of asbestos-containing materials, and third parties may seek recovery from owners or operators

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of real properties for personal injuries associated with asbestos-containing materials. We may be potentially liable for those costs for properties that we own. In the past, we have been required to remove asbestos from certain buildings that we own or manage. We may be required to remove asbestos from our buildings or incur other substantial costs of environmental remediation.

Before consummating the acquisition of a particular piece of real property, it is our policy to retain independent environmental consultants to conduct an environmental review of the real property, including performing a Phase I environmental review. These assessments have included, among other things, a visual inspection of the real properties and the surrounding area and a review of relevant federal, state and historical documents. It is possible that the assessments we commissioned do not reveal all environmental liabilities or that there are material environmental liabilities of which we are currently unaware. Future laws, ordinances or regulations may impose material environmental liability and the current environmental condition of our properties may be affected by tenants, by the condition of land or operations in the vicinity of those properties, or by unrelated third parties. Federal, state, local and foreign agencies or private plaintiffs may bring actions against us in the future, and those actions, if adversely resolved, may have a material adverse effect on our business, financial condition and results of operations.

We may incur unanticipated expenses relating to laws benefiting disabled persons.

The Americans with Disabilities Act, or the ADA, generally requires that public accommodations, such as hotels and office buildings, be accessible to disabled people. If our properties are not in compliance with the ADA, the U.S. federal government could fine us or private litigants could sue us for monetary damages. In addition, if we are required to make substantial alterations to one or more of our properties in order to comply with the ADA, our results of operations could be materially adversely affected.

We may incur significant costs complying with laws, regulations and covenants that are applicable to our properties and operations.

The properties in our portfolio and our operations are subject to various covenants and federal, state, local and foreign laws and regulatory requirements, including permitting and licensing requirements. Such laws and regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers, may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. Existing laws and regulations may adversely affect us, the timing or cost of our future acquisitions or renovations may be uncertain, and additional regulations may be adopted that increase such delays or result in additional costs. Our failure to obtain required permits, licenses and zoning relief or to comply with applicable laws could have a material adverse effect on our business, financial condition and results of operations.

Our property insurance coverage is limited, and any uninsured losses could cause us to lose part or all of our investment in our insured properties.

We carry comprehensive general liability coverage and umbrella coverage on all of our properties with limits of liability that we deem adequate and appropriate under the circumstances (subject to deductibles) to insure against liability claims and provide for the cost of legal defense. There are, however, certain types of extraordinary losses that either may be uninsurable or are not generally insured because it is not economically feasible to insure against those losses. Should any uninsured loss occur, we could lose our investment in, and anticipated revenues from, a property, and these losses could have a material adverse effect on our operations. Currently, we also insure some of our properties for loss caused by earthquakes in levels we deem appropriate and, where we believe necessary, for loss

caused by flood. The occurrence of an earthquake, flood or other natural disaster may materially and adversely affect on our business, financial condition and results of operations.

The ongoing debt crisis in Europe could harm our business, financial condition and results of operations.

Since the establishment of our European operations in 2011, our business in Europe have become an increasingly important part of our business, and we expect to continue to grow our European investment portfolio over time. A number of European countries are continuing to experience high borrowing costs and recessionary conditions, and many European banks and investors have incurred substantial losses on real estate-related assets in recent years. Current macroeconomic conditions in Europe remain uncertain and make the valuation of real estate-related assets difficult. Continued weakness or a worsening of those conditions could negatively impact the value of our existing investments and harm our ability to sell those investments and identify attractive investment opportunities in the future. These developments could harm our business, financial condition and results of operations.

Risks Related to Our Company

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If we are unable to raise additional debt and equity capital, our growth prospects may suffer.

We depend on the capital markets to grow our balance sheet along with third-party equity and debt financings to acquire properties through our investment business, which is a key driver of future growth. We currently intend to raise a significant amount of third-party equity and third-party debt to acquire assets in the ordinary course of our business. We depend on debt financing from a combination of seller financing, the assumption of existing loans, government agencies and financial institutions. We depend on equity financing from equity partners, which include public companies, pension funds, family offices, financial institutions, endowments and money managers. Our access to capital funding is uncertain. Our inability to raise additional capital on terms reasonably acceptable to us could jeopardize the future growth of our business.

The loss of one or more key personnel could have a material adverse effect on our operations.

Our continued success depends to a significant degree on the efforts of our senior executives, particularly our CEO, who have each been essential to our business. The departure of all or any of our executives for whatever reason or the inability of all or any of them to continue to serve in their present capacities or our inability to attract and retain other qualified personnel could have a material adverse effect upon our business, financial condition and results of operations. Our executives have built highly regarded reputations in the real estate industry. Our executives attract business opportunities and assist both in negotiations with lenders and potential joint venture partners and in the representation of large and institutional clients. If we lost their services, our relationships with lenders, joint ventures and clients would diminish significantly.

In addition, certain of our officers have strong regional reputations, and they aid in attracting and identifying opportunities and negotiating for us and on behalf of our clients. As we continue to grow, our success will largely depend on our ability to attract and retain qualified personnel in all areas of business. We may be unable to continue to hire and retain a sufficient number of qualified personnel to support or keep pace with our planned growth.

The loss of our chief executive officer, or CEO, could have a material adverse effect on our operations.

Our continued success is dependent to a significant degree upon the efforts of our CEO, who is essential to our business. The departure of our CEO for whatever reason or the inability of our CEO to continue to serve in his present capacity could have a material adverse effect upon our business, financial condition and results of operations. Our CEO has built a highly regarded reputation in the real estate industry. Our CEO attracts business opportunities and assists both in negotiations with lenders and potential joint venture partners and in the representation of large and institutional clients. If we lost his services, our relationships with lenders, joint ventures and clients would diminish significantly. Furthermore, the departure of our CEO for whatever reason or the inability of our CEO to continue to serve as our Chairman and CEO would be an event of default under our unsecured revolving loan agreement.

Our revenues and earnings may be materially and adversely affected by fluctuations in foreign currency exchange rates due to our international operations.

Our revenues from foreign operations have been primarily denominated in the local currency where the associated revenues were earned. Thus, we may experience significant fluctuations in revenues and earnings because of corresponding fluctuations in foreign currency exchange rates. To date, our foreign currency exposure has been limited to the Japanese Yen, the Euro and the Pound Sterling. Certain questions have arisen about the viability of the Euro, and there has been speculation that some countries within the Eurozone may elect, or may be forced, to revert to the currency they issued prior to the establishment of the Euro, which could significantly reduce the value of the Euro. Due to the constantly changing currency exposures to which we will be subject and the volatility of currency

exchange rates, we may experience currency losses in the future, and we cannot predict the effect of exchange rate fluctuations on future operating results. Our management may decide to use currency hedging instruments from time to time, including foreign currency forward contracts, purchased currency options (where applicable) and foreign currency borrowings. The economic risks associated with these hedging instruments include unexpected fluctuations in foreign currency rates, which could lead to hedging losses or the requirement to post collateral, along with unexpected changes in our underlying net asset position. Our hedging activities may not be effective.

Our operating results are subject to significant volatility from quarter to quarter as a result of the varied timing and magnitude of our strategic acquisitions and dispositions.

We have experienced a fluctuation in our financial performance from quarter to quarter due in part to the significance of revenues from the sales of real estate on overall performance. The timing of purchases and sales of our real estate investments has varied, and will continue to vary, widely from quarter to quarter due to variability in market opportunities, changes in interest

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rates, and the overall demand for residential and commercial real estate, among other things. While these factors have contributed to our increased operating income and earnings in the fourth quarter in past years, we may be unable to continue to perform well in the fourth quarter. In addition, the timing and magnitude of brokerage commissions paid to us may vary widely from quarter to quarter depending on overall activity in the general real estate market and the nature of our brokerage assignments, among other things.

We have in the past incurred and may continue in the future to incur significant amounts of debt to finance acquisitions, which could negatively affect our cash flows and subject our properties or other assets to the risk of foreclosure.

We have historically financed new acquisitions with cash derived from secured and unsecured loans and lines of credit. For instance, we typically purchase real property with loans secured by a mortgage on the property acquired. We anticipate to continue this trend. We do not have a policy limiting the amount of debt that we may incur. Accordingly, our management and board of directors have discretion to increase the amount of our outstanding debt at any time. We could become more highly leveraged, resulting in an increase in debt service costs that could adversely affect our results of operations and increase the risk of default on debt. We may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase. If we are required to seek an amendment to our credit agreement, our debt service obligations may be substantially increased.

Some of our debt bears interest at variable rates. As a result, we are subject to fluctuating interest rates that may impact, adversely or otherwise, results of operations and cash flows. We may be subject to risks normally associated with debt financing, including the risks that:

- cash flow may be insufficient to make required payments of principal and interest;
- existing indebtedness on our properties may not be refinanced and our leverage could increase our vulnerability to general economic downturns and adverse competitive and industry conditions, placing us at a disadvantage compared to those of our competitors that are less leveraged;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and in the commercial real estate services industry;
- our failure to comply with the financial and other restrictive covenants in the documents governing our indebtedness could result in an event of default that, if not cured or waived, results in foreclosure on substantially all of our assets; and
- the terms of available new financing may not be as favorable as the terms of existing indebtedness.

If we are unable to satisfy the obligations owed to any lender with a lien on one of our properties, the lender could foreclose on the real property or other assets securing the loan and we would lose that property or asset. The loss of any property or asset to foreclosure could have a material adverse effect on our business, financial condition and results of operations.

From time to time, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rate our significant outstanding debt. These ratings and any downgrades thereof may impact our ability to borrow under any new agreements in the future, and could increase the interest rates of, and require more onerous terms for, any future borrowings, and could also cause a decline in the market price of our common stock. Our earnings may not be sufficient to allow us to pay principal and interest on our debt and meet our other obligations. If we do not have sufficient earnings, we may be required to seek to refinance all or part of our existing debt, sell assets, borrow more money or sell more securities, which we may be unable to do, and our stock price may be adversely affected.

Our debt obligations impose significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.

Our existing debt obligations impose, and future debt obligations may impose, significant operating and financial restrictions on us. These restrictions limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- repay indebtedness (including our 8.75% senior notes due 2019, our 2037 debentures and our 7.75% senior notes due 2042) prior to stated maturities;
- pay dividends on, redeem or repurchase our stock or make other distributions;
- make acquisitions or investments;
- create or incur liens;
- transfer or sell certain assets or merge or consolidate with or into other companies;
- enter into certain transactions with affiliates;

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- sell stock in our subsidiaries;
- restrict dividends, distributions or other payments from our subsidiaries; and
- otherwise conduct necessary corporate activities.

