Kennedy-Wilson Holdings, Inc.
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014
Or

o	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 incorporation or organization)	(I.R.S. Employer Identification No.)

9701 Wilshire Blvd., Suite 700
Beverly Hills, CA 90212
(Address of principal executive offices)
Registrant’s telephone number, including area code:
(310) 887-6400

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

Large Accelerated Filer	x	Accelerated Filer	o

Non-Accelerated Filer o Smaller Reporting Company o

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

The number of shares of common stock outstanding as of November 7, 2014 was 94,807,377.

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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 21E 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, a intended to identify forward-looking statements. These 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. These risks and uncertainties may include the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2013. 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 our filings with the SEC. Except as required under the federal securities laws and the rules and regulations of 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.

COMMON DEFINITIONS

Kennedy-Wilson Holdings, Inc.

“KWH,” “Kennedy Wilson,” the "Company," "we," "our," or "us" refer to Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

“KWE” refers to Kennedy Wilson Europe Real Estate plc, a London Stock Exchange listed company that we externally manage through a wholly-owned subsidiary. The results of KWE are consolidated in our financial statements due to our control of KWE. We own an approximately 13.3% equity interest in KWE and throughout this report, we refer to our pro-rata ownership stake in investments made and held directly by KWE.

"KW Group" refers to Kennedy Wilson and its consolidated subsidiaries that we consolidate in our financial statements under U.S. GAAP, including KWE.

“Equity partners” refers to subsidiaries that we consolidate in our financial statements under U.S. GAAP (other than wholly-owned subsidiaries), including KWE, and third-party equity providers.

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,controlled 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.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Kennedy-Wilson Holdings, Inc.
Consolidated Balance Sheets
(Unaudited)

	September 30, 2014	December 31, 2013
(Dollars in millions, except share and per share amounts)		
Assets		
Cash and cash equivalents	$236.3	$170.2
Cash held by consolidated investments (including $40.6 and $0 of restricted cash)	591.3	8.0
Accounts receivable (including $8.5 and $11.4 of related party)	42.2	16.6
Loans (including $0 and $4.1 of related party)	266.7	56.8
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	3,839.6	688.1
Unconsolidated investments	504.9	786.1
Other assets	232.3	73.0
Total assets	$5,713.3	$1,798.8
Liabilities and equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	253.8	129.1
Investment debt	2,049.8	401.8
Senior notes payable	705.9	409.0
Junior subordinated debentures	—	40.0
Total liabilities	3,009.5	979.9
Equity		
Cumulative preferred stock, $0.0001 par value per share: 1,000,000 shares authorized $1,000 per share liquidation preference	—	—
Common stock, 94,807,377 and 82,592,607 shares issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Additional paid-in capital	991.2	801.3
Accumulated deficit	(22.6)	(42.2)
Accumulated other comprehensive income	(13.2)	9.2
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	955.4	768.3
Noncontrolling interests	1,748.4	50.6
Total equity	2,703.8	818.9
Total liabilities and equity	$5,713.3	$1,798.8

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)

(Dollars in millions, except share and per share amounts)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue				
Investment management, property services and research fees (includes $6.2, $15.7, $47.0, and $37.8 of related party fees)	$12.9	$20.9	$65.0	$54.0
Rental and hotel	93.5	10.5	161.3	27.3
Sales of real estate	1.6	1.6	19.0	10.1
Loans and other	5.7	0.5	11.7	1.4
Total revenue	113.7	33.5	257.0	92.8
Operating expenses				
Commission and marketing	2.0	1.0	3.8	2.8
Rental and hotel operating	37.8	4.2	69.9	11.9
Cost of real estate sold	1.1	0.9	14.6	7.9
Compensation and related	26.8	20.9	79.6	52.8
General and administrative	11.8	5.8	28.3	17.6
Depreciation and amortization	34.7	4.5	67.3	12.0
Total operating expenses	114.2	37.3	263.5	105.0
Income from unconsolidated investments	12.1	13.2	45.9	30.1
Operating income	11.6	9.4	39.4	17.9
Non-operating income (expense)				
Acquisition-related gains	28.9	1.6	199.2	11.1
Acquisition-related expenses	(5.3)	—	(16.9)	(0.5)
Interest expense-investment	(13.8)	(2.8)	(30.2)	(7.4)
Interest expense-corporate [1]	(15.9)	(10.3)	(41.1)	(29.7)
Other (expense) income	(1.9)	0.1	1.0	0.5
Income (loss) before (provision for) benefit from income taxes	3.6	(2.0)	151.4	(8.1)
(Provision for) benefit from income taxes	(6.6)	(0.8)	(40.8)	1.4
Net income (loss)	(3.0)	(2.8)	110.6	(6.7)
Net loss (income) attributable to the noncontrolling interests	2.8	0.7	(59.9)	2.6
Preferred dividends and accretion of preferred stock issuance costs	(2.0)	(2.0)	(6.1)	(6.1)
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2.2)	$(4.1)	$44.6	$(10.2)
Basic earnings per share				
(Loss) income per basic	$(0.03)	$(0.06)	$0.47	$(0.15)
Weighted average shares outstanding for basic	89,267,838	72,643,000	88,854,215	68,486,876
Diluted earnings per share				
(Loss) income per diluted	$(0.03)	$(0.06)	$0.47	(0.15)
Weighted average shares outstanding for diluted	89,267,838	72,643,000	90,169,008	68,486,876
Dividends declared per common share	$0.09	$0.07	$0.27	$0.21

[1] Includes early extinguishment of corporate debt

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Net (loss) income	$(3.0)	$(2.8)	$110.6	$(6.7)
Other comprehensive (loss) income, net of tax:				
Unrealized foreign currency translation (loss) gain	(89.0)	8.8	(67.1)	(9.2)
Amounts reclassified out of AOCI during the period	—	—	(7.1)	—
Unrealized loss on marketable securities	(1.1)	—	(1.1)	—
Unrealized forward contract, foreign currency gain (loss)	20.1	(3.6)	16.5	2.2
Total other comprehensive (loss) gain for the period	(70.0)	5.2	(58.8)	(7.0)
Comprehensive (loss) income	(73.0)	2.4	51.8	(13.7)
Comprehensive loss (income) attributable to noncontrolling interests	58.0	0.7	(23.5)	2.6
Comprehensive (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(15.0)	$3.1	$28.3	$(11.1)

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statement of Equity
(Unaudited)

(Dollars in millions, except share amounts)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance at December 31, 2013	132,550		82,592,607	$—	$ 801.3	$ (42.2)	$ 9.2	$ 50.6	$818.9
Issuance of shares, net	—	—	9,201,250	—	190.6	—	—	—	190.6
Common stock issued under Amended and Restated 2009 Equity Participation Plan	—	—	3,140,000	—	—	—	—	—	—
Shares forfeited	—	—	(2,475)	—	—	—	—	—	—
Repurchase and retirement of common stock	—	—	(124,005)	—	(2.9)	—	—	—	(2.9)
Stock compensation expense	—	—	—	—	8.7	—	—	—	8.7
Other comprehensive income:									
Unrealized foreign currency translation gain, net of tax	—	—	—	—	—	—	(31.0)	(36.4)	(67.4)
Unrealized forward contract foreign currency loss, net of tax	—	—	—	—	—	—	9.7	—	9.7
Unrealized loss on marketable securities	—	—	—	—	—	—	(1.1)	—	(1.1)
Preferred stock dividends	—	—	—	—	—	(6.1)	—	—	(6.1)
Common stock dividends	—	—	—	—	—	(25.0)	—	—	(25.0)
Net income	—	—	—	—	—	50.7	—	59.9	110.6
Consolidation of noncontrolling interests (Note 4)	—	—	—	—	—	—	—	291.8	291.8
Acquisition of Kennedy Wilson Europe (KWE) shares from noncontrolling interest holders	—	—	—	—	—	—	—	(16.8)	(16.8)
	—	—	—	—	(6.5)	—	—	1,410.7	1,404.2

Issuance of KWE shares, net (Note 12)									
Contributions from noncontrolling interests, excluding KWE	—	—	—	—	—	—	—	12.9	12.9
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(24.3)	(24.3)
Balance at September 30, 2014	132,550	$—	94,807,377	$—	$ 991.2	$ (22.6)	$ (13.2)	$ 1,748.4	$2,703.8

