Kennedy-Wilson Holdings, Inc.
Form 424B3
November 02, 2018
Filed by Kennedy-Wilson Holdings, Inc.
pursuant to Rule 424(b)(3) under the Securities Act of 1933
Commission File No.: 333-164926

QUARTERLY REPORT ON FORM 10-Q
On November 1, 2018, Kennedy-Wilson Holdings, Inc. filed with the Securities and Exchange Commission its Quarterly Report on Form 10-Q for the period ended September 30, 2018. See Appendix A to this filing.

The exhibits filed with the Quarterly 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, 151 S El Camino Drive, 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.

Appendix A
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, 2018
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.)

151 S El Camino Drive
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, a smaller reporting company or an emerging growth company.
(See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

Emerging Growth 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
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
The number of shares of common stock outstanding as of October 30, 2018 was 144,192,075.

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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,” "may," “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, a 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. 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, 2017. 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.

Non-GAAP Measures and Certain Definitions

In addition to the results reported in accordance with U.S. generally accepted accounting principles ("GAAP") included within this report, Kennedy Wilson has provided certain information, which includes non-GAAP financial measures (including Adjusted EBITDA, Adjusted Net Income, Net Operating Income, and Adjusted Fees, as defined below). Such information is reconciled to its closest GAAP measure in accordance with the rules of the SEC, and such reconciliations are included within this report. These measures may contain cash and non-cash acquisition-related gains and expenses and gains and losses from the sale of real-estate related investments. Consolidated non-GAAP measures discussed throughout this report contain income or losses attributable to non-controlling interests. Management believes that these non-GAAP financial measures are useful to both management and Kennedy Wilson's shareholders in their analysis of the business and operating performance of the Company. Management also uses this information for operational planning and decision-making purposes. Non-GAAP financial measures are not and should not be considered a substitute for any GAAP measures. Additionally, non-GAAP financial measures as presented by Kennedy Wilson may not be comparable to similarly titled measures reported by other companies.

“KWH,” "KW," “Kennedy Wilson,” the "Company," "we," "our," or "us" refers to Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries. The consolidated financial statements of the Company include the results of the Company's consolidated subsidiaries.

“KWE” refers to Kennedy Wilson Europe Real Estate Limited (formerly known as Kennedy Wilson Europe Real Estate plc), which was a London Stock Exchange-listed company that we externally managed through a wholly-owned subsidiary. On October 20, 2017 we acquired KWE, which is now a wholly-owned subsidiary. Prior to the acquisition, we owned approximately 24% and in accordance with U.S. GAAP, the results of KWE were consolidated in our financial statements due to our role as asset manager.

“Adjusted EBITDA” represents net income before interest expense, our share of interest expense included in income from investments in unconsolidated investments, depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments, early extinguishment of corporate debt, provision for (benefit from) income taxes, share-based compensation expense for the Company and EBITDA attributable to noncontrolling interests. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP measures” for a reconciliation of Adjusted EBITDA to net income as reported under GAAP.

Our management uses Adjusted EBITDA to analyze our business because it adjusts net income for items we believe do not accurately reflect the nature of our business going forward or that relate to non-cash compensation expense or noncontrolling interests. 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, Adjusted EBITDA is not a recognized measurement under GAAP and when analyzing our operating performance, readers should use 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 Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, Adjusted EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not remove all non-cash items or consider certain cash requirements such as tax and debt service payments. The amount shown for Adjusted EBITDA

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also differs from the amount 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.

“Adjusted fees’’ refers to Kennedy Wilson’s gross investment management, property services and research fees adjusted to include Kennedy Wilson's share of fees eliminated in consolidation, Kennedy Wilson’s share of fees in unconsolidated service businesses and performance fees included in unconsolidated investments. Effective January 1, 2018, we adopted new GAAP guidance on revenue recognition and implemented a change in accounting principle related to performance allocations, which results in us now accounting for performance allocations (commonly referred to as "performance fees") under the GAAP guidance for equity method investments and presenting performance allocations as a component of income from unconsolidated investments. Our management uses Adjusted fees to analyze our investment management and real estate services business because the measure removes required eliminations under GAAP for properties in which the Company provides services but also has an ownership interest. These eliminations understate the economic value of the investment management, property services and research fees and makes the Company comparable to other real estate companies that provide investment management and real estate services but do not have an ownership interest in the properties they manage. Our management believes that adjusting GAAP fees to reflect these amounts eliminated in consolidation presents a more holistic measure of the scope of our investment management and real estate services business.