In addition, our unsecured revolving credit facility and the indenture governing our 2037 debentures require us to maintain compliance with specified financial covenants, including maximum balance sheet leverage and fixed charge coverage ratios. As of December 31, 2013, we were in compliance with these covenants. These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. In addition, a default under one series of our indebtedness may also constitute a default under another series of our indebtedness.

We have guaranteed a number of loans in connection with various equity-method investments, which may result in us being obligated to make substantial payments.

We have provided recourse guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential undiscounted amount of future payments that we could be required to make under these guarantees was approximately \$51.1 million at December 31, 2013. The guarantees expire through 2017, and our performance under the guarantees would be required to the extent there is a shortfall upon liquidation between the principal amount of the loan and the net sales proceeds of the property. If we were to become obligated to perform on these guarantees, our financial condition could suffer.

We have a number of equity partnerships that subject us to obligations under certain “non-recourse carve out” guarantees that may be triggered in the future.

Most of our real estate properties within our equity partnerships are encumbered by traditional non-recourse debt obligations. In connection with most of these loans, however, we entered into certain “non-recourse carve out” guarantees, which provide for the loans to become partially or fully recourse against us if certain triggering events occur. Although these events are different for each guarantee, some of the common events include:

- the special purpose property-owning subsidiary’s filing a voluntary petition for bankruptcy;
- the special purpose property-owning subsidiary’s failure to maintain its status as a special purpose entity; and
- subject to certain conditions, the special purpose property-owning subsidiary’s failure to obtain lender’s written consent prior to obtaining any subordinate financing or encumbering the associated property.

In the event that any of these triggering events occur and the loans become partially or fully recourse against us, our business, financial condition, results of operations and common stock price could be materially adversely affected.

The deteriorating financial condition and/or results of operations of certain of our clients could adversely affect our business.

We could be adversely affected by the actions and deteriorating financial condition and results of operations of certain of our clients. Losses or defaults by one or more of these clients could have a material adverse effect on our results of operations and financial condition. Any of our clients may experience a downturn in its business that may weaken its results of operations and financial condition. As a result, a client may fail to make payments when due, become insolvent or declare bankruptcy. Any client bankruptcy or insolvency, or the failure of any client to make payments when due, could result in material losses to our company. A client bankruptcy would delay or preclude full collection of amounts owed to us. Additionally, certain corporate services and property management client agreements require

that we advance payroll and other vendor costs on behalf of clients. If such a client were to file bankruptcy or otherwise fail, we may not be able to obtain reimbursement for those costs or for the severance obligations we would incur as a result of the loss of the client.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2013, we had \$114.4 million of federal and \$73.2 million of California net operating loss carryforwards available to offset future taxable income. Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change” (generally defined as a greater than 50% change, by value, in its equity ownership over a three year period), the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We have not performed a detailed analysis to determine whether an ownership change under Section 382 of the Code has previously occurred. As a result, if we earn net taxable income, our ability

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to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us.

If we are unable to maintain and protect our intellectual property, or if third parties assert that we infringe their intellectual property rights, our business could suffer.

Our business depends, in part, on our ability to identify and protect proprietary information and other intellectual property such as our service marks, client lists and information and business methods. The laws of some countries in which we operate may offer only limited protection for our intellectual property rights. We rely on a combination of trade secrets, confidentiality policies, non-disclosure and other contractual arrangements and copyright and trademark laws to protect our intellectual property rights. However, we may not adequately protect these rights, and their disclosure to or use by third parties may harm our competitive position. Our inability to detect unauthorized use or take appropriate or timely steps to enforce our intellectual property rights may harm our business.

Also, third parties may claim that our business operations infringe on their intellectual property rights. These claims may harm our reputation, cost us money to defend, distract the attention of our management and prevent us from offering some services.

Confidential intellectual property is increasingly stored or carried on mobile devices, such as laptop computers, which increases the risk of inadvertent disclosure where the mobile devices are lost or stolen and the information has not been adequately safeguarded or encrypted. This also makes it easier for someone with access to our systems, or someone who gains unauthorized access, to steal information and use it to our disadvantage. Advances in technology, which permit increasingly large amounts of information to be stored on mobile devices or on third party “cloud” servers, may exacerbate these risks.

We may fail to comply with section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to section 404 of The Sarbanes-Oxley Act of 2002 and the related rules of the SEC, which generally require our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting. Although our management has concluded that our internal control over financial reporting was effective as of December 31, 2013 and our independent registered public accounting firm has issued an unqualified report as to the same, our management or our independent registered public accounting firm may not be able to come to the same conclusion in future periods. During the course of the review and testing of our internal controls, we may identify deficiencies and weaknesses and be unable to remediate them before we must provide the required reports. If our management or our independent registered public accounting firm is unable to conclude on an ongoing basis that we have effective internal control over financial reporting, our operating results may suffer, investors may lose confidence in our reported financial information and the trading price of our stock may fall.

Risks Related to Ownership of Our Common Stock

Our directors and officers and their affiliates are significant stockholders, which makes it possible for them to have significant influence over the outcome of all matters submitted to stockholders for approval and which influence may be in conflict with our interests and the interests of our other stockholders.

As of December 31, 2013 our directors and executive officers and their respective affiliates owned an aggregate of approximately 25% of the outstanding shares of our common stock. These stockholders will have significant influence over the outcome of all matters submitted for stockholder approval, including the election of our directors and other

corporate actions. In addition, such influence by one or more of these stockholders could discourage others from attempting to purchase or take us over in a transaction that would be favorable to our other stockholders or reduce the market price offered for our common stock in such an event.

We may issue additional equity securities, which may dilute your interest in us.

In order to expand our business, we may consider offering and issuing additional equity or equity-based securities. If we issue and sell additional shares of our common stock, the ownership interests of our existing stockholders will be diluted to the extent they do not participate in the offering. The number of shares that we may issue for cash in non-public offerings without stockholder approval will be limited by the rules of the NYSE or other exchange on which our securities are listed. However, we may issue and sell shares of our common stock in public offerings, and there generally are exceptions that allow companies to issue a limited number of equity securities in private offerings without stockholder approval, which could dilute your ownership.

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The price of our common stock may be volatile.

The trading price of our common stock has historically been and may in the future continue to be volatile due to factors such as:

- changes in real estate prices;
- actual or anticipated fluctuations in our quarterly and annual results and those of our publicly held competitors;
- mergers and strategic alliances among any real estate companies;
- market conditions in the industry;
- changes in government regulation and taxes;
- shortfalls in our operating results from levels forecasted by securities analysts;
- investor sentiment toward the stock of real estate companies in general;
- announcements concerning us or our competitors; and
- the general state of the securities markets.

Our common stock may be delisted, which could limit your ability to trade our common stock and subject us to additional trading restrictions.

Our common stock is listed on the NYSE, a national securities exchange. However, our common stock may not continue to be listed on the NYSE in the future. If the NYSE delists our common stock from trading on its exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our common stock;
- a limited amount of news and analyst coverage for our company;
- a decreased ability for us to issue additional securities or obtain additional financing in the future; and
- limited liquidity for our stockholders due to thin trading.

Our staggered board may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders, and certain anti-takeover provisions in our organizational documents may discourage a change in control.

Our amended and restated certificate of incorporation provides for our board of directors to be divided into three classes, each of which generally serves for a term of three years with only one class of directors being elected in each year. As a result, at any annual meeting only a minority of the board of directors will be considered for election. Since this “staggered board” would prevent our stockholders from replacing a majority of our board of directors at any annual meeting, it may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders. Additionally, certain provisions of our amended and restated certificate of incorporation and our amended and restated bylaws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in the payment of a premium over the market price for the shares held by stockholders.

In addition, Section 203 of the Delaware General Corporation Law may, under certain circumstances, make it more difficult for a person who would be an “interested stockholder” to effect a “business combination” with us for a three-year period. An “interested stockholder” generally is defined as any entity or person that beneficially owns 15% or more of our outstanding voting stock or any entity or person that is an affiliate or associate of such entity or person. A “business combination” generally is defined to include, among other transactions, mergers, consolidations and certain other transactions, including sales, leases or other dispositions of assets with an aggregate market value equal to 10% or more of the aggregate market value of the corporation.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many stockholders. As a result, stockholders may be limited in their ability to obtain a premium for their shares.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table sets forth certain information regarding our wholly owned properties at December 31, 2013 (dollars in millions):

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Consolidated Properties by Region

Commercial	Square Feet	Ending % Occupancy	Annualized Rents ⁽¹⁾	# of Properties
Western U.S.	1,348,290	82.1	% \$12.6	12
Japan	9,633	100.0	0.4	1
Ireland	3,444	—	—	1
Total Commercial	1,361,367	82.0	% 13.0	14
Multifamily	Units	Ending % Leased	Annualized Rents ⁽¹⁾	# of Properties
Western U.S.	2,327	93.2	% \$30.4	7
Total Multifamily	2,327	93.2	% \$30.4	7

⁽¹⁾ Represents annualized cash base rent (i.e. excludes tenant reimbursements and other revenue)

Consolidated Properties by Region

	Units	Acres	# of Properties
Residential			
Western U.S.	16	18.0	3
Land			
Western U.S.	—	2,719.2	3
Total Residential and Land	16	2,737.2	6

Our corporate headquarters is located in Beverly Hills, California. We also have 23 other offices throughout the United States, including our disaster recovery office in Austin, Texas, one office in London, England, one office in Dublin, Ireland, one office in Madrid, Spain and one office in Tokyo, Japan. The Beverly Hills office operates as the main investment and asset management center for us in the United States, while the United Kingdom, Ireland, Spain and Japan offices are the main investment and asset management center for our respective British, Irish, Spanish and Japanese operations. The remaining office locations primarily operate as property management satellites. In general, we lease all of our offices. In addition, we have on-site property management offices located within properties that we manage. The most significant terms of the leasing arrangements for our offices are the length of the lease and the rent. Our leases have terms varying in duration. The rent payable under our office leases vary significantly from location to location as a result of differences in prevailing commercial real estate rates in different geographic locations. Our management believes that except as provided below, no single office lease is material to our business, results of operations or financial condition. In addition, our management believes there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our profits in those markets when we enter into new leases.

The following table sets forth certain information regarding our corporate headquarters and regional offices.

Location	Use	Approximate Square Footage	Lease Expiration
Beverly Hills, CA	Corporate Headquarters	20,236	12/31/2014
Austin, TX	Regional Office; Disaster Recovery Office	6,864	7/31/2017
London, England	Regional Office	4,712	3/3/2023
Dublin, Ireland	Regional Office	3,380	6/1/2016

Item 3. Legal Proceedings

We may be involved in various legal proceedings arising in the ordinary course of business, none of which we currently believe is material to our business. From time to time, our real estate management division is named in “slip and fall” type litigation relating to buildings we manage. Our standard management agreement contains an indemnity provision whereby the building

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owner indemnifies and agrees to defend our real estate management division against such claims. In such cases, we are defended by the building owner's liability insurer.