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
(Dollars in millions)	2014	2013
Cash flows from operating activities:		
Net income (loss)	$110.6	$(6.7)
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Net gain from sale of real estate	(4.4)	(2.7)
Acquisition-related gain	(199.2)	(11.1)
Depreciation and amortization	67.3	12.0
Provision for (benefit from) deferred income taxes	40.8	(1.0)
Amortization of deferred loan costs	3.8	1.6
Amortization of discount and accretion of premium on issuance of the senior notes and investment debt	(2.7)	(0.9)
Income from unconsolidated investments	(46.6)	(30.3)
Operating distributions from unconsolidated investments	78.9	42.7
Stock-based compensation	8.7	5.5
Change in assets and liabilities:		
Accounts receivable	(18.0)	(11.2)
Other assets	0.4	(10.4)
Accrued expenses and other liabilities	46.1	(4.6)
Net cash from (used in) operating activities	85.7	(17.1)
Cash flows from investing activities:		
Additions to loans	(476.4)	(30.3)
Collections of loans	95.9	43.0
Net proceeds from sale of real estate	16.3	10.5
Purchases of and additions to real estate	(1,538.2)	(115.9)
Proceeds from settlement of foreign forward contracts	7.5	—
Purchases of foreign currency options	(2.2)	—
Investment in marketable securities	(11.5)	—
Proceeds from maturities of short term investments	—	10.0
Capitalized development costs	—	(1.3)
Distributions from unconsolidated investments	99.3	143.3
Contributions to unconsolidated investments	(139.6)	(314.3)
Net cash used in investing activities	(1,948.9)	(255.0)
Cash flows from financing activities:		
Borrowings under senior notes payable	297.2	—
Repayment of junior unsubordinated debt	(40.0)	—
Borrowings under line of credit	90.0	125.0
Repayment of line of credit	(90.0)	(125.0)
Borrowings under investment debt	825.1	72.3
Repayment of investment debt	(32.2)	(1.1)
Debt issue costs	(28.5)	(1.8)
Issuance of common stock	190.6	276.0
Repurchase and retirement of common stock	(2.9)	—
Repurchase of warrants	—	(1.4)
Exercise of warrants	—	4.7

Proceeds from the issuance of KWE shares, net	1,351.1	—
Dividends paid	(28.4)	(16.3)
Change in restricted cash	(42.6)	—
Acquisition of KWE shares from noncontrolling interest holders	(16.8)	—
Contributions from noncontrolling interests, excluding KWE	12.9	0.9
Distributions to noncontrolling interests	(24.3)	(0.4)
Net cash provided by financing activities	2,461.2	332.9
Effect of currency exchange rate changes on cash and cash equivalents	10.8	(0.3)
Net change in cash and cash equivalents[1]	608.8	60.5
Cash and cash equivalents, beginning of period	178.2	120.9
Cash and cash equivalents, end of period	$787.0	$181.4

[1] See discussion of non-cash effects in notes to cashflow statement.

See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

Supplemental cash flow information:

	Nine Months Ended September 30,	
(Dollars in millions)	2014	2013
Cash paid for:		
Interest	$74.2	$44.1
Income taxes	0.1	2.3

Supplemental disclosure of non-cash investing and financing activities:

	September 30,	
(Dollars in millions)	2014	2013
Dividends declared but not paid on common stock	$8.5	$5.7

On February 28, 2014, the Kennedy Wilson contributed its 50% interest in an unconsolidated investment which held 14 commercial, retail, and industrial properties portfolio to KWE as part of Kennedy Wilson's subscription in KWE's initial public offering as described in note 1.
On March 31, 2014 and June 30, 2014, Kennedy Wilson amended the existing operating agreements governing certain of its investments with certain of its equity partners thereby allowing Kennedy Wilson to gain control of these operating properties. As a result of obtaining control, the assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC Topic 805 Business Combinations as described in note 4.
During the nine months ended September 30, 2014, Kennedy Wilson foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA and on the notes secured by the Shelbourne Hotel in Dublin, Ireland. As a result of such foreclosures, the assets and liabilities of the retail center were consolidated in KW Group's financial statements at fair value under ASC Topic 805 Business Combinations and the vacant lot was consolidated on KW Group's financial statements at fair market value, both as described in note 4.
On March 28, 2013, Kennedy Wilson acquired the interest of some of its existing equity partners in a 615-unit apartment building in Northern California, increasing its ownership from 15% to 94%. As a result of obtaining control, the assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC 805 Business Combinations as described in note 4.
During the nine months ended September 30, 2013, Kennedy Wilson sold a 50% interest in an entity that held a loan secured by the shopping center and 107 residential units in the United Kingdom to an institutional investor. As a result of the sale and loss of control, $96.0 million in loans and $78.7 million in investment debt were deconsolidated.
See accompanying notes to consolidated financial statements.

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Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1—BASIS OF PRESENTATION

KW Group's unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. In our opinion, all adjustments, consisting of only normal and recurring items, necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2014 and 2013 have been included. The results of operations for these periods are not necessarily indicative of results that might be expected for the full year ending December 31, 2014. For further information, your attention is directed to the footnote disclosures found in our Annual Report on Form 10-K for the year ended December 31, 2013. Throughout this unaudited interim consolidated financial statements we refer to "KW Group," which we define as the Company and its subsidiaries that are consolidated in its financial statements under U.S. GAAP (including KWE). All significant intercompany balances and transactions have been eliminated in consolidation. We also refer to "KWH," "Kennedy Wilson," the "Company," "we," "our," or "us" which we define as Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

Kennedy Wilson Europe Real Estate Plc ("KWE," LSE: KWE), a Jersey investment company formed to invest in real estate and real estate-related assets in Europe, closed its initial public offering ("IPO") on the London Stock Exchange during the quarter ended March 31, 2014, raising approximately $1.7 billion in gross proceeds. KWE is externally managed by a wholly-owned subsidiary of Kennedy Wilson incorporated in Jersey pursuant to an investment management agreement. Due to the terms provided in the investment management agreement and Kennedy Wilson's equity ownership interest in KWE, pursuant to the guidance set forth in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810 - Consolidation ("Subtopic 810"), the Company is required to consolidate KWE's results in its consolidated financial statements. Additionally, the Company invested $145.2 million of cash and contributed $58.3 million of assets acquired by the Company as part of the IPO. Subsequent to the IPO, the Company acquired an additional one million ordinary shares for $16.8 million and owned approximately 13.3% of KWE's total issued share capital as of September 30, 2014.

In addition, throughout these unaudited interim consolidated financial statements, we refer to our "equity partners," which we define as the subsidiaries that we consolidate in our financial statements under U.S. GAAP (other than wholly-owned subsidiaries), including KWE, and affiliated third-party equity providers.

In addition, Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities ("VIEs") as defined in the FASB ASC Subtopic 810-10 and to assess whether it is the primary beneficiary of such entities. If the determination is made that Kennedy Wilson is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with the ASC Subtopic 810-10.

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosure about contingent assets and liabilities, and reported amounts of revenues and expenses. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

REVENUE RECOGNITION—Performance fees or carried interests are allocated to the general partner, special limited partner or asset manager of our real estate funds and loan pool participations based on the cumulative performance of the funds and loan pools and are subject to preferred return thresholds of the limited partners and participants. At the end of each reporting period, we calculate the performance fee that would be due to the general partner, special limited partner or asset manager's interests for a fund or loan pool, pursuant to the fund agreement or participation agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as performance fees to reflect either (a) positive performance resulting in an increase in the performance fee allocated to the general partner or asset manager or (b) negative performance that would cause the amount due to us to be less than the amount previously recognized as revenue, resulting in a negative adjustment to performance fees allocated to the general partner or asset manager. A majority of the performance fees are recognized in investment management revenue, and substantially all of the carried interest is recognized in income from unconsolidated investments in our consolidated statements of operations. Total performance fees recognized from

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inception through September 30, 2014 that may be reversed in future periods if there is negative fund or loan pool performance totaled $7.3 million. Performance fees accrued as of September 30, 2014 and December 31, 2013 were $7.3 million and $6.1 million, respectively, and are included in accounts receivable in the accompanying consolidated balance sheet.