“Adjusted Net Income” represents net income before depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments, share-based compensation, the tax impact of the recently enacted tax reform and net income attributable to noncontrolling interests, before depreciation and amortization. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP measures” for a reconciliation of Adjusted Income to net income as reported under GAAP.

"Equity partners" refers to non-wholly-owned subsidiaries that we consolidate in our financial statements under U.S. GAAP and third-party equity providers.

"Gross Asset Value” refers to the gross carrying value of assets determined in accordance with GAAP, before debt, depreciation and amortization, and net of noncontrolling interests.

"Investment Management and Real Estate Services Assets under Management" ("IMRES 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 IMRES 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 IMRES AUM consists 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 IMRES AUM. The estimated value of development properties is included at estimated completion cost.

"Net operating income" or "NOI” is a non-GAAP measure representing the income produced by a property calculated by deducting operating expenses from operating revenues. Our management uses net operating income to assess and compare the performance of our properties and to estimate their fair value. Net operating income does not include the effects of depreciation or amortization or gains or losses from the sale of properties because the effects of those items do not necessarily represent the actual change in the value of our properties resulting from our value-add initiatives or changing market conditions. Our management believes that net operating income reflects the core revenues and costs of operating our properties and is better suited to evaluate trends in occupancy and lease rates.

"Noncontrolling interests" represents the portion of equity ownership in a consolidated subsidiary not attributable to Kennedy Wilson.

“Same property” refers to properties in which Kennedy Wilson has an ownership interest during the entire span of both periods being compared. The same property information presented throughout this report is shown on a cash basis and excludes non-recurring expenses. This analysis excludes properties that are either under development or undergoing lease up as part of our asset management strategy.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

(Dollars in millions, except share and per share amounts)	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 419.4	$ 351.3
Accounts receivable (including $4.0 and $5.2 of related party)	75.8	62.7
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	5,820.3	6,443.7
Loan purchases and originations	29.4	84.7
Unconsolidated investments (including $597.7 and $380.7 at fair value)	789.7	519.3
Other assets	246.8	263.1
Total assets[1]	$ 7,381.4	$ 7,724.8
Liabilities and equity		
Liabilities		
Accounts payable	$ 28.1	$ 19.5
Accrued expenses and other liabilities	506.2	465.9
Mortgage debt	2,872.2	3,156.6
KW unsecured debt	1,250.6	1,179.4
KWE unsecured bonds	1,282.5	1,325.9
Total liabilities[1]	5,939.6	6,147.3
Equity		
Common stock, 144,192,075 and 151,561,284 shares issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	1,753.1	1,883.3
Accumulated deficit	(56.7)	(90.6)
Accumulated other comprehensive loss	(443.4)	(427.1)
Total Kennedy-Wilson Holdings, Inc. shareholders' equity	1,253.0	1,365.6
Noncontrolling interests	188.8	211.9
Total equity	1,441.8	1,577.5
Total liabilities and equity	$ 7,381.4	$ 7,724.8

[1] The assets and liabilities as of September 30, 2018 include $681.4 million (including cash held by consolidated investments of $28.4 million and real estate and acquired in place lease values, net of accumulated depreciation and amortization of $589.0 million) and $353.9 million (including investment debt of $311.0 million), respectively, from consolidated variable interest entities ("VIEs"). The assets and liabilities as of December 31, 2017 include $904.4 million (including cash held by consolidated investments of $39.1 million and real estate and acquired in place lease values, net of accumulated depreciation and amortization of $789.1 million) and $510.0 million (including investment debt of $475.3 million), respectively, from VIEs. These assets can only be used to settle obligations of the