Item 4. Mine Safety Disclosures

Not Applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price Information

Our common stock trades on the NYSE under the symbol "KW." The following table sets forth, for the calendar quarter indicated, the high and low sales prices per share of common stock as reported on the NYSE. The quotations listed below reflect inter dealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

	Common Stock	
	High	Low
Fiscal year 2013		
Quarter ended March 31, 2013	\$ 17.24	\$ 13.87
Quarter ended June 30, 2013	18.00	14.53
Quarter ended September 30, 2013	19.72	16.73
Quarter ended December 31, 2013	22.38	18.02
Fiscal year 2012		
Quarter ended March 31, 2012	14.42	10.68
Quarter ended June 30, 2012	14.40	12.70
Quarter ended September 30, 2012	14.60	13.16
Quarter ended December 31, 2012	14.20	11.89

Holders

As of February 28, 2014, we had approximately 5,000 holders of record of our common stock and one holder of record of our warrants.

Dividend Policy

We declared and paid quarterly dividends of \$0.05 per share in 2012. In the first quarter of 2013, we raised the quarterly dividend to \$0.07 per share and paid quarterly dividends of \$0.07 per share for 2013. On February 26, 2014, we raised the quarterly dividend to \$0.09 per share.

Cumulative dividends on our Series A and Series B Preferred Stock accrue at an annual rate of 6.00% and 6.452%, respectively, of the purchase price, subject to adjustment under certain circumstances. The Series A and B Preferred Stock are mandatorily convertible on May 19, 2015 and November 3, 2018, respectively. The dividends are payable quarterly in arrears when, as and if declared by our board of directors.

The declaration and payment of any future dividends is at the sole discretion of our board of directors and will depend on, among other things, our operating results, overall financial condition, capital requirements and general business conditions.

Amounts shown in millions

Dividends declared since inception	Preferred	Common	Total
2009	\$3.2	\$—	\$3.2
2010	4.5	—	4.5
2011	8.7	5.7	14.4
2012	8.1	11.7	19.8
2013	8.1	21.8	29.9
	\$32.6	\$39.2	\$71.8

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Recent Sales of Unregistered Securities

None

Equity Compensation Plan Information

See Item 12—"Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Performance Graph

The graph below compares the cumulative total return of our common stock from December 31, 2008 through December 31, 2013, with the comparable cumulative return of companies comprising the S&P 500 Index and a peer issuer selected by us. The peer issuer is a company in the real estate services and investment industry. Because this peer issuer became a comparable on November 13, 2009, the performance of our common stock relative to the performance of the common stock of the peer issuer prior to November 13, 2009 may not be representative of future results. The graph plots the growth in value of an initial investment of \$100 in each of our common stock, the S&P 500 Index and the peer issuer selected by us over the indicated time periods, and assumes reinvestment of all dividends, if any, paid on the securities. The stock price performance shown on the graph is not necessarily indicative of future price performance.

Note: The peer, CB Richard Ellis, is a comparable beginning November 13, 2009.

The information under this caption, "Performance Graph," is deemed not to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that such filing specifically states otherwise.

Purchases of Equity Securities by the Company and Affiliated Purchasers in the Fourth Quarter of 2013

Period	Total Number of Warrants Purchased	Average Price Paid per Warrant	Total Number of Warrants Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Warrants that May be Purchased under the Plans or Programs ⁽¹⁾⁽²⁾
Warrants				
October 1 to October 31	—	\$—	—	4,994,293
November 1 to November 30	—	—	—	3,059,909
December 1 to December 31	—	—	—	2,710,742

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(1) Warrants repurchased under a plan announced April 30, 2010, approving the repurchase of up to 7.5 million outstanding warrants. On September 21, 2010, the Board of Directors approved an increase to the number of warrants subject to the plan by 5 million. On May 7, 2013 the Board of Directors approved an increase to the number of warrants subject to the plan by 5.3 million warrants, which covered all the warrants that were currently outstanding.

(2) During the fourth quarter, certain warrant holders exercised their warrants in exchange for shares of the Company's common stock. The Company also redeemed all outstanding public warrants. The remaining warrants outstanding after such redemption are sponsor warrants which have an expiration date of November 14, 2014. See note 18 for more detail.

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Item 6. Selected Financial Data

The following tables summarize our selected historical consolidated financial information. This information was derived from our audited financial statements for each of the years ended December 31, 2013, 2012, 2011, 2010 and 2009. This information is only a summary. You should read this information together in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and related notes included elsewhere in this document.

(Dollars in millions, except per share amounts)	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statements of operations data and dividends:					
Revenue	\$ 121.2	\$ 64.1	\$ 62.6	\$ 50.5	\$ 86.2
Income from continuing operations	13.6	6.9	7.1	6.5	(9.7)
Basic loss per share	(0.21)	(0.07)	(0.06)	(0.03)	(0.57)
Dividends declared per share of common stock	0.28	0.20	0.11	—	—
EBITDA	177.6	92.1	66.2	48.1	18.6
Adjusted EBITDA	185.1	100.2	71.3	58.4	37.1
Adjusted EBITDA annual increase	85	% 41	% 22	% 57	% 37
	As of December 31,				
	2013	2012	2011	2010	2009
Balance sheet data:					
Cash and cash equivalents	178.2	120.9	115.9	47.0	57.8
Total assets	1,798.8	1,283.8	792.8	487.8	336.3
Mortgage loans and notes payable	407.7	236.5	30.7	60.0	50.1
Unsecured corporate debt	449.0	449.6	289.4	67.8	77.5
Kennedy Wilson equity	768.3	509.7	410.2	300.2	177.3
Total equity	818.9	518.8	413.6	312.9	179.3
Net investment account	1,100.3	837.6	582.8	363.7	211.6
Net investment account annual increase	31	% 44	% 60	% 72	% 28

The Company has been able to increase Adjusted EBITDA and the net investment account through acquisitions and prudent asset management. Due to our significant acquisition activity, the periods presented above may not be comparable. See Note 4 in our Notes to the Consolidated Financial Statements for discussion of the business combinations that occurred during the years ended December 31, 2013 and 2012.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See the section title "Forward-Looking Statements" for more information. Actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in "Risk Factors" on page 7 and elsewhere in this report.

Unless specifically noted otherwise, as used throughout this Management's Discussion and Analysis section, Kennedy-Wilson Holdings, Inc. is referred to as "Kennedy Wilson" or "KWH", and Kennedy-Wilson Holdings, Inc. and its subsidiaries are collectively referred to as "The Company," "we," "us" or "our", unless the context requires otherwise.

Overview

Kennedy Wilson is a vertically integrated global real estate investment and services company. For over 35 years, we have owned and operated real estate related investments on behalf of our shareholders and our clients with offices in the United States, United Kingdom, Ireland, Spain and Japan.

Our operations are defined by two core business segments, KW investments and KW services, which work closely together to identify attractive investment markets and opportunities across the world:

KW Investments - we invest in various types of real estate investments through our investments business, either on our own or with strategic partners, where we are typically the general partner, with a promoted interest in the profits of the business beyond our ownership percentage. The main types of real estate we invest in are listed below:

Commercial

We source, acquire, and finance various types of commercial real estate that includes office, industrial, retail, and mixed-use assets.

Multifamily

We focus primarily on apartments in supply-constrained, infill markets. We pursue multifamily acquisition opportunities where we can unlock value through a myriad of strategies, including institutional management, asset rehabilitation, repositioning and creative recapitalization.

Loan Originations / Discounted Loan Purchases

We originate and/or acquire loans secured by real estate. Our originations and acquisitions include individual notes on all real estate property types as well as portfolios of loans purchased from financial institutions, corporations and government agencies.

Residential, Hotel, and Other

In certain cases, we may pursue for sale housing acquisition opportunities, including land for entitlements, finished lots, urban infill condominium site and partially finished and finished condominium projects. This group also includes our investment in hotels and our investments in marketable securities.

KW Services - our services business offers a comprehensive line of real estate services for the full lifecycle of real estate ownership. Below are the product types we offer through the KW services segment:

Investment Management

We provide acquisition, asset management and disposition services to our equity partners as well as to third parties.

Property Services

This division manages commercial real estate for third-party clients, fund investors, and investments held by the Company.

In addition to earning property management fees, consulting fees, lease commissions, construction management fees, disposition fees, and accounting fees, the Property Services group gives Kennedy Wilson insight into local markets and potential acquisitions.

Research

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Meyers Research LLC (“Meyers”), a Kennedy Wilson company, is a premier consulting practice and the industry’s leading provider of data and analytics for the residential real estate development and new home construction industry. Meyers’ proprietary iPad application, Zonda, launched in 2013 and provides market insight for the homebuilding industry with real-time data on over 250 metrics impacting the housing market on a national and local level.

Auction and Conventional Sales

The Auction and Conventional Sales group provides innovative marketing and sales strategies for all types of commercial and residential real estate, including single family homes, mixed-use developments, estate homes, multifamily dwellings, new home projects, conversions and scattered properties.

Brokerage

The Brokerage group specializes in innovative marketing programs tailored to client objectives for all types of investment grade and income producing real estate.

Financial Measures and Descriptions

Our key financial measures and indicators are discussed below. Please refer to the critical accounting policies in the Notes to the Consolidated Financial Statements for additional detail regarding the GAAP recognition policies associated with the captions described below.

Revenues

Management and leasing fees - management and leasing fees are primarily comprised of base asset management fees and performance based fees generated by our investment management division, property management fees generated by our property services division, leasing fees generated by our brokerage and auction divisions, and consulting fees generated by Meyers.

Commissions - commission revenue consists of acquisition fees generated by our investment management division and sales commissions generated by our brokerage division.

Related Party- related party revenue are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interest.

Rental and other income - rental and other income is comprised of rental income earned by our consolidated real estate investments.

Sale of real estate - sales of real estate consists of gross sales proceeds received on the sale of consolidated real estate that is not defined as a business by generally accepted accounting principles. This typically includes the sale of condominium units.

Expenses

Commission and marketing expenses - commission and marketing expenses includes fees paid to third party sales and leasing agents as well as business development costs necessary to generate revenues.

Rental operating expenses - rental and operating expenses consists of operating expenses of our consolidated real estate investments, including items such as property taxes, insurance, maintenance and repairs, utilities, supplies, salaries and management fees.

Compensation and related expenses - compensation and related expenses include: (a) employee compensation, comprising of salary, bonus, employer payroll taxes and benefits paid on behalf of employees and (b) share-based compensation associated with the grants of share-based awards.

General and administrative - general and administrative expenses represent administrative costs necessary to run our business and include things such as occupancy and equipment expenses, professional fees, public company costs, travel and related expenses, and communications and information services.

Depreciation and amortization - depreciation and amortization is comprised of depreciation expense which is recognized ratably over the useful life of an asset and amortization expense which primarily consist of the amortization of assets allocated to the value of in-place leases upon acquisition of a consolidated real estate asset or the amortization of loan fees.