REAL ESTATE ACQUISITIONS—The purchase price of acquired properties is recorded to land, buildings and building improvements and intangible lease value (value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values in accordance with ASC Subtopics 805-10 Business Combinations. Acquisition-related costs are expensed as incurred. The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests.

The valuations of real estate are based on management estimates of the real estate assets using income and market approaches. The indebtedness securing the real estate is valued, in part, based on third party valuations and management estimates also using an income approach.

NONCONTROLLING INTERESTS—Noncontrolling interests are reported within equity as a separate component of Kennedy Wilson's equity in accordance with ASC Subtopic 810-10, Noncontrolling Interests in Consolidated Financial Statements. Revenues, expenses, gains, losses, net income (loss), and other comprehensive income are reported in the consolidated statements of operations at the consolidated amounts and net income (loss) and comprehensive income attributable to noncontrolling interests are separately stated.

FOREIGN CURRENCIES—The financial statements of subsidiaries located outside the United States are measured using the local currency as this is their functional currency. The assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, and income and expenses are translated at the average monthly rate. The foreign currencies include the euro, the British pound sterling, and the Japanese yen. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in the consolidated statement of equity as a component of accumulated other comprehensive income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES—All derivative instruments are recognized as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value of cash flow hedges or net investment hedges are recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in the item being hedged until the hedged item affects earnings. Changes in fair value for fair value hedges are recognized in earnings.

INCOME TAXES—Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC Subtopic 740-10 Accounting for Uncertainty in Income Taxes, the effect of income tax positions is recognized only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

RECENT ACCOUNTING PRONOUNCEMENTS—On April 10, 2014, the FASB issued ASU 2014-08, which amends the definition of discontinued operations and requires additional disclosures for disposal transactions that do not meet the revised discontinued operations criteria. ASU 2014-08 is required to be adopted for fiscal years beginning after December 15, 2014, with early adoption permitted. Our early adoption of this pronouncement on January 1, 2014 did not have a material impact on KW Group's consolidated financial statements.

In May 2014, the FASB issued an accounting standard update that will use a five step model to recognize revenue from customer contracts in an effort to increase consistency and comparability throughout global capital markets and across industries. The model will identify the contract, identify any separate performance obligations in the contract, determine the transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. The new standard will replace most existing revenue recognition in GAAP when it becomes effective for the Company on January 1, 2017. We have not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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Kennedy-Wilson Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

The FASB did not issue any other ASCs during the first nine months of 2014 that we expect to be applicable and have a material impact on our financial position or results of operations.
RECLASSIFICATIONS—Certain balances included in prior year's financial statements have been reclassified to conform with the current year's presentation.
NOTE 3—LOANS

The following table summarizes KW Group's investment in loans at September 30, 2014 and December 31, 2013:

(Dollars in millions)	September 30, 2014	December 31, 2013
Loans	$266.7	$52.7
Loans — related parties	—	4.1
Total loans	$266.7	$56.8

During the first quarter of 2014, Kennedy Wilson acquired the loans secured by a five-star hotel located in Dublin, Ireland for $152.4 million. During the third quarter of 2014, Kennedy Wilson converted the loans into a 100% direct ownership interest in the hotel. See note 4 for further discussion. During the quarter ended March 31, 2014, Kennedy Wilson foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA that had a loan balance of $30.4 million, and converted it into real estate.
During the second quarter of 2014, KWE acquired five real estate loans under receivership which are secured against five properties located across England for $156.3 million. As of September 30, 2014, due to foreign currency fluctuations, the loans had a balance of $152.8 million. Also during the second quarter of 2014, KWE acquired subordinated notes secured by 20 commercial properties located throughout England and Scotland for $62.2 million. The subordinated notes were paid off in the third quarter. See note 4 for further discussion.
During the third quarter of 2014, KWE acquired the loans secured by 13 properties throughout Ireland for $97.0 million. Also during the third quarter of 2014, loans that Kennedy Wilson held on a building in Maui, HI and two related-party funds were paid off.
Loan income
KW Group recognized interest income on loans of $5.7 million and $11.2 million during the three and nine months ended September 30, 2014, respectively, and $0.5 million and $1.3 million during the three and nine months ended September 30, 2013, respectively.
NOTE 4—REAL ESTATE AND IN-PLACE LEASE VALUE
The following table summarizes KW Group's investment in consolidated real estate properties at September 30, 2014 and December 31, 2013:

(Dollars in millions)	September 30, 2014	December 31, 2013
Land	$955.3	$187.8
Buildings	2,657.5	484.1
Building improvements	48.4	12.7
In-place lease value	267.0	29.8
	3,928.2	714.4
Less accumulated depreciation and amortization	(88.6)	(26.3)
Real estate, net	$3,839.6	$688.1

Real property, including land, buildings, and building improvement, are included in real estate and are generally stated at cost. Buildings and building improvements are depreciated on a straight-line method over their estimated lives not to exceed

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40 years. Acquired in-place lease values are recorded at their estimated fair value and depreciated over their respective weighted-average lease term which was 7.4 years at September 30, 2014.

Consolidated Acquisitions

The purchase of property is recorded to land, buildings, building improvements, and intangible lease value (including the value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any) based on their respective estimated fair values. The purchase price generally approximates the fair value of the properties as acquisitions are generally transacted with third-party willing sellers.

During the nine months ended September 30, 2014, KW Group acquired the following properties:

(Dollars in millions)				At Acquisition(1)				
Date acquired	Type	Description	Location	Land	Building	Intangible assets	Investment debt	KWH Shareholders' Equity
1/20/2014	Commercial (2)	Portfolio of 14 commercial, retail, and industrial properties	United Kingdom	$28.9	$47.1	$41.4	$—	$ 58.7
2/20/2014	Hotel	193 room hotel	Western U.S.	1.3	8.3	—	—	6.9
2/28/2014	Multifamily	24 apartment units, 2 penthouse units, and 1,000 square feet of retail	Ireland	0.6	15.1	0.4	9.6	6.5
3/28/2014	Commercial (3)	26 commercial properties throughout England and Scotland	United Kingdom	54.0	132.0	54.0	—	29.3
3/31/2014	Multifamily(4)	281 completed apartments and a partially completed residential block and 725k square feet of commercial space,	Ireland	32.7	80.9	1.2	78.9	35.9
4/1/2014	Commercial	98k square foot retail center	Western U.S.	2.4	5.8	0.4	6.0	1.9
4/30/2014	Multifamily	203 unit apartment building	Western U.S.	2.7	24.0	0.3	13.3	13.3
6/25/2014	Multifamily(3)	81 unit apartment building	Ireland	4.8	15.0	0.4	—	2.7
6/26/2014	Commercial(3)	13 commercial properties	Ireland	104.9	344.3	52.3	273.1	30.1
6/27/2014	Commercial(3)(5)	21 commercial properties throughout England and Scotland	United Kingdom	106.8	300.7	127.0	—	70.6
6/30/2014	Multifamily	542 unit apartment building	Western U.S.	38.3	57.5	0.6	77.2	18.6
7/7/2014	Hotel(3)	138 room hotel and golf course	Ireland	6.3	28.6	—	—	4.6
7/29/2014	Multifamily			21.3	106.2	1.4	86.7	42.2

		3 property portfolio with 1,212 units	Western U.S.					
8/8/2014	Hotel[3]	209 room hotel and two golf courses	United Kingdom	11.9	35.2	—	—	6.3
8/28/2014	Multifamily	118 unit apartment building	Western U.S.	2.1	18.6	0.1	13.5	7.3
9/5/2014	Commercial[3]	130k square foot retail center	Ireland	7.0	33.3	16.1	—	7.5
				$426.0	$1,252.6	$295.6	$558.3	$ 342.4

(1) Excludes acquisition expenses and net other assets

(2) On February 28, 2014, the Company contributed its 50% interest in this portfolio to KWE as part of the Company's investment in KWE's initial public offering.

(3) These portfolios of properties were directly acquired and held by KWE. Kennedy Wilson owns approximately 13.3% of the total issued share capital of KWE.

(4) This asset was sold to KWE on June 24, 2014.

(5) KWE recognized an acquisition-related gain of $15.5 million on the transaction due to its ability to acquire the underlying real estate at a discount to its fair value. See loans converted to real estate section below.