consolidated VIEs, and the liabilities do not have recourse to the Company.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except share and per share amounts)	2018	2017	2018	2017
Revenue				
Rental	$123.4	$ 125.5	$392.6	$ 373.6
Hotel	43.5	37.3	117.6	95.8
Sale of real estate	6.5	89.8	48.7	103.4
Investment management, property services and research fees (includes $5.0, $7.5, $11.3 and $17.5 of related party fees)	12.4	11.4	34.8	32.7
Loan purchases, loan originations and other	—	8.5	1.1	15.0
Total revenue	185.8	272.5	594.8	620.5
Operating expenses				
Rental operating	38.2	38.0	119.5	110.5
Hotel operating	30.6	26.1	90.8	73.3
Cost of real estate sold	5.8	63.4	45.6	73.7
Commission and marketing	1.1	2.1	4.6	5.9
Compensation and related	38.3	35.4	122.8	113.5
General and administrative	11.7	10.8	36.6	30.7
Depreciation and amortization	51.5	55.4	158.7	157.2
Total operating expenses	177.2	231.2	578.6	564.8
Income from unconsolidated investments	24.0	17.6	60.9	57.4
Operating income	32.6	58.9	77.1	113.1
Non-operating income (expense)				
Gain on sale of real estate, net	39.4	5.3	304.2	77.0
Acquisition-related expenses	(0.4)	(1.0)	(0.6)	(2.3)
Interest expense	(55.2)	(56.8)	(181.3)	(158.9)
Other income (expense)	3.4	(0.3)	13.5	4.6
Income before (provision for) benefit from income taxes	19.8	6.1	212.9	33.5
(Provision for) benefit from income taxes	(6.9)	3.7	(33.7)	(0.9)
Net income	12.9	9.8	179.2	32.6
Net income attributable to the noncontrolling interests	(0.8)	(18.7)	(59.9)	(31.3)
Net income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$12.1	$ (8.9)	$119.3	$ 1.3
Basic income (loss) per share				
Income (loss) per basic	$0.09	$ (0.08)	$0.83	$ 0.01
Weighted average shares outstanding for basic	141,003,413	111,966,716	143,450,695	111,955,924
Diluted income (loss) per share				
Income (loss) per diluted	$0.09	$ (0.08)	$0.83	$ 0.01
Weighted average shares outstanding for diluted	141,800,972	111,966,716	144,516,045	111,955,924
Dividends declared per common share	$0.19	$ 0.17	$0.57	$ 0.51

See accompanying notes to consolidated financial statements.

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

(Dollars in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$12.9	$9.8	$179.2	$32.6
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on marketable securities	—	0.1	—	0.2
Unrealized foreign currency translation (loss) gain	(7.5)	50.5	(46.4)	171.3
Amounts reclassified out of AOCI during the period	0.1	0.1	13.2	0.1
Unrealized currency derivative contracts (loss) gain	(0.2)	(11.5)	22.0	(44.3)
Total other comprehensive (loss) income for the period	(7.6)	39.2	(11.2)	127.3
Comprehensive income	5.3	49.0	168.0	159.9
Comprehensive loss (income) attributable to noncontrolling interests	0.1	(52.9)	(65.0)	(138.8)
Comprehensive income (loss) attributable to Kennedy-Wilson Holdings, Inc. common shareholders	$5.4	$(3.9)	$103.0	$21.1

See accompanying notes to consolidated financial statements.

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

(Dollars in millions, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2017	151,561,284	$ —	$1,883.3	$ (90.6)	$ (427.1)	$ 211.9	$1,577.5
Shares forfeited	(15,100)	—	—	—	—	—	—
Restricted stock grants (RSG)	1,514,800	—	—	—	—	—	—
Shares retired due to RSG vesting	(380,768)	—	(6.8)	—	—	—	(6.8)
Shares retired due to common stock repurchase program	(8,488,141)	—	(151.3)	(2.0)	—	—	(153.3)
Stock based compensation	—	—	27.9	—	—	—	27.9
Other comprehensive income (loss):							
Unrealized foreign currency translation (loss) gain, net of tax	—	—	—	—	(33.2)	5.1	(28.1)
Unrealized foreign currency derivative contract gain, net of tax	—	—	—	—	17.0	—	17.0
Unrealized loss on marketable securities, net of tax	—	—	—	—	(0.1)	—	(0.1)
Common stock dividends	—	—	—	(83.4)	—	—	(83.4)
Net income	—	—	—	119.3	—	59.9	179.2
Contributions from noncontrolling interests	—	—	—	—	—	16.8	16.8
Distributions to noncontrolling interests	—	—	—	—	—	(104.9)	(104.9)
Balance at September 30, 2018	144,192,075	$ —	$1,753.1	$ (56.7)	$ (443.4)	$ 188.8	$1,441.8

See accompanying notes to consolidated financial statements.