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Equity in joint venture income - Equity in joint venture income consists of the Company's share of income or loss earned on investments in which the Company can exercise significant influence but does not have control. As of December 31, 2013, approximately 66% of the Company's investment account is invested through joint ventures investments. See the investment in joint venture footnote of the attached notes to the consolidated financial statements for summarized financial data, including balance sheet and income statement information of the underlying joint ventures.

Interest income from loan pool participations and notes receivable - Interest income from loan pool participations is comprised of interest income earned on the Company's loan originations and investments in loans and discounted loan purchases. Additionally, interest income from loan pool participations and note receivable are recognized on a level yield basis, where a level yield model is utilized to determine a yield rate which, based upon projected future cash flows, accretes interest income over the estimated holding period.

Acquisition-related gains - Acquisition-related gains consist of gains recognized by the Company upon a GAAP required fair value measurement due to a business combination. These gains are typically recognized when the Company converts a loan into consolidated real estate owned and the fair value of the underlying real estate exceeds the basis in the previously held loan. These gains also arise when there is a change of control of an investment. The gain amount is based upon the fair value of the Company's equity in the investment in excess of the carrying amount of the equity directly preceding the change of control.

Acquisition-related expenses - Acquisition-related expenses consists of the costs incurred to acquire assets, such as stamp duty taxes on foreign transactions, as well as the write off of any costs associated with acquisitions which did not materialize.

Interest expense - corporate debt - Interest expense - corporate debt represents interest costs associated with our senior notes payable, junior subordinated debentures and line of credit facility. This debt is unsecured and we typically use the funds generated from corporate borrowings to fund new investments.

Interest expense - mortgage debt - Interest expense - mortgage debt represents interest costs associated with mortgages on our consolidated real estate. These mortgages are typically secured by the underlying real estate collateral.

Realized foreign currency exchange income or loss - Realized foreign currency exchange income or loss relates to the settlement of foreign transactions during the year and arise due to changes in currency exchange rates.

Income taxes - The Company's services business operates globally as corporate entities subject to federal, state, and local income taxes and the investment business operates through various partnership structures to participate in multifamily, office and residential property acquisitions as well as originate loans and purchases loan pools. The Company's distributive share of income from its partnership investments will be subject to federal, state, and local taxes at the entity level and the related tax provision attributable to the Company's share of the income tax is reflected in the consolidated financial statements.

Noncontrolling Interests - Noncontrolling interests represents income or loss attributable to equity partners for their ownership in investments which the Company controls. Income or loss is attributed to noncontrolling interest partners based on their respective ownership interest in an investment.

Non-GAAP Measures

EBITDA and Adjusted EBTIDA

EBITDA⁽¹⁾ - EBITDA represents net income before noncontrolling interest income, interest expense, our share of interest expense included in income from investments in joint ventures and loan pool participations, depreciation and amortization, our share of depreciation and amortization included in income from investments in joint ventures, loss on early extinguishment of corporate debt and income taxes. We do not adjust EBITDA for gains or losses on the extinguishment of mortgage debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers. Our management believes EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions.

Adjusted EBITDA⁽¹⁾ - represents EBITDA, as defined above, adjusted to exclude acquisition and merger related expenses and stock based compensation expense. Our management uses Adjusted EBITDA to analyze our business

because it adjusts EBITDA for items we believe do not have an accurate reflection of the nature of our business going forward. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations. Such items may vary for different companies for reasons unrelated to overall operating performance.

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⁽¹⁾ EBITDA, as defined above, is not a recognized term under GAAP and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. Such items may vary for different companies for reasons unrelated to overall operating performance.

Adjusted EBITDA represents EBITDA, as defined above, adjusted to exclude corporate merger and acquisition related expenses and share based compensation expense for the Company. Such items may vary for different companies for reasons unrelated to overall operating performance. However, EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management's discretionary use, as it does not consider certain cash requirements such as tax and debt service payments. The amounts shown for EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

Results of Operations

The following table sets forth items derived from our consolidated statement of operations for the years ended December 31, 2013, 2012, and 2011:

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(Dollars in millions)	Year Ended December 31		
	2013	2012	2011
Revenue			
Management and leasing fees	\$18.1	\$15.8	\$12.6
Management and leasing fees - related party	36.0	24.5	14.5
Commissions	4.0	5.0	5.8
Commissions - related party	10.0	8.0	24.2
Rental and other income	43.0	8.5	5.1
Sale of real estate	10.1	2.3	0.4
Total revenue	121.2	64.1	62.6
Operating expenses			
Commission and marketing expenses	3.6	4.6	4.0
Rental operating expense	18.9	4.5	3.3
Cost of real estate sold	7.9	2.2	0.4
Compensation and related expenses	76.7	55.8	41.1
General and administrative	24.6	19.5	14.5
Depreciation and amortization	17.4	4.9	2.8
Total operating expenses	149.1	91.5	66.1
Equity in joint venture income	29.8	21.5	12.5
Interest income from loan pool participations and notes receivable	13.5	9.2	8.0
Operating income	15.4	3.3	17.0
Non-operating income (expense)			
Interest income	0.3	0.1	0.4
Interest income—related party	0.3	2.8	2.0
Acquisition-related gains	56.6	25.5	6.3
Gain on sale of marketable securities	—	4.3	—
Acquisition-related expenses	(1.6)	(0.7)	—
Interest expense - corporate debt	(39.9)	(26.1)	(19.0)
Interest expense - property level debt	(11.8)	(2.5)	(1.6)
Realized foreign currency exchange loss	(2.8)	—	—
Income from continuing operations before benefit from (provision for) income taxes	16.5	6.7	5.1
(Provision for) benefit from income taxes	(2.9)	0.2	2.0
Income from continuing operations	13.6	6.9	7.1
Loss from discontinued operations, net of income taxes	(0.3)	—	—
Gain (loss) from sale of real estate, net of income taxes	0.6	(0.2)	0.4
Net income	13.9	6.7	7.5
Net (income) attributable to the noncontrolling interests	(20.3)	(2.5)	(1.2)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc.	(6.4)	4.2	6.3
Preferred stock dividends and accretion of issuance costs	(8.1)	(8.1)	(8.7)
Net loss attributable to Kennedy-Wilson Holdings, Inc. common shareholders	\$(14.5)	\$(3.9)	\$(2.4)
EBITDA ⁽¹⁾	\$177.6	\$92.1	\$66.2
Adjusted EBITDA ⁽²⁾	\$185.1	\$100.2	\$71.3

^{(1) (2)} See Non-GAAP Measures section for definition of EBITDA and Adjusted EBITDA

The following compares results of operations for the years ended December 31, 2013 and December 31, 2012 and years ended December 31, 2012 and December 31, 2011.

Our Consolidated Financial Results and Comparison of the Years Ended December 31, 2013 and 2012

Our revenues for the years ended December 31, 2013 and 2012 were \$121.2 million and \$64.1 million. Total operating expenses for the same periods were \$149.1 million and \$91.5 million, respectively. Net loss attributable to our common shareholders was \$14.5 million and \$3.9 million in 2013 and 2012, respectively. EBITDA was \$177.6 million and \$92.1 million in 2013 and 2012, respectively. Adjusted EBITDA was \$185.1 million and \$100.2 million in 2013 and 2012, respectively. The Company

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achieved a 93% increase in EBITDA and a 85% increase in Adjusted EBITDA for the year ended December 31, 2013 as compared to the same period in 2012.

Revenues

Investments Segment Revenues

Rental and other income increased to \$43.0 million in 2013 from \$8.5 million in 2012. The \$34.5 million increase is due to \$18.1 million in rental income from new acquisitions and consolidations in 2013 and \$16.3 million from properties acquired at the end of 2012.

During the year ended December 31, 2013, we sold 44 condominium units generating \$10.1 million of proceeds from the sale of real estate. During the year ended December 31, 2012, we sold five condominium units, generating \$2.3 million of proceeds from the sale of real estate.

Services Segment Revenues

Third Party Services - These are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

Our third party management and leasing services revenues increased to \$18.1 million during the year ended December 31, 2013 as compared to approximately \$15.8 million for the same period in 2012. The \$2.3 million or 15% increase primarily relates to the acquisition in March 2012 of Meyers, a real estate consultancy firm specializing in capital sourcing and real estate research for the single-family homebuilding and multifamily apartment industries. Our third party commission revenues were at \$4.0 million in 2013 as compared to approximately \$5.0 million in 2012. The decrease is driven by our auction services business which has historically been countercyclical. Improvements in the U.S. real estate markets have caused auction service revenues to decrease.

Related Party Services

Our related party management and leasing services generated revenues of \$36.0 million in 2013 compared to \$24.5 million in 2012. The \$11.5 million, or 47%, increase primarily relates to an increase of \$6.6 million in additional asset management fees earned on our U.K. Loan Pool due to the expected resolution period being shortened to two years from the initial budget of three years. In addition, we earned \$2.7 million in asset management fees relating to a new loan pool in the United Kingdom that was entered into in December 2012. Also during 2013, additional base management fees were earned mainly due to the admission of new investors into one of our funds and as a result of our increased investment activity in the United Kingdom and Ireland.

In 2013, our related party commission revenues were \$10.0 million compared to approximately \$8.0 million in 2012. The increase in commission revenues are primarily driven by acquisition fees earned on increased investment activity mainly in the United Kingdom and Ireland.

Operating Expenses

Investments Segment Operating Expenses

Operating expenses for the year ended December 31, 2013 increased to \$84.7 million compared to \$41.3 million for the same period in 2012. The increase is attributable to the following:

Compensation and related expenses increased by \$9.3 million due to an increase in personnel, particularly due to our growth and expansion in the United Kingdom and Ireland, to source and execute on acquisition opportunities.

Additionally, accrued discretionary compensation increased in connection with the increase in Investments EBITDA. General and administrative expenses increased by \$2.9 million primarily due to increased travel and rental expense relating to our growing operations in the United Kingdom and Ireland.

Rental operating expenses increased by \$14.4 million and depreciation and amortization increased by \$11.2 million due to the acquisitions during 2013 and the end of 2012.

During the year ended December 31, 2013 we sold 44 condominium units which resulted in \$7.9 million of sale-related costs. During the year ended December 31, 2012, we sold five condominium units which resulted in \$2.2 million of sale-related costs.

Services Segment Operating Expenses

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Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2013 were approximately \$40.7 million as compared to \$33.1 million for the same period in 2012. The increase is attributable to the following:

Compensation and related expenses increased by \$6.0 million due to an increase in personnel and in accrued discretionary compensation. As a result of the expansion in our Meyers group, we increased our head count in order to service the demand of our customers in the capital sourcing and real estate research for the single-family homebuilding and multifamily apartment industries. Additionally, due to the growth in our Services EBITDA there was an increase in our accrued discretionary compensation.