Consolidation of previously unconsolidated investments

On March 31, 2014, Kennedy Wilson and one of its equity partners amended and restated existing operating agreements governing six separate joint ventures that hold real estate-related investments located in the U.K. and Ireland. Kennedy Wilson has an approximate 50% ownership interest in these investments.

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Additionally, on June 30, 2014, Kennedy Wilson and one of its equity partners amended and restated the existing operating agreement of KW Residential ("KWR") which governs 50 multifamily properties in and around Tokyo, Japan comprising approximately 2,400 units. Kennedy Wilson has an approximate 41% ownership interest in these investments.

These joint ventures were previously accounted for on an equity method basis due to substantive participation of the equity partners in the operational control over the real estate assets. The operating agreements of the investments were amended and restated to give Kennedy Wilson full operational control over the real estate assets while the equity partners retained only certain protective rights. Given that Kennedy Wilson now controls the joint ventures and the ultimate real estate assets held by the joint ventures under the amended and restated operating agreements, a change to the accounting treatment of these joint ventures from the equity method to consolidated treatment pursuant to ASC 810 Consolidation.

As a result of gaining control, the assets and liabilities of these properties were consolidated in KW Group's financial statements at fair value in accordance with FASB ASC Topic 805 Business Combinations. As the fair value of our interests in these properties were in excess of our carrying value, acquisition-related gains in the accompanying consolidated statement of operations for the nine months ended September 30, 2014 as further detailed below were recorded. See Note 6 - Fair Value Measurements for further detail of the methodology used to determine the fair value of the assets and liabilities acquired in these transactions.

The following table summarizes the assets and liabilities assumed as a result of gaining control of these properties and the acquisition-related gains recognized:

(Dollars in millions)

Property	Type	Location	Cash	Real estate and acquired in-place lease values	Accounts receivable and other assets	Accounts payable, accrued expenses, and other liabilities	Investment debt	Noncontrolling interests	Acquisition related gain[1]
Three multifamily properties	Multifamily	Ireland	$3.6	$248.5	$0.9	$5.4	$114.3	$66.6	$39.3
Two office properties	Commercial	Ireland	4.3	223.9	7.6	4.9	75.2	77.9	33.5
Two commercial properties and loans secured by real estate	Commercial & Loans	U.K.	9.6	195.0	5.6	8.1	100.8	62.0	11.9
50 multifamily properties	Multifamily	Japan	21.0	501.2	14.3	4.6	283.7	146.8	66.7
			$38.5	$1,168.6	$28.4	$23.0	$574.0	$353.3	$151.4

[1] $63.1 million was allocated to noncontrolling interest expense for the portion the acquisition related gain that relates to our equity partners ownership in the properties.

Loans converted to real estate

During the quarter ended March 31, 2014, Kennedy Wilson foreclosed on a 133,000 square foot retail center and an adjacent 2.4 acre vacant lot in Van Nuys, CA. During the quarter ended September 30, 2014, Kennedy Wilson foreclosed on the notes secured by the iconic Shelbourne Hotel in Dublin, Ireland.

As a result of the foreclosures and taking title to the properties, the assets and liabilities of the retail center and hotel were consolidated in KW Group's financial statements at fair value under FASB ASC Topic 805 - Business Combinations and the vacant lot was consolidated in KW Group's financial statements at fair market value. As the fair value of the assets was in excess of the basis in the previously held mortgage notes, Kennedy Wilson recognized a $3.7 million acquisition-related gain on the retail center and vacant land and a $28.6 million acquisition-related gain on the hotel.

KWE acquired subordinated notes on a portfolio of commercial properties in the United Kingdom during the second quarter of 2014 and used its position as a debt holder to secure the transaction. KWE recognized an acquisition-related gain of $15.5 million on the transaction due to its ability to acquire the underlying real estate at a discount to its fair value.

Pro forma results of operations

The results of operations of the assets acquired have been included in our consolidated financial statements since the date of their acquisition. KW Group's unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had this acquisition been consummated at the beginning of the periods presented.

The unaudited pro forma data presented below assumes that the acquisitions during the nine months ended September 30, 2014 occurred as of January 1, 2013.

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
(Dollars in millions, except for per share data)	2014	2013	2014	2013
Pro forma revenues	$127.6	$96.6	$379.3	$281.8
Pro forma income from unconsolidated investments	9.8	(0.9)	35.8	(3.4)
Pro forma net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders [(1)]	(1.1)	(12.1)	(32.6)	(21.7)
Pro forma net income (loss) per share:				
Basic	$(0.01)	$(0.17)	$(0.37)	$(0.32)
Diluted	$(0.01)	$(0.17)	$(0.37)	$(0.32)

(1) Excludes the effects of acquisition-related gains.

NOTE 5—UNCONSOLIDATED INVESTMENTS

KW Group has unconsolidated investments through real estate related joint ventures and loan pool participations. The following table details its investments in joint ventures and loan pool participations as of September 30, 2014 and December 31, 2013:

(Dollars in millions)	September 30, 2014	December 31, 2013
Investments in joint ventures	$447.4	$751.4
Investments in loan pool participations	57.5	34.7
Total	$504.9	$786.1

Investments in Joint Ventures

Kennedy Wilson has a number of joint venture interests, generally ranging from 5% to 50%, that were formed to acquire, manage, develop, service and/or sell real estate and invest in loan pools and discounted loan portfolios. Kennedy Wilson has significant influence over these entities, but not control, and accordingly, these investments are accounted for under the equity method.

Joint Venture Holdings

As of September 30, 2014 and December 31, 2013, Kennedy Wilson's investment in joint ventures totaled $447.4 million and $751.4 million, respectively.

The following table details our investments in joint ventures by investment type and geographic location as of September 30, 2014:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$145.2	$105.8	$50.1	$67.6	$—	$368.7
United Kingdom	—	37.0	—	—	—	37.0
Spain	—	—	—	—	27.0	27.0
Other	0.2	5.0	—	0.2	9.3	14.7
Total	$145.4	$147.8	$50.1	$67.8	$36.3	$447.4

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The following table details our investments in joint ventures by investment type and geographic location as of December 31, 2013:

(Dollars in millions)	Multifamily	Commercial	Loan	Residential	Other	Total
Western U.S.	$133.3	$160.3	$50.3	$48.7	$8.0	$400.6
Japan	68.8	—	—	—	—	68.8
United Kingdom	—	104.5	6.3	—	—	110.8
Ireland	48.2	96.1	—	—	—	144.3
Spain	—	—	—	—	26.9	26.9
Total	$250.3	$360.9	$56.6	$48.7	$34.9	$751.4

Joint Venture Consolidation

On June 30, 2014, Kennedy Wilson and one of its equity partners amended existing operating agreements governing KWR which was previously accounted for using the equity method. KWR is a joint venture investment in a portfolio of 50 apartment buildings comprised of approximately 2,400 units, located primarily in Tokyo and surrounding areas. Kennedy Wilson owns approximately 41% of KWR, not including any promoted interests. As a result of obtaining control of this investment, KWR was consolidated in KW Group's financial statements as of June 30, 2014. The investment is presented as an unconsolidated investment for prior periods. See Note 4.

In addition to KWR, on March 31, 2014, Kennedy Wilson and one of its equity partners amended existing operating agreements governing investments for six investments in Europe which were accounted for using the equity method. As a result of obtaining control, the joint venture investments were consolidated in KW Group's financial statements as of March 31, 2014. The investments are presented as an unconsolidated investment for prior periods. See Note 4.

Contributions to Joint Ventures

During the nine months ended September 30, 2014, Kennedy Wilson made $114.5 million in contributions to new and existing joint venture investments.

See the table below for a breakdown of contributions to new joint venture investments for the nine months ended September 30, 2014:

	Multifamily		Commercial		Residential			
(Dollars in millions)	Amount	No. of Properties	Amount	No. of Properties	Amount	No. of Properties	Total	No. of Properties
Western U.S.	$4.0	1	$—	—	$17.0	2	$21.0	3
United Kingdom[1]	—	—	57.2	14	—	—	57.2	14
Total contributions	$4.0	1	$57.2	14	$17.0	2	$78.2	17

[1] Kennedy Wilson's contribution in a joint venture investment that was subsequently contributed into KWE as part of its initial investment. See note 1.