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

(Dollars in millions)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$179.2	$32.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain from sale of real estate	(307.3)	(106.7)
Depreciation and amortization	158.7	157.2
Above/below and straight-line rent amortization	(11.7)	(7.9)
Provision for (benefit from) deferred income taxes	20.5	(5.8)
Amortization of deferred loan costs	10.7	6.3
Accretion of interest income on loans	(0.6)	(12.1)

Amortization of discount and accretion of premium on issuance of the senior notes and investment debt	1.5	(0.9)
Unrealized net (gain) loss on derivatives	(12.1)	15.8
Income from unconsolidated investments	(60.9)	(57.4)
Operating distributions from unconsolidated investments	33.7	67.6
Operating distributions from loan purchases and originations	0.6	5.1
Share-based compensation	27.9	29.2
Change in assets and liabilities:		
Accounts receivable	(14.5)	(4.9)
Other assets	(7.3)	(4.5)
Accounts payable, accrued expenses and other liabilities	73.4	16.0
Net cash provided by operating activities	91.8	129.6
Cash flows from investing activities:		
Collections of loans	4.5	16.9
Additions to loans	(1.9)	—
Net proceeds from sale of consolidated real estate	1,164.9	261.9
Purchases of and additions to consolidated real estate	(440.9)	(475.0)
Proceeds from settlement of foreign derivative contracts	7.8	3.1
Purchases of foreign derivative contracts	(0.8)	(0.6)
Investment in marketable securities	—	(0.6)
Proceeds from sale of marketable securities	7.4	0.6
Additions to development project asset	(22.2)	(13.0)
Proceeds from development project asset	38.9	36.9
Distributions from unconsolidated investments	48.0	89.4
Contributions to unconsolidated investments	(293.1)	(62.3)
Net cash provided by (used in) investing activities	512.6	(142.7)
Cash flows from financing activities:		
Borrowings under senior notes payable	246.6	—
Borrowings under line of credit	225.0	400.0
Repayment of lines of credit	(325.0)	(50.0)
Borrowings under investment debt	478.7	258.3
Repayment of investment debt	(719.8)	(142.6)
Repayment of term loan	(75.0)	—
Debt issue costs	(7.7)	(1.4)
Repurchase and retirement of common stock	(160.1)	(35.6)
Dividends paid	(84.2)	(57.1)
Costs associated with KWE transaction	—	(10.0)
Acquisition of KWE shares from noncontrolling interest holders	—	(3.3)
KWE closing dividend	(17.2)	—
Contributions from noncontrolling interests, excluding KWE	22.8	43.6
Distributions to noncontrolling interests	(104.9)	(93.3)
Net cash (used in) provided by financing activities	(520.8)	308.6
Effect of currency exchange rate changes on cash and cash equivalents	(15.5)	51.5
Net change in cash and cash equivalents[1]	68.1	347.0
Cash and cash equivalents, beginning of period	351.3	885.7
Cash and cash equivalents, end of period	$419.4	$1,232.7

[1] See discussion of non-cash effects in notes to consolidated statements of cash flows.

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)	2018	2017
Cash paid for:		
Interest[(1)(3)]	$145.4	$127.6
Income taxes[(2)]	7.0	15.6

(1) $5.4 million and $36.6 million attributable to noncontrolling interests for the nine months ended September 30, 2018 and 2017, respectively.
(2) $12.0 million attributable to noncontrolling interests for the nine months ended September 30, 2017.
(3) Includes $5.8 million and $2.6 million of capitalized interest for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018 and December 31, 2017 we have $60.1 million and $43.6 million, respectively, of restricted cash, which is included in cash and cash equivalents, that primarily relates to lender reserves associated with consolidated mortgages that we hold on properties. These reserves typically relate to interest, tax, insurance and future capital expenditures at the properties.

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
(Dollars in millions)	2018	2017
Accrued capital expenditures	$2.2	$18.2
Dividends declared but not paid on common stock	27.4	19.4

During the nine months ended September 30, 2018, the Company gained control over a pool of loans secured by six hotels located in the United Kingdom that were previously accounted for as loan purchases. The assets and liabilities of these properties were consolidated in Kennedy Wilson's financial statements at fair value.