General and administrative expenses increased by \$2.5 million primarily due to the growth of the Company specifically in the United Kingdom, Ireland, and Meyers.

Commissions and marketing expenses decreased by \$1.0 million due to the decrease in auction sales previously discussed.

Corporate Operating Expenses

Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2013 were approximately \$21.9 million as compared to \$16.7 million for the same period in 2012. Compensation and related expenses increased by \$5.5 million primarily due to the increase in accrued discretionary compensation in connection with the increase in Adjusted EBITDA and the additional resources and costs associated with growing the Company.

Investments Segment Equity in Joint Venture Income

The following table details summarized financial data for the Company's portion of equity in joint venture income by region for the years ended December 31, 2013 and 2012.

	Years ended December 31,							
	2013				2012			
(Dollars in millions)	U.S.	Europe	Japan	Total	U.S.	Europe	Japan	Total
Rental and other income	\$98.2	\$23.8	\$12.8	\$134.8	\$60.6	\$1.9	\$16.0	\$78.5
Sale of real estate	43.7	11.4	—	55.1	61.9	—	—	61.9
Interest income	3.7	1.5	—	5.2	2.0	2.0	—	4.0
Total revenue	145.6	36.7	12.8	195.1	124.5	3.9	16.0	144.4
Rental operating expense	47.6	6.2	3.1	56.9	22.7	0.5	4.1	27.3
Cost of real estate sold	33.1	8.6	—	41.7	52.8	—	—	52.8
Compensation and related expense	—	—	0.8	0.8	—	—	0.9	0.9
General and administrative	—	0.8	0.9	1.7	—	0.8	—	0.8
Depreciation and amortization expense	31.2	11.3	4.2	46.7	16.5	0.9	5.2	22.6
Total operating expense	111.9	26.9	9.0	147.8	92.0	2.2	10.2	104.4
Acquisition-related gain	—	36.2	—	36.2	—	—	—	—
Fair value gain	5.1	—	—	5.1	9.5	—	—	9.5
Acquisition-related expenses	(0.3)	(13.2)	—	(13.5)	(1.3)	(1.1)	—	(2.4)
Carried interest on realized investment	—	—	—	—	2.4	—	—	2.4
Gain on sale of interest in joint venture investments	—	—	—	—	2.3	—	—	2.3
Gain on refinancing	—	—	—	—	1.5	—	—	1.5
Interest expense	(33.0)	(7.5)	(4.5)	(45.0)	(23.1)	(2.3)	(4.0)	(29.4)
Other non-operating income (expense)	2.3	(2.2)	(0.4)	(0.3)	(1.8)	(0.6)	—	(2.4)
Equity in joint venture income (loss)	\$7.8	\$23.1	\$(1.1)	\$29.8	\$22.0	\$(2.3)	\$1.8	\$21.5

Equity in joint ventures generated income of \$29.8 million for the year ended December 31, 2013, as compared to income of \$21.5 million for the same period in 2012. The income in 2013 and 2012 was primarily derived from conversions of loans into real estate, property sales and fair value gains as further discussed below.

During the year ended December 31, 2013, the Company and its equity partners converted three loans into real estate which resulted in gains of \$72.5 million, of which \$36.2 million was a gain to us and \$36.3 million to our noncontrolling interest

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holders. In addition, there were gains of \$57.1 million, of which \$13.4 million was a gain to us and \$43.2 million of which to our noncontrolling interest holders. Included in equity in joint venture income are one-time acquisition costs which are non-recurring. During the year ended December 31, 2013, approximately \$13.5 million of acquisition costs were included in equity in joint venture income.

During the year ended December 31, 2012, the Company and its equity partners sold six multifamily properties (through property sales and sale of equity interest) located in the Western United States for a total of \$251.7 million, which resulted in a total gain of \$33.7 million, of which \$10.1 million was a gain to us and \$3.0 million to our noncontrolling interest holders. In addition, we recognized \$9.4 million of unrealized fair value gains. During the year ended December 31, 2012, approximately \$2.4 million of acquisition costs were included in equity in joint venture income.

Our share of depreciation generated at the joint venture level was \$46.7 million and \$22.6 million for the years ended December 31, 2013 and 2012. We look at equity in joint venture income plus our share of the joint ventures depreciation to get a better sense of earnings before depreciation and amortization. The amounts were \$76.5 million and \$44.1 million for the year ended December 31, 2013 and 2012 representing a 73% increase.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable generated income of \$13.5 million in 2013 as compared to \$9.2 million in 2012.

We have acquired three additional loan pools in the United Kingdom and one in Ireland since August 2012, which together provided \$2.3 million of additional interest income during the year ended December 31, 2013. We accreted an additional \$0.6 million of interest income on our U.K. Loan Pool as compared to the same period in 2012 due to the expected resolution period being shortened to two years from the initial budget of three years. Additionally, we had a \$2.6 million increase in accreted income from loan pools in the Western United States due to an increase in resolution periods on one pool in 2012 which led to a decrease in accreted income for the year ended December 31, 2012. Offsetting these increases in the year ended December 31, 2013 was a \$1.2 million decrease in interest income on our notes receivable mainly due to a note we held on a multifamily property that was converted to real estate at the end of 2012.

Non-Operating Items

Acquisition-related gains were \$56.6 million for the year ended December 31, 2013 compared to \$25.5 million for the same period in 2012. The acquisition related gains in 2013 are primarily attributable to a \$45.1 million gain on the consolidation of the Ritz Carlton, Lake Tahoe and a \$9.5 million gain from acquiring a controlling interest in a multifamily property in Northern California. The gain associated with the Ritz Carlton, Lake Tahoe is due to the Company and one of its equity partners amending an existing operating agreement where the Company gained control of the property which was previously accounted for as an equity method investment. The gain associated with the multifamily property was triggered when the Company acquired the interests of some of its equity partners which increased the Company's ownership from 15% to 94%. As a result of obtaining control of both properties and as the fair value was in excess of the carrying value of its ownership interests, the acquisition gains above were recognized. The acquisition related gains in 2012 is mainly due to a change of control and thereby consolidation of KW Property Fund II, LP ("Fund II"), a limited partnership that had been previously accounted for using the equity method. As the fair value was in excess of the carrying value of our equity method ownership interest, we recorded an acquisition related gain in the amount of \$22.8 million.

Acquisition related expenses were \$1.6 million for the year ended December 31, 2013 compared to \$0.7 million for the same period in 2012. The increase is due to increased acquisition activity and the write off of costs associated with potential acquisitions which ultimately did not materialize.

Interest expense associated with corporate debt was \$39.9 million in 2013 as compared to \$26.1 million in 2012. The increase is due to the issuance of an additional \$100.0 million aggregate principal of the 2019 Notes and \$55.0 million aggregate principal of the 2042 Notes which both occurred in December 2012. The revolving line of credit had a higher average balance outstanding and committed amount available which both lead to increases in interest expense as well.

Interest expense associated with the mortgage loans was \$11.8 million in 2013 as compared to \$2.5 million. The increase is due to the acquisitions during 2013 and the end of 2012.

There were no gains on marketable securities during the year ended December 31, 2013 compared to \$4.3 million during 2012. The gain in the prior period related to the sale of the Company's investment in the ordinary stock of the Bank of Ireland.

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Foreign currency translation loss was \$2.8 million during the year end December 31, 2013 compared to no comparable activity in the prior period due to the recognition of foreign currency loss on the U.K. Loan Pool as the investment was substantially liquidated at the end of 2013.

Provision for income taxes was \$2.9 million in 2013 as compared to a benefit from income taxes of \$0.2 million in 2012 due to higher taxable income in the United States. The Company had \$114.4 million and \$73.2 million of federal and state net operating losses as of December 31, 2013.

We had net income of \$20.3 million attributable to a non-controlling interests in 2013 compared to \$2.5 million in 2012. The increase is due to \$22.6 million of the Ritz Carlton, Lake Tahoe acquisition-related gain described above being allocated to the Company's non-controlling equity partner. This was offset by interest and depreciation expense associated with Fund II being allocated to noncontrolling interest holders. During 2012 the net income attributable to non-controlling interest holders was primarily due to a gain from the sale of a multifamily property.

Our Consolidated Financial Results and Comparison of the Years Ended December 31, 2012 and 2011

Our revenues for the year ended December 31, 2012 and 2011 were \$64.1 million and \$62.6 million. Total operating expenses for the same periods were \$91.5 million and \$66.1 million, respectively. Net loss attributable to our common shareholders was \$3.9 million and \$2.4 million in 2012 and 2011, respectively. EBITDA was \$92.1 million and \$66.2 million in 2012 and 2011, respectively. Adjusted EBITDA was \$100.2 million and \$71.3 million in 2012 and 2011, respectively. The Company achieved a 39% increase in EBITDA and a 41% increase in adjusted EBITDA for the year ended December 31, 2012 as compared to the same period in 2011.

Revenues

Investments Segment Revenues

Rental and other income increased to \$8.5 million in 2012 from \$5.1 million in 2011. The \$3.4 million increase is primarily due to the acquisition of three apartment buildings and one office building in the Western United States during 2012. Additionally, we acquired an approximately 200,000 square foot office portfolio in Oakland, California in the latter half of 2011 which contributed to the increase in rental and other income in 2012.

During the year ended December 31, 2012, we sold five condominium units generating \$2.3 million of proceeds from the sale of real estate. During the year ended December 31, 2011, we sold a land parcel in Kent, Washington, generating \$0.4 million of proceeds in sale of real estate.

Services Segment Revenues

Third Party Services - These are management and leasing fees as well as commissions earned from third parties and relate to assets in which we do not have an ownership interest.

Our third party management and leasing services increased to \$15.8 million during the year ended December 31, 2012 as compared to approximately \$12.6 million for the same period in 2011. The \$3.2 million or 26% increase primarily relates to our acquisitions of the real estate investment management division of the Bank of Ireland in the latter half of 2011 which provided asset management fees of \$3.2 million during the year ended December 31, 2012 as compared to approximately \$1.4 million for the same period in 2011. In addition, in March 2012, we acquired a real estate consultancy firm specializing in capital sourcing and real estate research for the single family homebuilding and multifamily apartment industries which generated \$1.2 million in management fees.

Our third party commission revenues was at \$5.0 million in 2012 as compared to approximately \$5.8 million in 2011. During 2012, we had a decrease in auction sales as compared to 2011. Our auction services business has historically been countercyclical and improvements in general economic conditions caused auction service revenues to decrease.

Related Party Services - These are management and leasing fees as well as commissions earned from our equity partners and relate to assets in which we have an ownership interest.