In addition to the capital contributions above, Kennedy Wilson contributed $36.3 million to existing joint ventures to fund our share of a development project, capital expenditures and for working capital needs.

Distributions from Joint Ventures and Investments in Loan Pools

During the nine months ended September 30, 2014, Kennedy Wilson received $178.2 million in operating and investing distributions from its joint ventures and loan pools. Investing distributions resulted from the refinancing of property level debt and asset sales. Operating distributions resulted from operating cash flow generated by the joint venture investments.

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The following table details cash distributions by investment type and geographic location for the nine months ended September 30, 2014:

	Multifamily		Commercial		Residential and Other		Loan Pools		Total	
(Dollars in millions)	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	$7.0	$1.5	$18.9	42.6	5.6	$4.7	$0.3	$2.5	$31.8	$51.3
Japan	1.7	—	—	—	—	—	—	—	1.7	—
United Kingdom	—	—	9.0	10.4	—	—	5.2	6.3	14.2	16.7
Ireland	—	—	31.2	30.3	—	—	—	—	31.2	30.3
Spain	—	—	—	—	—	1.0	—	—	—	1.0
Total	$8.7	$1.5	$59.1	$83.3	$5.6	$5.7	$5.5	$8.8	$78.9	$99.3

Variable Interest Entities
We determine the appropriate accounting method with respect to all investments that are not VIEs based on the control-based framework (controlled entities are consolidated) provided by the consolidations guidance in FASB ASC Topic 810. Kennedy Wilson's determination considers specific factors cited under FASB ASC Topic 810-20 Control of Partnerships and Similar Entities which presumes that control is held by the general partner (and managing member equivalents in limited liability companies). Limited partners' substantive participation rights may overcome this presumption of control. We account for joint ventures where it is deemed that we do not have control through the equity method of accounting while entities we control are consolidated in KW Group's financial statements.
Capital Commitments
As of September 30, 2014, Kennedy Wilson has unfulfilled capital commitments totaling $34.5 million to five of its joint ventures. We may be called upon to contribute additional capital to joint ventures in satisfaction of such capital commitment obligations.
Guarantees
Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets or assets held directly or in various joint ventures. As of September 30, 2014, the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately $54.9 million which is approximately 1% of investment level debt of Kennedy Wilson and its equity partners. The guarantees expire through 2021, and Kennedy Wilson’s 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 sale proceeds from the property. Based on our evaluation of guarantees under FASB ASC Subtopic 460-10 Estimated Fair Value of Guarantees, the estimated fair value of guarantees made as of September 30, 2014 and December 31, 2013 was immaterial.
Investments in loan pool participation

As of September 30, 2014 and December 31, 2013, KW Group's investment in loan pool participations totaled $57.5 million and $34.7 million, respectively.

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The following table represents the demographics of KW Group's investment in the loan pools including the initial unpaid principal balance ("UPB") and the UPB as of September 30, 2014.

(Dollars in millions)			Unpaid Principal Balance					
Acquisition Date	Location	Kennedy Wilson Ownership	Initial[1]	September 30, 2014[1]	Kennedy Wilson Initial Equity Invested	Investment Balance at September 30, 2014	Expected Accretion Over Total Estimated Collection Period	Accreted to Date
February 2010[2]	Western U.S.	15.0%	$342.4	$—	$11.2	$0.5	$4.5	$4.6
April 2012	Western U.S.	75.0%	43.4	2.8	30.9	2.4	4.3	4.0
August 2012	Ireland	10.0%	458.0	324.3	7.0	8.5	1.8	1.3
December 2012	United Kingdom	5.0%	631.2	104.9	19.3	2.8	2.2	2.0
April 2013	United Kingdom	10.0%	189.2	105.8	13.0	5.8	5.1	1.7
August 2013	United Kingdom	20.0%	138.7	138.7	7.5	8.5	4.7	1.6
May 2014[3]	United Kingdom	4.4%	105.8	105.8	30.3	29.0	2.3	0.6
Total			$1,908.7	$782.3	$119.2	$57.5	$24.9	$15.8

[1] Estimated foreign exchange rate is £0.62= $1 USD and €0.79 = $1 USD as of September 30, 2014.
[2] Equity invested represents guarantee claims against note holders in loan pool.
[3] This loan portfolio was directly acquired and held by KWE. Kennedy Wilson owns approximately 13.3% of the total issued share capital of KWE.

The following table presents the income from unconsolidated investments for loan pools and foreign currency gain and (loss) recognized by KW Group during the three and nine months ended September 30, 2014 and 2013 for the loan pools that were outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Income from unconsolidated investments - loan pools	$2.3	$3.7	$7.0	$9.1
Unrealized foreign currency translation (loss) gain	(2.9)	2.1	(2.5)	(2.9)
Total	$(0.6)	$5.8	$4.5	$6.2

NOTE 6—FAIR VALUE MEASUREMENTS

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of September 30, 2014:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Marketable securities	$13.6	$—	$—	$13.6
Unconsolidated investments	—	—	90.4	90.4
Currency forward contract	—	22.7	—	22.7
Currency option contract	—	2.6	—	2.6

Total	$13.6	$25.3	$90.4	$129.3

The following table presents fair value measurements (including items that are required to be measured at fair value and items for which the fair value option has been elected) as of December 31, 2013:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Marketable securities	$4.0	$—	$—	$4.0
Unconsolidated investments	—	—	81.1	81.1
Currency forward contract	—	(9.6)	—	(9.6)
Total	$4.0	$(9.6)	$81.1	$75.5

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Marketable Securities

Marketable securities include Kennedy Wilson's investment in publicly traded equity securities. The amount above excludes Kennedy Wilson's 13.3 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results in KW Group's financial statements. Based on the September 30, 2014 share price, Kennedy Wilson's investment in KWE had a market value of $234.0 million.

Fair Value and Fair Value Option - Unconsolidated Investments

We record our investments in KW Property Fund III, L.P. and Kennedy Wilson Real Estate Fund IV, L.P. (the "Funds") based upon the net assets that would be allocated to its interests in the Funds assuming the Funds were to liquidate their investments at fair value as of the reporting date. Kennedy Wilson’s investment balance in the Funds was $27.7 million and $33.5 million at September 30, 2014 and December 31, 2013, respectively, which is included in unconsolidated investments in the accompanying consolidated balance sheets. As of September 30, 2014, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of $4.2 million.

We elected to use the fair value option ("FV Option") for three unconsolidated investment entities to more accurately reflect the timing of the value created in the underlying investments and report those results in current operations. Kennedy Wilson's investment balance in the FV Option investments was $62.7 million and $47.6 million at September 30, 2014 and December 31, 2013, respectively, which is included in unconsolidated investments in the accompanying balance sheets.

In estimating fair value of real estate held by the Funds and the three FV Option investments, we consider significant unobservable inputs such as capitalization and discount rates.

The following table summarizes our investments in unconsolidated investments held at fair value by type:

(Dollars in millions)	September 30, 2014	December 31, 2013
Funds	$27.7	$33.5
FV Option	62.7	47.6
Total	$90.4	$81.1

The following table presents changes in Level 3 investments for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Beginning balance	$78.5	$74.0	$81.1	$68.4
Contributions	16.9	1.0	19.3	6.9
Distributions	(5.0)	(0.8)	(10.0)	(1.1)
Ending balance	$90.4	$74.2	$90.4	$74.2

There was no material change in unrealized gains and losses on Level 3 investments during the three and nine months ended September 30, 2014 and 2013 for investments still held as of September 30, 2014.

Unobservable inputs for real estate

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The table below describes the range of unobservable inputs for real estate assets:

	Estimated Rates Used for	
	Capitalization Rates	Discount Rates
Office	6.00% - 7.50%	7.00% - 9.75%
Retail	6.00% - 10.00%	9.00% - 12.00%
Hotel	6.50%	7.50% - 8.00%
Multifamily	4.40% - 6.75%	4.90% - 9.00%
Loan	n/a	1.75% - 12.00%
Land and condominium units	n/a	8.00% - 12.00%

In valuing real estate, related assets and indebtedness, we consider significant inputs such as the term of the debt, value of collateral, market loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used for these types of investments range from 0.76% to 12.00%.