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

Kennedy Wilson'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 the Company believes that the disclosures are adequate to make their presentation not misleading. In the Company's 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, 2018 and 2017 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, 2018. For further information, your attention is directed to the footnote disclosures found in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Throughout these unaudited interim consolidated financial statements “Kennedy Wilson” is referenced, which is defined as the Company and its subsidiaries that are consolidated in its financial statements under U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. "KW," “KWH,” “Kennedy Wilson,” the “Company,” “we,” “our,” or “us” a also referred to which are defined as Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

In addition, throughout these unaudited interim consolidated financial statements, “equity partners” is referred to, which is defined as the non-wholly owned subsidiaries that are consolidated in the Company's financial statements under U.S. GAAP and third-party equity partners.

Kennedy Wilson evaluates its relationships with other entities to identify whether they are variable interest entities ("VIEs") as defined in the ASC Subtopic 810-10, as amended by Accounting Standards Update ("ASU") 2015-02, 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—In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASC Topic 606, Revenue from Contracts with Customers, which introduced a new 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 identifies the contract, any separate performance obligations in the contract, determines the transaction price, allocates the transaction price and recognizes revenue when the performance obligations are satisfied. Management has concluded that, with the exception of performance fees, the nature of the Company's revenue streams is such that the requirements are generally satisfied at the time that the fee becomes receivable. Consequently, the new standard did not impact the timing of revenue recognition for these revenue streams.

The Company has concluded that performance fees to the Company, based on cumulative fund performance to-date, represent equity method investments that are not in the scope of the amended revenue recognition guidance. Effective January 1, 2018, the Company changed its policy for recognition and measurement of performance fees. This accounting policy change did not change the timing or amount of income recognized related to performance fees. Prior to this accounting method change, the performance-based component of the fees was recognized within investment management, property services and research fees in the Consolidated Statements of Operations. Under the equity method of accounting, the Company now recognizes its allocation of performance fees along with its share of income or loss and fair value, proportionate to the Company’s equity ownership in each applicable investment as a component of income from unconsolidated investments. The Company has accounted for this change by full retrospective application and prior periods presented have been recast. The impact of adoption was a reclassification of $32.9 million from other assets to unconsolidated investments on the Consolidated Balance Sheet as of December 31, 2017. During the three and nine months ended September 30, 2018, there was $7.6 million and $24.7 million of performance fees recorded as a component of income from unconsolidated investments. During the three and nine months ended September 30, 2017, there was $4.7 million and $8.6 million of performance fee allocations which were previously presented as a component of investment

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management, property services and research fees and have been reclassified to income from unconsolidated investments in the current year presentation.

ASC Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets ("Subtopic 610-20") was also adopted effective January 1, 2018. Management concluded that the new standard did not have a significant impact on the amount, timing or classification of real estate sales in the financial statements or related disclosures. This conclusion was based on the Company's current business mix and general approach to sales of real estate which are generally completed without seller financing or continuing involvement that would indicate that a performance obligation is not met at the time the transaction closes. With the adoption of Subtopic 610-20, the Company will recognize the entire gain attributed to contributions of real estate properties to unconsolidated entities. The Company previously recognized a gain on contribution only to the extent of the third-party ownership in the unconsolidated entity acquiring the property and deferred the portion of the gain related to the Company's ownership.

The Company’s analysis included evaluation of an in-process development project that will be completed later in 2018 and found that while the evaluation is different under Subtopic 610-20, the recognition required recording the gain on the sale of the land and the development component, as separate performance obligations, under a percentage of completion methodology. However, this conclusion is identical to the manner of reporting the gain on the sale of this real estate under the superseded U.S. GAAP. Consequently, there was no significant impact upon this sale nor any of the other sales already completed.

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). The ownership of the other interest holders in consolidated subsidiaries is reflected as noncontrolling interests. Real estate is recorded based on cumulative costs incurred and allocated based on relative fair value.

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.

FOREIGN CURRENCIES—The financial statements of Kennedy Wilson's 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 and the British pound sterling. 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.