Our related party management and leasing services generated revenues of \$24.5 million in 2012 compared to approximately \$14.5 million in 2011. The \$10.0 million, or 68%, increase primarily relates to our acquisition of the U.K.-based loan pool in the latter half of 2011, which provided additional asset management fees of \$8.4 million in 2012. In addition, as a result of our acquisition activity in the latter half of 2011, and during 2012, we have generated an additional \$1.6 million in management and leasing fees.

In 2012, our related party commission revenues were \$8.0 million compared to approximately \$24.2 million in 2011. Our commission revenues are primarily driven by fees related to the acquisition of the \$2.1 billion U.K.-based loan

portfolio.

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During 2012, we recognized \$4.4 million of acquisition fees related to certain debt hurdles achieved in the U.K.-based loan portfolio as compared to \$13.3 million in 2011. During 2011, we received \$8.3 million of fees related to the \$1.5 billion recapitalization of the Bank of Ireland. We did not receive such fees in 2012.

Operating Expenses

Investments Segment Operating Expenses

Operating expenses for the year ended December 31, 2012 increased to \$41.3 million compared to \$21.7 million for the same period in 2011. The increase is attributable to the following:

Compensation and related expenses increased by \$10.8 million and general and administrative expenses increased by \$3.7 million due to growth in the Company, including an increase in personnel, particularly due to our expansion in the United Kingdom and Ireland, to source and execute on acquisition opportunities. We began our operations in the United Kingdom and Ireland in June 2011 and have doubled our headcount there since December 31, 2011.

Rental operating expenses increased by \$1.2 million and depreciation and amortization increased by \$2.0 million due to the acquisition of three apartment buildings and one office building in the Western United States during 2012.

Additionally, we acquired an approximate 200,000 square foot office portfolio in Oakland, California in the latter half of 2011 which contributed to the increase in rental operating expenses and depreciation and amortization in 2012.

During the year ended December 31, 2012 we sold five condominium units which resulted in \$2.2 million of sale-related costs. During the year ended December 31, 2011, a land parcel in Kent, Washington was sold which resulted in \$0.4 million of sale-related costs.

Services Segment Operating Expenses

Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2012 were approximately \$33.1 million as compared to \$31.4 million for the same period in 2011. The increase is attributable to the following:

Commissions and marketing expenses increased by \$0.6 million as a result of an increase in third party services used to generate new business.

General and administrative expenses increased by \$1.2 million primarily due to the growth of our company specifically in the United Kingdom and Ireland. We began our operations in the United Kingdom and Ireland in June 2011 and have doubled our headcount there since December 31, 2011.

Corporate Operating Expenses

Operating expenses (excluding depreciation and amortization expense) for the year ended December 31, 2012 were approximately \$16.7 million as compared to \$12.6 million for the same period in 2011. Compensation and related expenses increased by \$3.9 million primarily due to the growth of our company.

Investments Segment Equity in Joint Venture Income

Equity in joint ventures generated income of \$21.5 million for the year ended December 31, 2012, as compared to income of \$12.5 million for the same period in 2011. The income in 2012 and 2011 was primarily derived from property sales and fair value gains as further discussed below.

During the year ended December 31, 2012, the Company and its equity partners sold six multifamily properties (through property sales and sale of equity interest) located in the Western United States for a total of \$251.7 million, which resulted in a total gain of \$33.7 million, of which \$10.1 million was a gain to us and \$3.0 million to our noncontrolling interest holders. In addition, we recognized \$9.4 million of unrealized fair value gains. Included in equity in joint venture income are one-time acquisition costs which are non-recurring. During the year ended December 31, 2012, approximately \$2.4 million of acquisition costs were included in equity in joint venture income. During the year ended December 31, 2011, the joint venture income was primarily attributable to fair value gains recognized in connection with the foreclosure by one of our joint ventures on a first trust deed position it held followed by its taking ownership of a class A multifamily project in San Jose, California, the acquisition of additional membership interests in a joint venture that we account for using the fair value option, the sale of a 286-unit apartment complex in Anaheim, California and unrealized fair value gains.

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Our share of depreciation generated at the joint venture level was \$22.6 million and \$13.9 million for the years ended December 31, 2012 and 2011, respectively. We look at equity in joint venture income plus our share of the joint ventures depreciation to get a better sense of earnings before depreciation and amortization. These amounts were \$44.1 million and \$26.4 million for the year ended December 31, 2012 and 2011, respectively, representing a 67% increase.

Investments Segment Income from Loan Pool Participations and Notes Receivable

Income from loan pool participations and notes receivable generated income of \$9.2 million in 2012 as compared to \$8.0 million in 2011. During the year ended December 31, 2012, we accreted \$8.0 million of interest income on our U.K.-based loan pool. Additionally, we accreted or recognized \$6.1 million of interest income from new loan pools or notes originated or acquired in the Western United States during 2012. These increases were offset by a \$4.5 million decrease in accretion income recognized during the same period on a loan pool purchased during 2010 due to an increase in the estimated resolution periods as well as foreclosure on certain underlying real estate collateral. Even with this decrease in accretion we have accreted to date a profit of \$4.7 million on this loan pool.

During the year ended December 31, 2011, we accreted \$1.4 million of interest income on our U.K.-based loan pool which we acquired in the last quarter of 2011. Additionally we accreted or recognized \$5.6 million of interest income from our loan pools in the Western United States.

Non-Operating Items

Acquisition-related gains were \$25.5 million for the year ended December 31, 2012 compared to \$6.3 million for the same period in 2011. The acquisition-related gains in 2012 were primarily attributable to a change of control and thereby consolidation of KW Property Fund II, LP, a limited partnership that had been previously accounted for using the equity method. As the fair value was in excess of the carrying value of our equity method ownership interest, we recorded an acquisition-related gain in the amount of \$22.8 million. The acquisition-related gain in 2011 was primarily attributed to a gain recognized in connection with the assumption of debt of an office portfolio in Oakland, California. Since the fair value of the real estate acquired was greater than the liability assumed, a gain was recorded. Interest expense associated with corporate debt was \$26.1 million in 2012 as compared to \$19.0 million in 2011. The increase is primarily attributable to the \$250 million senior notes issued in April 2011 and the additional \$100 million issued in December 2012 bearing interest at a rate of 8.75% per annum and the \$55 million senior notes issued in December 2012 bearing interest at 7.75% per annum.

Interest expense on consolidated properties was \$2.5 million in 2012 as compared to \$1.6 million in 2011. In addition, we incurred additional interest expense associated with the mortgage loans on the acquisition of three apartment buildings and one office building in the Western United States during 2012.

Benefit from income taxes was \$0.2 million in 2012 as compared to \$2.0 million in 2011.

We had net income of \$2.5 million attributable to a non-controlling interest in 2012 compared to \$1.2 million in 2011. During 2012 the net income attributable to non-controlling interest holders was primarily due to a gain from the sale of a multifamily property. During 2011, a majority of the net income attributable to non-controlling interest holders related to entities which were consolidated at that time. As a result of a restructuring in December 2011, these entities were no longer consolidated as of December 31, 2011.

EBITDA and Adjusted EBITDA

We use certain non-GAAP measures to analyze our business, including EBITDA and Adjusted EBITDA. We use these metrics for evaluating the success of our company and believe that they enhance the understanding of our operating results. A reconciliation of net income to EBITDA and Adjusted EBITDA is presented below:

EBITDA and Adjusted EBITDA

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	Year Ended December 31,				
(Dollars in millions)	2013	2012	2011	2010	2009
Net income (loss)	\$13.9	\$6.7	\$7.5	\$6.5	\$(9.7)
Add back:					
Interest expense - corporate debt	39.9	26.1	19.0	7.0	8.1
Interest expense - property level debt	11.8	2.5	1.6	0.7	5.1
Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participations	45.0	29.5	23.5	13.8	10.5
Depreciation and amortization	17.4	4.9	2.7	1.6	1.1
Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures	46.7	22.6	13.9	10.0	7.5
Loss on early extinguishment of corporate debt	—	—	—	4.8	—
Provision for (benefit from) income taxes	2.9	(0.2)	(2.0)	3.7	(4.0)
EBITDA ⁽¹⁾	177.6	92.1	66.2	48.1	18.6
Add back:					
Merger related compensation expenses	—	—	—	2.2	16.1
Share based compensation	7.5	8.1	5.1	8.1	2.3
Adjusted EBITDA ⁽²⁾	\$185.1	\$100.2	\$71.3	\$58.4	\$37.0

⁽¹⁾⁽²⁾ See definitions in Non-GAAP Measures discussion.

The following summarizes revenue, operating expenses, non-operating expenses, operating income (loss) and net income (loss) and calculates EBITDA and Adjusted EBITDA by our investments, services and corporate operating segments years ended December 31, 2013, 2012, and 2011:

	Year Ended December 31,		
(Dollars in millions)	2013	2012	2011
Investments			
Rental and other income and sale of real estate ⁽³⁾	\$53.1	\$10.8	\$5.5
Operating expenses	84.7	41.3	21.7
Equity in joint venture income	29.8	21.5	12.5
Interest income from loan pool participations and notes receivable	13.5	9.3	8.0
Operating income	11.7	0.3	4.3
Other non-operating income (expense) and discontinued operations	(3.8)	6.3	2.4
Acquisition related gain	56.6	25.5	6.3
Interest expense - property level debt	(11.8)	(2.5)	(1.6)
Income before (provision for) benefit from income taxes	52.7	29.6	11.4
Non-GAAP adjustments:			
Add back:			
Interest expense - property level debt	11.8	2.5	1.6
Kennedy Wilson's share of interest expense included in investment in joint ventures and loan pool participation	45.0	29.4	23.5
Depreciation and amortization	15.6	4.4	2.4
Kennedy Wilson's share of depreciation and amortization included in investment in joint ventures	46.7	22.6	13.9
EBITDA ⁽¹⁾ and Adjusted EBITDA ⁽²⁾	\$171.8	\$88.5	\$52.8

⁽¹⁾⁽²⁾ See definitions in Non-GAAP Measures discussion.

⁽³⁾ Consolidated results

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(Dollars in millions)	Year Ended December 31,		
	2013	2012	2011
Services			
Management and leasing fees and commissions	\$68.1	\$53.3	\$57.1
Operating expenses	42.0	33.3	31.5
Operating income	26.1	20.0	25.6
Income before (provision for) benefit from income taxes	26.1	20.0	25.6
Non-GAAP adjustments:			
Add back:			
Depreciation and amortization	1.3	0.2	0.1
EBITDA ⁽¹⁾ and Adjusted EBTIDA ⁽²⁾	\$27.4	\$20.2	\$25.7

(1) (2) See definitions in Non-GAAP Measures discussion.