The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision and cannot be substantiated by comparison to quoted prices in active markets. As such, estimated fair value may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including cap rates, discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

Currency forward and option contracts

KW Group have currency forward and option contracts to manage their exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros, GBP, and JPY) of certain of their wholly-owned and consolidated subsidiaries. To accomplish this objective, KW Group hedged these exposures by entering into currency forward and option contracts to partially hedge KW Group's exposure to its net investment in certain foreign operations caused by currency fluctuations. The currency forward and option contracts are valued based on the difference between the contract rate and the forward rate at maturity of the foreign currency applied to the notional value in that foreign currency discounted at a market rate for similar risks. Although we have determined that the majority of the inputs used to value its derivative fall within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the derivative utilize Level 3 inputs. However, as of September 30, 2014, KW Group assessed the significance of the impact of the counterparty valuation adjustments on the overall valuation of its derivative positions and determined that the counterparty valuation adjustments are not significant to the overall valuation of its derivative. As a result, we have determined that our derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.

Changes in fair value are recorded in other comprehensive income in the accompanying consolidated statements of comprehensive income (loss) as the portion of the currency forward and option contracts used to hedge currency exposure of its certain consolidated subsidiaries qualifies as a net investment hedge under FASB ASC Topic 815. The fair value of the derivative instruments held as of September 30, 2014 are reported in other assets for hedge assets and included in accrued expenses and other liabilities for hedge liabilities on the balance sheet. See note 12 for a complete discussion on other comprehensive income including currency forward and option contracts and foreign currency translations.

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The table below details the currency forward and option contracts KW Group had as of September 30, 2014:

(Dollars in millions)

Currency Hedged	Type	Underlying Currency	Notional Amount	Trade Date	Settlement/Expiration Date	Forward Rate/Strike Price	Fair Value	Change in Unrealized Gains (Losses) Three Months Ended September 30, 2014	Change in Unrealized Gains (Losses) Nine Months Ended September 30, 2014
EUR	Forward	USD	€93.5	5/31/2012 - 6/25/2014	6/4/2015 - 6/27/2019	1.240 - 1.4471	$3.7	$9.0	$9.1
GBP	Forward	USD	£95.5	2/13/2014 - 8/27/2014	8/13/2015 - 2/27/2019	1.6356 - 1.6491	1.6	4.4	1.6
EUR(1)	Forward	GBP	€185.0	6/18/2014 - 8/26/2014	8/27/2015 - 8/28/2019	0.8021 - 0.8621	4.7	6.0	4.8
Yen(2)	Forward	USD	¥7,500.0	2/6/2013	2/8/2016	91.645	12.7	8.7	8.7
Yen(2)(3)	Option	USD	¥10,953.0	9/18/2014	3/27/2015 - 6/26/2015	108.45 -110.62	2.6	0.4	0.4
Total(4)							$25.3	$28.5	$24.6

(1) Hedge is held by KWE on its wholly-owned subsidiaries.
(2) Hedge is held by KWR on its wholly-owned subsidiaries.
(3) For the three and nine months ended September 30, 2014, $0.1 million recognized through results of operations due to portion of hedge not designated as a net investment hedge.
(4) Hedges are presented gross in the consolidated balance sheet. Hedge assets are included in other assets and hedge liabilities are included in other liabilities.

In order to manage currency fluctuations between KWR's functional currency (U.S. dollar) and the functional currency of KWR's wholly owned subsidiaries (Japanese yen), KWR entered into forward and option foreign currency contracts to hedge a portion of its currency risk. Due to the consolidation of KWR, the hedge asset relating to the forward and option foreign currency contracts was consolidated in KW Group's financial statements at fair value.

In order to manage currency fluctuations between KWE's functional currency (GBP) and the functional currency of certain KWE's wholly owned subsidiaries (Euro), KWE entered into forward foreign currency contracts to hedge a portion of its currency risk. Due to the consolidation of KWE, the hedge asset relating to the forward foreign currency contracts was consolidated at fair value.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable including related party receivables, accounts payable, accrued expenses and other liabilities, accrued salaries and benefits, and deferred and accrued income taxes approximate fair value due to their short-term maturities. The carrying value of loans (excluding related party loans as they are presumed not to be an arm’s length transaction) approximates fair value as the terms are similar to loans with similar characteristics available in the market.

We account for our debt liabilities at face value plus net unamortized debt premiums and any fair value adjustments as part of business combinations. The fair value as of September 30, 2014 and December 31, 2013 for the senior notes payable, investment debt and junior subordinated debentures were estimated to be approximately $2,794.5 million and

$878.2 million, respectively, based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and our credit risk to the current yield of a similar security, compared to their carrying value of $2,755.7 million and $850.8 million at September 30, 2014 and December 31, 2013, respectively.

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NOTE 7—OTHER ASSETS
Other assets consist of the following:

(Dollars in millions)	September 30, 2014	December 31, 2013
Above-market leases, net of accumulated amortization of $4.0 million at September 30, 2014	78.9	—
Deposits and other, net of accumulated amortization of $1.7 million and $1.2 million at September 30, 2014 and December 31, 2013, respectively	22.6	13.0
Loan fees, net of accumulated amortization of $7.9 million and $4.5 million at September 30, 2014 and December 31, 2013, respectively	33.9	14.1
Hedge Assets	25.3	—
Goodwill	23.9	23.9
Office furniture and equipment net of accumulated depreciation of $4.4 million and $2.2 million at September 30, 2014 and December 31, 2013, respectively	21.4	10.4
Marketable securities[1]	13.6	4.0
Prepaid expenses	12.7	7.6
Other Assets	$232.3	$73.0

[1] The amount above excludes Kennedy Wilson's 13.3 million shares in KWE as the investment is eliminated due to the consolidation of KWE's results. Based on the closing price of KWE shares on September 30, 2014, the fair value of Kennedy Wilson's investment in KWE is $234.0 million.

NOTE 8—INVESTMENT DEBT
Investment debt at September 30, 2014 and December 31, 2013 consists of the following:

(Dollars in millions)		Carrying Amount of Investment Debt as of [1]	
Types of Property Pledged as Collateral	Region	September 30, 2014	December 31, 2013
Multifamily [1]	Western U.S.	$449.1	$261.0
Commercial	Western U.S.	133.6	110.4
Hotels	Western U.S	36.4	28.0
Multifamily [1]	Japan	262.4	—
Commercial	Japan	2.4	2.4
Commercial [1]	Ireland	320.5	—
Multifamily [1][3]	Ireland	173.3	—
Hotels[1]	Ireland	76.1	—
Commercial [1][4]	United Kingdom	596.0	—
Investment debt[2]		$2,049.8	$401.8

[1] The investment debt balances include the unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The unamortized loan premium as of September 30, 2014 and December 31, 2013 was $21.3 million and $5.3 million, respectively.
[2] The investment debt had a weighted average interest rate of 3.29% and 4.13% per annum at September 30, 2014 and December 31, 2013. As of September 30, 2014, 54% of our property level debt is fixed rate, 32% is floating rate with interest caps and 14% is floating rate without interest caps. As of December 31, 2013, 86% of our property level

debt is fixed rate, 7% is floating rate with interest caps and 7% is floating rate without interest caps.
(3) Includes $60.2 million of investment debt on properties that were directly acquired and held by KWE. Kennedy Wilson owns approximately 13.3% of the total issued share capital of KWE.
(4) Includes $757.5 million of investment debt on properties that were directly acquired and held by KWE. Kennedy Wilson owns approximately 13.3% of the total issued share capital of KWE.