(Dollars in millions)	Year Ended December 31,		
	2013	2012	2011
Corporate:			
Operating expenses	\$(22.4)	\$(17.0)	\$(12.8)
Operating loss	(22.4)	(17.0)	(12.8)
Interest income	0.3	0.2	0.3
Interest expense - corporate debt	(39.9)	(26.1)	(19.0)
(Provision for) benefit from income taxes	(2.9)	0.2	2.0
Net loss	(64.9)	(42.7)	(29.5)
Non-GAAP adjustments:			
Add back:			
Interest expense - corporate debt	39.9	26.1	19.0
Depreciation and amortization	0.5	0.3	0.2
Provision for (benefit from) income taxes	2.9	(0.2)	(2.0)
EBITDA ⁽¹⁾	(21.6)	(16.5)	(12.3)
Add back:			
Share based compensation	7.5	8.1	5.1
Adjusted EBITDA ⁽²⁾	\$(14.1)	\$(8.4)	\$(7.2)

(1) (2) See definitions in Non-GAAP Measures discussion.

Liquidity and Capital Resources

Our liquidity and capital resources requirements include acquisitions of real estate and real estate related assets, capital expenditures for consolidated real estate and joint venture investments and working capital needs. We finance these operations with internally generated funds, borrowings under our revolving line of credit and sales of equity and debt securities. Our investments in real estate are typically financed with equity from our balance sheet and mortgage loans secured primarily by that real estate. These mortgage loans are generally nonrecourse in that, in the event of default, recourse will be limited to the mortgaged property serving as collateral, subject to limited customary exceptions. In some cases, we guarantee a portion of the loan related to a consolidated property or a joint venture investment, usually until some condition, such as completion of construction or leasing or certain net operating income criteria, has been met. We do not expect these guarantees to materially affect liquidity or capital resources. Please refer to the "Off Balance Sheet Arrangements" section for further information. Historically, we have not required significant capital resources to support our brokerage and property management operations.

We believe that our existing cash and cash equivalents plus capital generated from property management and leasing, brokerage, sales of real estate owned, collections from notes receivable and loan pools, as well as our current revolving line of credit, will provide us with sufficient capital requirements to maintain our current portfolio for at least the next twelve months.

To the extent that we engage in additional strategic investments, including real estate, note portfolios, or acquisitions of other real estate related companies, we may need to obtain third party financing which could include bank financing or the public sale or private placement of debt or equity securities. In addition, in January 2014, the Company completed an offering of 9.2 million shares of its common stock, which raised \$190.8 million of net proceeds.

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Under our current joint venture strategy, we generally contribute property expertise and a fully funded initial cash contribution, with commitments to provide additional funding. Capital required for additional improvements and supporting operations during leasing and stabilization periods is generally obtained at the time of acquisition via debt financing or third party investors. Accordingly, we generally do not have significant capital commitments with unconsolidated entities. However, there may be certain circumstances when we, usually with the other members of the joint venture entity, may be required to contribute additional capital for a period of time.

Our need to raise funds from time to time to meet our capital requirements will depend on many factors, including the success and pace of the implementation of our strategy for strategic and accretive growth. We regularly monitor capital-raising alternatives to be able to take advantage of other available avenues to support our working capital and investment needs, including strategic partnerships and other alliances, bank borrowings, and the sale of equity or debt securities. We expect to meet the repayment obligations of our senior notes and borrowing under our line of credit from cash generated by our business activities, including the sale of assets and the refinancing of debt.

During the year ended December 31, 2013, the Company generated a book loss of \$10.6 million related to operations in the United Kingdom and Ireland. A foreign tax benefit of \$2.1 million is included in the consolidated tax provision for income taxes related to the portion of income earned directly by subsidiaries in the United Kingdom and Ireland for the year ended December 31, 2013. U.S. domestic taxes have not been provided for in the consolidated tax provision on amounts earned directly by these subsidiaries since it is the Company's plan to indefinitely invest amounts earned by these subsidiaries in the United Kingdom and Ireland operations. If these subsidiaries' cumulative earnings were repatriated to the United States additional U.S. domestic taxes of \$2.5 million would be incurred. Additionally, approximately \$38.5 million of our consolidated cash and cash equivalents is held by our subsidiaries in the United Kingdom and Ireland.

Currency Derivative Instruments

Fluctuations in currency exchange rates may affect our financial position and results of operations. We enter into currency forward contracts to manage our exposure to currency fluctuations between our functional currency (the U.S. dollar) and the functional currency (Euros, British Pound Sterling, and Japanese Yen) of certain of our wholly owned subsidiaries and joint venture investments.

For 2013 and 2012, we recorded a gain, net of taxes, of \$3.1 million and \$5.7 million, respectively, in other comprehensive income as the portion of the currency forward contract used to hedge the currency exposure of certain of our wholly owned subsidiaries qualifies as a net investment hedge under ASC Topic 815.

Cash Flows

The following table summarizes the cash provided by or used in our operating, investing and financing activities for the years ended December 31, 2013 and December 31, 2012:

(Dollars in millions)	Year ended December 31,	
	2013	2012
Net cash provided by operating activities	\$31.3	\$16.7
Net cash used in investing activities	(348.8)	(399.7)
Net cash provided by financing activities	371.4	388.4
Operating		

Our cash flows from operating activities are primarily dependent upon the operating distributions from our joint venture investments and loan pool participations, revenues from our services business net of operating expenses, payment of interest expense on the Company's corporate and consolidated property debt, and other general and administrative costs. Net cash provided by operating activities totaled \$31.3 million for the year ended December 31, 2013 as compared to net cash provided by operating activities of \$16.7 million for the year ended December 31, 2012. The increase was mainly due to operating distributions from our joint venture investments and loan pool participations of \$67.7 million and the collection of \$10.7 million in accounts receivable. The largest collection related to the promote fees associated with the UK Loan Pool, of which the Company collected \$23.2 million in 2013. These were

offset by the payment of \$49.7 million in interest expense on our corporate debt, accrued expenses and other liabilities and prepayment of expenses.

Investing

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Our cash flows from investing activities are generally effected by cash used to fund investments in our joint ventures and loan pool participations, property acquisitions and capital expenditures, notes receivable secured by real estate, and investments in marketable securities as well as cash received from dispositions, resolutions and other distributions of these investments. Net cash used in investing activities totaled \$348.8 million for the year ended December 31, 2013. We invested \$322.7 million of equity in joint ventures of which \$265.5 million was for new investments and \$57.2 million for contributions to existing joint venture investments to pay off external debt, fund our share of a development project, and for working capital needs. Of the new investments, \$216.1 million was for 56 commercial properties in Ireland and the United Kingdom, one multifamily property in Ireland, and a servicing business in Spain. The remaining \$49.4 million of new investments was for four commercial properties, two multifamily properties, and three projects all in the Western United States. We invested \$168.5 million in the acquisitions of consolidated real estate relating to three multifamily and four commercial properties in the Western United States as well as one commercial property in Ireland. In addition, we invested \$96.6 million to fund our equity in new and existing note receivable and loan pool participations.

The cash used in the aforementioned investing activities was offset by \$93.9 million in distributions from our loan pools primarily due to loan resolutions and the receipt of \$81.5 million in distributions from our joint ventures. The \$81.5 million of distributions is comprised of refinancing of property level debt of \$52.9 million, \$15.6 million from the sale of underlying properties, and \$10.8 million from the settlement of several Japanese yen-related hedges. In addition, we received \$46.0 million due to the settlement of notes receivable.

Net cash used in investing activities totaled \$399.7 million for the year ended December 31, 2012. We invested \$119.0 million in the acquisitions of consolidated real estate primarily related to the purchase of the three multifamily properties and one commercial property in the Western United States. We also invested \$178.7 million of equity in joint ventures of which \$149.5 million was invested in the acquisition of nine income producing multifamily and residential properties and 11 income producing commercial properties located primarily in the Western United States and Ireland. In addition, we invested \$257.9 million to fund our equity in loan pool participations and notes receivables. The cash used in the aforementioned investing activities was offset by receipt of \$38.7 million in distributions from our joint ventures primarily due to the sale of six multifamily properties (through property sales and sale of equity interest) located in the Western United States. In addition, we received \$58.1 million in distributions from our loan pools primarily due to loan resolutions. Lastly, we sold our marketable securities which provided \$34.1 million.

Financing

Our net cash related to financing activities is generally impacted by our consolidated corporate and property level borrowings and capital raising activities net of dividends and distributions paid to common and preferred shareholders and noncontrolling interests. Net cash provided by financing activities totaled \$371.4 million for the year ended December 31, 2013. This was primarily due to proceeds of \$275.9 million received from the issuance of 17.3 million shares of common stock primarily to institutional investors, \$112.5 million of proceeds from mortgage loans to finance consolidated property acquisitions, and \$15.4 million from the exercise of 2.7 million warrants. This was offset by payments of cash dividends of \$24.1 million to our common and preferred shareholders and \$5.2 million for the repurchase of Company's common stock and warrants.

Net cash provided by financing activities totaled \$388.4 million for the year ended December 31, 2012. This was primarily due to proceeds of \$106.2 million received from the issuance of 8.6 million shares of common stock primarily to institutional investors, the issuance of \$155.0 million of senior notes which generated \$160.3 million in proceeds, \$157.7 million of proceeds from mortgage loans to finance consolidated property acquisitions. These were offset by payments of cash dividends of \$21.9 million to our common and preferred shareholders and a \$4.9 million distribution to noncontrolling interest holders as a result of the sale of a 180-unit apartment building.

Since our common stock became listed on the NYSE in November 2009, cumulative preferred and common dividends declared were \$32.6 million and \$39.2 million, respectively, and are included as a component of retained earnings in the accompanying consolidated balance sheet and consolidated statement of equity.

Contractual Obligations and Commercial Commitments

At December 31, 2013, our contractual cash obligations, including debt, lines of credit, and operating leases included the following:

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(Dollars in millions)	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual obligations					
Borrowings: ⁽¹⁾					
Mortgage loans and notes payable ⁽²⁾	\$402.4	\$38.7	\$94.9	\$28.0	\$240.8
Senior notes ⁽³⁾	405.0	—	—	350.0	55.0
Subordinated debt	40.0	—	—	—	40.0
Total borrowings	847.4	38.7	94.9	378.0	335.8
Operating leases	10.1	3.3	3.2	1.4	2.2
Total contractual cash obligations	\$857.5	\$42.0	\$98.1	\$379.4	\$338.0

See Notes 10-13 of our Notes to Consolidated Financial Statements. Figures do not include scheduled interest payments. Assuming each debt obligation is held until maturity, we estimate that we will make the following

⁽¹⁾ interest payments: Less than 1 year-\$55.5 million; 1-3 years-\$153.8 million; 4-5 years-\$79.5 million; After 5 years: \$143.6 million. The interest payments on variable rate debt have been calculated at the interest rate in effect as of December 31, 2013.

⁽²⁾ Excludes \$5.3 million of unamortized debt premiums on mortgage loan payables.

⁽³⁾ Excludes \$4.0 million of net unamortized debt premium on senior notes.