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During the nine months ended September 30, 2014, 19 mortgage loans were consolidated, 12 acquisitions were partially financed with mortgages, and two existing investments were partially financed with mortgages. See note 4 for more detail on the acquisitions and the investment debt associated with them.
The aggregate maturities of investment debt subsequent to September 30, 2014 are as follows:

(Dollars in millions)	
2014	$7.4
2015	124.1
2016	60.8
2017	206.1
2018	330.3
Thereafter	1,299.8
	2,028.5
Debt premium	21.3
	$2,049.8

NOTE 9—SENIOR NOTES

(Dollars in millions)	Interest Rate	Maturity Date	September 30, 2014 Face Value	Unamortized Net Premium/(Discount)	Carrying Value	December 31, 2013 Face Value	Unamortized Net Premium/(Discount)	Carrying Value
2042 Notes	7.75%	12/1/2042	$55.0	$ —	$55.0	$55.0	$ —	$55.0
2024 Notes	5.88%	4/1/2024	300.0	(2.7)	297.3	—	—	—
2019 Notes	8.75%	4/1/2019	350.0	3.6	353.6	350.0	4.0	354.0
Senior Notes			$705.0	$ 0.9	$705.9	$405.0	$ 4.0	$409.0

In March 2014, Kennedy Wilson completed a public offering of $300.0 million aggregate principal amount of 5.875% Senior Notes, due 2024. The 2024 notes were issued and sold at a public offering price of 99.068% of their principal amount by Kennedy-Wilson, Inc. (the “Issuer”), a wholly owned subsidiary of Kennedy Wilson.
The indentures governing the 2019 Notes, 2024 Notes, and 2042 Notes contain various restrictive covenants, including, among others, limitations on our ability and the ability of certain of our subsidiaries to incur or guarantee additional indebtedness, to make restricted payments, pay dividends or make any other distributions from restricted subsidiaries, redeem or repurchase capital stock, sell assets or subsidiary stock, engage in transactions with affiliates, create or permit liens on assets, enter into sale/leaseback transactions, and enter into consolidations or mergers. The indentures limit the Issuer's ability and the ability of its restricted subsidiaries to incur additional indebtedness if, on the date of such incurrence and after giving effect to the new indebtedness, the 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 September 30, 2014, the balance sheet leverage ratio was 0.74 to 1.00. See Note 16 for the guarantor and non-guarantor financial statements.
NOTE 10—LINE OF CREDIT
KWH Facility

Kennedy-Wilson, Inc. has an unsecured revolving credit facility ("KWH Facility") with U.S. Bank and East-West Bank and Bank of Ireland that bears interest at a rate equal to LIBOR plus 2.75% and has a maturity date of October 1, 2016. In July 2014 Kennedy-Wilson, Inc. increased its unsecured corporate line of credit facility from $140.0 million to $300.0 million. The increase was driven by the admission of Bank of America, N.A., Deutsche Bank AG New York Branch and J.P. Morgan Chase Bank, N.A. to the existing lender syndicate and an increased commitment from The Governor and Company of the Bank of Ireland.

The revolving loan agreement that governs the unsecured credit facility was updated due to the increase in the facility. The updated facility requires Kennedy-Wilson, Inc. 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 and (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 $500.0

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million plus 50% of any equity offerings after March 31, 2014, 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 September 30, 2014, Kennedy-Wilson, Inc.'s adjusted fixed charge coverage ratio was 3.54 to 1.00, its balance sheet leverage ratio was 0.79 to 1.00, and its effective tangible net worth and its unrestricted cash, cash equivalents and publicly traded marketable securities were $897.6 million and $800.6 million, respectively, and Kennedy-Wilson, Inc. was in compliance with these covenants. The revolving loan agreement also provides that any subsidiary guarantors under our 2019 Notes and 2042 Notes must provide guarantees of the loans drawn on our unsecured revolving credit facility. See Note 9 for a discussion of our senior notes.

During the nine months ended September 30, 2014, the Company drew and repaid $90.0 million on its unsecured credit facility to fund acquisitions. The maximum amount drawn on the unsecured credit facility at any one point during the nine months ended September 30, 2014 was $90.0 million. As of September 30, 2014, the unsecured credit facility was undrawn and $300.0 million was still available.

KWE Facility

In August 2014, KWE entered into a three year unsecured floating rate revolving debt facility ("KWE Facility") of approximately $365 million (£225 million) with a syndicate of banks. The facility was undrawn as of September 30, 2014. The KWE Facility requires KWE to maintain (i) a maximum consolidated leverage ratio (as defined in the revolving loan agreement) not to exceed 60%; (ii) minimum net asset value not to fall below IFRS NAV (as defined in the KWE Facility agreement) of £744.4 million plus 75% of equity proceeds received by subsidiaries; (iii) a minimum fixed charge coverage ratio where consolidated EBITDA to consolidated fixed charges not to be less than 1.5 to 1.0 for the last four quarters; (iv) minimum unsecured interest where property level net operating income ("NOI") and loan asset NOI to interest expense on unsecured debtors not to be less than 1.9 to 1.0 for the last four quarters; and (v) a maximum secured recourse indebtedness for consolidated secured recourse debt to not exceed 2.5% of total asset value at any time.

NOTE 11—JUNIOR SUBORDINATED DEBENTURES

In September 2014, Kennedy Wilson extinguished its junior subordinated debt with a face value of $40.0 million for $41.5 million which resulted in a $1.5 million loss on early extinguishment of corporate debt.

NOTE 12—STOCKHOLDERS' EQUITY

Common Stock

In January 2014, Kennedy Wilson completed an offering of 9.2 million shares of its common stock, which raised $190.6 million of net proceeds.

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Dividend Distributions
During the following periods, Kennedy Wilson declared and paid the following cash distributions on its common and preferred stock:

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
(Dollars in millions)	Declared	Paid	Declared	Paid
Preferred Stock				
Series A [(1)]	$4.5	$4.5	$4.5	$4.5
Series B [(2)]	1.6	1.6	1.6	1.6
Total Preferred Stock	6.1	6.1	6.1	6.1
Common Stock [(3)]	25.0	22.3	16.0	10.2
Total [(4)]	$31.1	$28.4	$22.1	$16.3

[(1)] 6.00% Series A, 100,000 shares issued and outstanding as of September 30, 2014 and 2013, mandatorily convertible on May 19, 2015, or earlier at the option of the holders thereof.
[(2)] 6.45% Series B, 32,550 shares issued and outstanding as of September 30, 2014 and 2013, mandatorily convertible on November 3, 2018, or earlier at the option of the holders thereof, or, in certain circumstances, at our election on or after May 3, 2017.
[(3)] $0.0001 par value per share, 200,000,000 and 125,000,000 shares authorized as of September 30, 2014 and 2013, respectively.
[(4)] Common stock dividends were declared at the end of each quarter and paid in the following quarter. The amount declared and not paid is accrued on the consolidated balance sheet.

Stock-based Compensation
During the three months ended September 30, 2014 and 2013, KW Group recognized $5.3 million and $2.0 million of compensation expense related to the vesting of restricted stock grants. During the nine months ended September 30, 2014 and 2013, KW Group recognized $8.7 million and $5.4 million of compensation expense related to the vesting of restricted stock grants. The increase for the three and nine months ended September 30, 2014 is due to 3,140,000 shares issued under Kennedy Wilson's Amended and Restated 2009 Equity Participation Plan during the quarter ended September 30, 2014.

Accumulated Other Comprehensive Income
The following table summarizes the changes in each component of accumulated other comprehensive income (loss), net of taxes:

	Foreign Currency Translation	Forward Contract Foreign Currency	Marketable Securities	Total Accumulated Other Comprehensive Income
(Dollars in millions)				
Balance at December 31, 2013	$4.3	$4.9	$—	$9.2
Unrealized gains (losses), arising during the period	(107.5)	24.3	(1.9)	(85.1)
Amounts reclassified out of AOCI during the period[(1)]	(0.3)	(6.8)	—	(7.1)
Taxes on unrealized gains (losses), arising during the period	40.4	(7.8)	0.8	33.4
Noncontrolling interest	36.4	—	—	36.4
Balance at September 30, 2014	$(26.7)	$14.6	$(1.1)	$(13.2)

(1) Amounts reclassified out of accumulated other comprehensive income relate to the consolidation of investments previously accounted for under the equity method. Pursuant to FASB ASC 805-10, Business Combinations, these amounts are included in the calculation of gain or loss as of the acquisition date. Please refer to Note 4 - Real Estate for further discussion on consolidated acquisitions.

The functional currencies for our interests in foreign operations include the euro, the British pound sterling, and the Japanese yen. The related amounts on KW Group's balance sheets are translated into U.S. dollars at the exchange rates at the respective financial statement date, while amounts on its statements of operations are translated at the average exchange rates during the respective period. The increase in the unrealized gains on foreign currency translation is a result of the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen during the nine months ended September 30, 2014.