Indebtedness and Related Covenants

The following describes our corporate indebtedness and related covenants.

Junior Subordinated Debentures

In 2007, Kennedy Wilson issued junior subordinated debentures in the amount of \$40.0 million. The debentures were issued to a trust established by Kennedy Wilson, which contemporaneously issued \$40.0 million of trust preferred securities to Merrill Lynch International. The interest rate on the debentures is fixed for the first ten years at 9.06% and variable thereafter at LIBOR plus 3.70%. Interest is payable quarterly, with the principal due in 2037. Kennedy Wilson may redeem the debentures, in whole or in part, on any interest payment date at par.

Borrowings Under Line of Credit

In September 2013, Kennedy-Wilson, Inc., a wholly owned subsidiary of Kennedy Wilson, amended its existing unsecured revolving credit facility with U.S. Bank and East-West Bank which increased the total principal amount available to be borrowed by an additional \$40.0 million, for an aggregate availability of \$140.0 million. The loan bears interest at a rate equal to LIBOR plus 2.75% and the maturity date was extended to October 1, 2016. As of December 31, 2013, the unsecured credit facility was undrawn and \$140.0 million was still available.

Senior Notes Payable

In April 2011, Kennedy-Wilson, Inc. issued \$200.0 million in aggregate principal amount of its 8.750% Senior Notes due 2019, for approximately \$198.6 million, net of discount. An additional \$50.0 million in aggregate principal amount of its 8.750% Senior Notes due 2019 was issued in April 2011 for approximately \$50.8 million, net of premium. In December 2012, Kennedy-Wilson, Inc. issued an additional \$100.0 million aggregate principal amount of these 8.750% senior notes for approximately \$105.3 million, net of premium and pre-issuance accrued interest. Collectively, these notes are referred to as "the 2019 Notes." The terms of the 2019 Notes are governed by an indenture, dated as of April 5, 2011, by and among the issuer, Kennedy-Wilson Holdings, Inc., as parent guarantor; certain subsidiaries of the issuer, as subsidiary guarantors; and Wilmington Trust National Association (as successor to Wilmington Trust FSB), as amended by various subsequent supplemental indentures. The 2019 Notes bear interest

at 8.750% per annum. Interest is payable on April 1 and October 1 of each year, until the maturity date of April 1, 2019. The issuer's obligations under the 2019 Notes are fully and unconditionally guaranteed by Kennedy-Wilson Holdings, Inc. and certain subsidiary guarantors. At any time prior to April 1, 2015, the issuer may redeem the 2019 Notes, in whole or in part, at a price equal to 100% of the principal amount, plus an applicable "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after April 1, 2015, the issuer may redeem the 2019 Notes, in whole or in part, at the redemption prices specified in the indenture. Until April 1, 2014, the issuer may choose to redeem the 2019 Notes in an amount not to exceed in aggregate 35% of the original principal amount of the 2019 Notes together

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with any additional 2019 Notes issued under the indenture with money the issuer or Kennedy-Wilson Holdings, Inc. raises in certain equity offerings. The amount of the 2019 Notes included in the consolidated balance sheets, net of unamortized discount and premium, was \$354.0 million at December 31, 2013.

In December 2012, Kennedy-Wilson, Inc. completed a public offering of \$55.0 million aggregate principal amount of 7.750% Senior Notes due 2042 (the "2042 Notes"). The 2042 Notes were issued pursuant to an indenture dated as of November 28, 2012, by and among Kennedy-Wilson, Inc., as issuer, Kennedy-Wilson Holdings, Inc., as parent guarantor, certain subsidiaries of the issuer, as subsidiary guarantors and Wilmington Trust National Association, as trustee, as amended by various subsequent supplemental indentures. The issuer's obligations under the 2042 Notes are fully and unconditionally guaranteed by Kennedy Wilson and certain subsidiary guarantors. At any time prior to December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus an applicable "make-whole" premium and accrued and unpaid interest, if any, to the redemption date. At any time and from time to time on or after December 1, 2017, the issuer may redeem the 2042 Notes, in whole or in part, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. Interest on the 2042 Notes accrues at a rate of 7.750% per annum and is payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year. The 2042 Notes will mature on December 1, 2042. The amount of the 2042 Notes included in the accompanying consolidated balance sheets was \$55.0 million at December 31, 2013.

Debt Covenants

The junior subordinated debentures, the unsecured credit facility with U.S. Bank, East West Bank and the Bank of Ireland and the indenture governing the 2019 Notes and 2042 Notes contain numerous restrictive covenants that, among other things, limit Kennedy Wilson's and certain of its subsidiaries' ability to incur additional indebtedness, pay dividends or make distributions to stockholders, repurchase capital stock or debt, make investments, sell assets or subsidiary stock, create or permit liens on assets, engage in transactions with affiliates, enter into sale/leaseback transactions, issue subsidiary equity and enter into consolidations or mergers. The unsecured credit facility and junior subordinated debentures also require Kennedy Wilson to maintain a minimum tangible net worth and a specified amount of cash and cash equivalents.

The junior subordinated debentures require Kennedy-Wilson, Inc. to maintain (i) a fixed charge coverage ratio (as defined in the indenture governing the junior subordinated debentures) of not less than 1.75 to 1.00, measured on a four-quarter rolling basis; (ii) a ratio of total debt to net worth (as defined in the indenture) of not greater than 3.00 to 1.00 at any time; (iii) a tangible net worth (as defined in the indenture) not less than the sum of (x) \$15.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds \$75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued; and (iv) a net worth (as defined in the indenture) not less than the sum of (x) \$40.0 million, plus (y) 60% of any net income (but only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended March 31, 2007 until such time as our net worth equals or exceeds \$75.0 million and then 50% of any net income for each completed fiscal quarter thereafter, plus (z) 50% of all proceeds of equity interests issued by us or our subsidiaries after the date the debentures were issued. As of December 31, 2013, Kennedy Wilson's fixed charge coverage ratio was 3.19 to 1.00, its ratio of total debt to net worth was 1.12 to 1.00 and its tangible net worth and net worth were \$744.4 million and \$768.3 million, respectively, and Kennedy Wilson was in compliance with these covenants.

The revolving loan agreement that governs the unsecured credit facility requires Kennedy Wilson to maintain (i) a minimum rent adjusted fixed charge coverage ratio (as defined in the revolving loan agreement) of not less than 1.50 to 1.00, measured on a four-quarter rolling average basis; (ii) maximum balance sheet leverage (as defined in the revolving loan agreement) of not greater than 1.50 to 1.00, measured at the end of each calendar quarter; (iii) an effective tangible net worth (as defined in the revolving loan agreement) equal to or greater than \$250.0 million, measured at the end of each calendar quarter; and (iv) unrestricted cash, cash equivalents and publicly traded

marketable securities in the aggregate amount of at least \$40.0 million.

As of December 31, 2013, Kennedy Wilson's rent adjusted fixed charge coverage ratio was 2.52 to 1.00, its balance sheet leverage ratio was 0.61 to 1.00, and its effective tangible net worth and its unrestricted cash, cash equivalents and publicly traded marketable securities were \$730.3 million and \$178.2 million, respectively, and Kennedy-Wilson, Inc. was in compliance with these covenants.

The indentures governing the 2019 Notes and 2042 Notes limit Kennedy-Wilson, Inc.'s ability to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, Kennedy-Wilson, Inc.'s maximum balance sheet leverage ratio (as defined in the indenture) is greater than 1.50 to 1.00. This ratio is measured at the time of incurrence of additional indebtedness. As of December 31, 2013, the balance sheet leverage ratio was 0.58 to 1.00.

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Off-Balance Sheet Arrangements

Guarantees

We have provided guarantees associated with loans secured by assets held in various joint venture partnerships. The maximum potential amount of future payments (undiscounted) we could be required to make under the guarantees was approximately \$51.1 million at December 31, 2013. The guarantees expire by the year end of 2017 and our performance under the guarantees would be required to the extent there is a shortfall in liquidation between the principal amount of the loan and the net sales proceeds of the property. If we were to become obligated to perform on these guarantees, it could have an adverse affect on our financial condition.

As of December 31, 2013, we have a unfulfilled capital commitments totaling \$8.0 million to our joint ventures. As we identify investment opportunities in the future, we may be called upon to contribute additional capital to joint ventures in satisfaction of our capital commitment obligations.

Non-Recourse Carve Out Guarantees

Most of our real estate properties within our equity partnerships are encumbered by traditional non-recourse debt obligations. In connection with most of these loans, however, we entered into certain “non-recourse carve out” guarantees, which provide for the loans to become partially or fully recourse against us if certain triggering events occur. Although these events are different for each guarantee, some of the common events include:

- the special purpose property-owning subsidiary’s filing a voluntary petition for bankruptcy;
- the special purpose property-owning subsidiary’s failure to maintain its status as a special purpose entity; and
- subject to certain conditions, the special purpose property-owning subsidiary’s failure to obtain lender’s written consent prior to any subordinate financing or other voluntary lien encumbering the associated property.

In the event that any of these triggering events occur and the loans become partially or fully recourse against us, our business, financial condition, results of operations and common stock price could be materially adversely affected.

In addition, other items that are customarily recourse to a non-recourse carve out guarantor include, but are not limited to, the payment of real property taxes, liens which are senior to the mortgage loan and outstanding security deposits.

Impact of Inflation and Changing Prices

Inflation has not had a significant impact on the results of operations of our company in recent years. Our exposure to market risk from changing prices consists primarily of fluctuations in rental rates of commercial and residential properties, market interest rates on residential mortgages and debt obligations and real estate property values. The revenues associated with the commercial services businesses are impacted by fluctuations in interest rates, lease rates, real property values and the availability of space and competition in the market place. Commercial service revenues are derived from a broad range of services that are primarily transaction driven and are therefore volatile in nature and highly competitive. The revenues of the property management operations with respect to rental properties are highly dependent upon the aggregate rents of the properties managed, which are affected by rental rates and building occupancy rates. Rental rate increases are dependent upon market conditions and the competitive environments in the respective locations of the properties. Employee compensation is the principal cost element of property management.

Qualitative and Quantitative Disclosures about Market Risk

The primary market risk exposure of our Company relates to changes in interest rates in connection with our short-term borrowings, some of which bear interest at variable rates based on the lender’s base rate, prime rate, EURIBOR, GBP LIBOR, or LIBOR plus an applicable borrowing margin. These borrowings do not give rise to a significant interest rate risk because they have short maturities. However, the amount of income or loss we recognize for unconsolidated joint ventures may be impacted by changes in interest rates. Historically, the impact from the changes in rates has not been significant. Our exposure to market risk also consists of foreign currency exchange rate fluctuations related to our international operations.

Interest Rate Risk

We have established an interest rate management policy, which attempts to minimize our overall cost of debt while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, we

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