In order to manage currency fluctuations, KW Group entered into forward and option foreign currency contracts to hedge a portion of its Japanese yen-based investments. KW Group also has currency forward contracts to manage its exposure to currency fluctuations between its functional currency (U.S. dollars) and the functional currency (euros and GBP) of certain of its wholly-owned and consolidated subsidiaries. See note 6 for a more detailed discussion of KW Group's forward and option currency contracts.

Noncontrolling Interests

Noncontrolling interests consist of the ownership interests of noncontrolling shareholders in consolidated subsidiaries, and are presented separately on KW Group's balance sheet. As of September 30, 2014 and December 31, 2013 KW Group had noncontrolling interest of $1.7 billion and $50.6 million, respectively.

Kennedy Wilson currently owns approximately 13.3% of KWE's total issued share capital as of September 30, 2014. Due to the terms provided in the investment management agreement between KWE and a wholly-owned subsidiary of Kennedy Wilson, the results of KWE are consolidated in KW Group's financial statements. See Note 1 for additional details. Due to KWE's IPO in February 2014, KW Group recorded a $1.4 billion increase to non-controlling interest, net of issuance costs, relating to the equity of the noncontrolling shareholders of KWE. Kennedy Wilson's share of the issuance costs was $6.5 million.

As further discussed in Note 4, the assets and liabilities of seven operating properties were consolidated in KW Group's financial statements and an increase of $291.8 million was recorded to noncontrolling interests relating to the equity of the noncontrolling shareholders of these properties. See note 4.

NOTE 13—EARNINGS PER SHARE

Under FASB ASC Topic 260-10-45 Earnings Per Share, the Company uses the two-class method to calculate earnings per share. Basic earnings per share is calculated based on dividends declared ("distributed earnings") and the rights of common shares and participating securities in any undistributed earnings, which represents net income remaining after deduction of dividends declared during the period. Participating securities, which include unvested restricted stock, are included in the computation of earnings per share pursuant to the two-class method. The undistributed earnings are allocated to all outstanding common shares and participating securities based on the relative percentage of each security to the total number of outstanding securities. Basic earnings per common share and participating securities represent the summation of the distributed and undistributed earnings per common share and participating security divided by the total weighted average number of common shares outstanding and the total weighted average number of participating securities outstanding during the respective periods. We only present the earnings per share attributable to the common shareholders.

Net losses, after deducting the dividends to participating securities, are allocated in full to the common shares since the participating security holders do not have an obligation to share in the losses, based on the contractual rights and obligations of the participating securities. Because KW Group incurred losses for the three months ended September 30, 2014 and the three and nine months ended September 30, 2013, all potentially dilutive instruments are anti-dilutive and have been excluded from our computation of weighted average dilutive shares outstanding for that period. The following is a summary of the elements used in calculating basic and diluted income (loss) per share for the three and nine months ended September 30, 2014 and 2013:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except share and per share amounts)	2014	2013	2014	2013
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$(2.2)	$(4.1)	$44.6	$(10.2)
Net income and dividends allocated to participating securities	(0.5)	—	(2.6)	—
Net (loss) income attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	(2.7)	(4.1)	42.0	(10.2)
Dividends declared on common shares	(8.1)	(15.2)	(24.1)	(5.5)
Undistributed (losses) earnings attributable to Kennedy-Wilson Holdings, Inc. common shareholders, net of allocation to participating securities	$(10.8)	$(19.3)	$17.9	$(15.7)
Distributed earnings per share	$0.09	$0.07	$0.27	$0.21
Undistributed (losses) earnings per share	(0.12)	(0.13)	0.20	(0.36)
(Loss) income per basic	(0.03)	(0.06)	0.47	(0.15)
(Loss) income per diluted	$(0.03)	$(0.06)	$0.47	$(0.15)
Weighted average shares outstanding for basic	89,267,838	72,643,000	88,854,215	68,486,876
Weighted average shares outstanding for diluted(1)	89,267,838	72,643,000	90,169,008	68,486,876
Dividends declared per common share	$0.09	$0.07	$0.27	$0.21

(1) For the three months ended September 30, 2014, a total of 12,993,531 potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive. For the three and nine months ended September 30, 2013, a total of 19,315,303 and 19,620,824 potentially dilutive securities have not been included in the diluted weighted average shares as they are anti-dilutive. Potentially anti-dilutive securities include preferred stock, warrants, and unvested restricted stock grants.

NOTE 14—SEGMENT INFORMATION

Kennedy Wilson's business is defined by two core segments: KW Investments and KW Services. KW Investments invests in multifamily, commercial, residential and hotel properties as well as loans secured by real estate. KW Services provides a full array of real estate-related services to investors and lenders, with a strong focus on financial institution-based clients and publicly traded companies. Kennedy Wilson’s segment disclosure with respect to the determination of segment profit or loss and segment assets is based on these services and investments.

There have been no changes in the basis of segmentation or in the basis of measurement of segment profit or loss since the December 31, 2013 financial statements.

KW INVESTMENTS—Kennedy Wilson invests its capital in real estate assets and loans secured by real estate either on its own or with equity partners through joint ventures, separate accounts, and commingled funds. For investments with equity partners we are typically the general partner or investment manager in these investments with a promoted interest in the profits of our investments beyond our ownership percentage. Kennedy Wilson has an average ownership interest across all investments of approximately 45%. Our equity partners include publicly traded companies, financial institutions, foundations, endowments, high net worth individuals and other institutional investors.

KW SERVICES—KW Services offers a comprehensive line of real estate services for the full lifecycle of real estate ownership to clients that include publicly traded companies, financial institutions, institutional investors, insurance companies, developers, builders and government agencies. KW Services has four main lines of business: investment management, property services, research and auction and conventional sales. These four business lines generate revenue for us through fees and commissions. Related party fee revenue primarily consists of fees earned on investments in which entities in the KW Group also have an ownership interest.

We manage over 70.2 million square feet of properties for institutional clients and individual investors in the United States, Europe, and Japan, which includes assets we have ownership in and third party assets. With 25 offices throughout the United

States, the United Kingdom, Ireland, Spain, Jersey 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 the real estate community as a whole. Their knowledge and relationships is an excellent driver of business through the services business as well as on the investment front.

Additionally, KW Services plays a critical role in supporting the company's 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.

The following tables summarize income activity by segment and corporate for the three and nine months ended September 30, 2014 and 2013 and balance sheet data as of September 30, 2014 and December 31, 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Investments				
Rental and hotel	$93.5	$10.5	$161.3	27.3
Sale of real estate	1.6	1.6	19.0	10.1
Loan and other	5.7	0.5	11.7	1.4
Total revenue	100.8	12.6	192.0	38.8
Depreciation and amortization	(34.7)	(4.5)	(67.3)	(12.0)
Operating expenses	(55.2)	(13.7)	(130.2)	(45.0)
Income from unconsolidated investments	11.4	13.2	43.1	30.1
Operating income	22.3	7.6	37.6	11.9
Acquisition-related gains	28.9	1.6	199.2	11.1
Acquisition-related expenses	(5.3)	—	(16.9)	(0.5)
Interest expense - investment	(13.8)	(2.8)	(30.2)	(7.4)
Other	(2.1)	1.0	0.8	0.3
Net income	30.0	7.4	190.5	15.4
Net (income) loss attributable to the noncontrolling interests	0.1	0.7	(62.6)	2.6
Net income attributable to Kennedy-Wilson Holdings, Inc common shareholders	$30.1	$8.1	$127.9	$18.0

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Services				
Investment management, property services and research fees (includes $8.3, $15.7, $48.9, and $37.8 of related party fees)	$12.9	$20.9	$65.0	$54.0
Total revenue	12.9	20.9	65.0	54.0
Operating expenses	(14.5)	(13.3)	(40.4)	(31.5)
Income from unconsolidated investments	0.7	—	2.8	—
Operating (loss) income	(0.9)	7.6	27.4	22.5
Net loss attributable to the noncontrolling interests	2.7	—	2.7	—
Net income attributable to Kennedy-Wilson Holdings, Inc common shareholders	$1.8	$7.6	$30.1	$22.5

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2014	2013	2014	2013
Corporate				
Operating expenses	$(9.7)	$(5.8)	$(25.6)	$(16.5)
Operating loss	(9.7)	(5.8)	(25.6)	(16.5)
Interest expense-corporate	(15.9)	(10.3)	(41.1)	(29.7)
Other	—	0.1	—	0.2