Investment level debt is generally incurred in local currencies. Fluctuations in foreign exchanges rates may have a significant impact on the results of our operations. In order to manage the effect of these fluctuations, the Company enters into hedging transactions, in the form of currency derivative contracts, that are designed to reduce its book equity exposure to foreign currencies. See Note 6 for a complete discussion on currency derivative contracts.

FAIR VALUE MEASUREMENTS — Kennedy Wilson accounts for fair value measurements of financial assets and financial liabilities and for fair value measurements of non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis under the provisions of ASC Subtopic 820-10, Fair Value Measurements ("Subtopic 820-10"). Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When estimating fair value in the absence of an orderly transaction between market participants, 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 and the investments in debt securities are valued, in part, based on third party valuations and management estimates also using an income approach.

FAIR VALUE OF FINANCIAL INSTRUMENTS — The estimated fair value of financial instruments is determined using available market information and appropriate valuation methodologies. Considerable judgment, is necessary however to interpret market data and develop the related estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material impact on the estimated fair value amounts.

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

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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.
Fluctuations in foreign exchanges rates may have a significant impact on the Company's results of operations. In order to manage the potential exposure from adverse changes in foreign exchange rates arising from the Company's net investments in foreign operations, the Company may enter into currency derivative contracts to hedge all or portions of the net investments in the Company's non-U.S. dollar denominated foreign operations.
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 January 1, 2018, Kennedy Wilson adopted ASC Topic 606 and ASC Subtopic 610-20 transition guidance. See discussion above in revenue recognition for more detail.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. FASB ASC Topic 842 is required to be adopted for fiscal years beginning after December 15, 2018. The Company is currently evaluating its operating lease agreements. Because Kennedy Wilson's existing operating lease commitments are not material and the accounting for leases by the lessor is substantially unchanged, the Company does not expect the ASU to have a significant impact on its results of operations or financial position.
In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses eight classification issues related to the statement of cash flows: (a) debt prepayment or debt extinguishment costs, (b) settlement of zero-coupon bonds, (c) contingent consideration payments made after a business combination (d) proceeds from the settlement of insurance claims, (e) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (f) distributions received from equity method investees, (g) beneficial interests in securitization transactions, and (h) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is required to be adopted for public entities for fiscal years beginning after December 15, 2017. The adoption of this standard did not have a material impact on Kennedy Wilson's consolidated financial statements.
In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU clarifies the definition of a business. The three elements of a business (inputs, processes, and outputs) has not changed, however, the amendment provides a framework to assist entities in evaluating whether these

elements are present. The amended framework is not expected to materially impact the Company's financial statements. However, the amendment also includes a provision that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. Therefore, real estate acquisitions generally will no longer be considered a business and consequently not be accounted for under Topic 805. The Company has evaluated the impact noting that for asset acquisitions (1) acquisition related costs will no longer be expensed as incurred and (2) regardless of the market value of a property at the acquisition date, acquisition related gains will no longer be recorded. ASU 2017-01 is required to be adopted for public entities for fiscal years beginning after December 15, 2017. The adoption of this standard did not have a material impact on Kennedy Wilson's consolidated financial statements, except that going forward the Company will no longer record acquisition related gains when acquiring controlling interests in real estate investments that are deemed asset acquisitions and the Company will now capitalize acquisition-related costs on completed transactions.

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In January 2017, the FASB issued ASU 2017-04, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. ASU 2017-04 is required to be adopted for public entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect the ASU to have a significant impact on Kennedy Wilson's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12 that simplifies the application of hedge accounting guidance in current GAAP and improves the reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its consolidated financial statements. Among the simplification updates, the standard eliminates the requirement in current GAAP to separately recognize periodic hedge ineffectiveness. Mismatches between the changes in value of the hedged item and hedging instrument may still occur but they will no longer be separately reported. The standard requires the presentation of the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This ASU is effective for public business entities, for annual and interim periods in fiscal years beginning after December 15, 2018. The Company does not expect the ASU to have a significant impact on Kennedy Wilson's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This ASU is effective for all entities, for annual and interim periods in fiscal years beginning after December 15, 2018. The Company does not expect the ASU to have a significant impact on Kennedy Wilson's consolidated financial statements.

The FASB did not issue any other ASUs during the first nine months of 2018 that the Company expects to be applicable and have a material impact on the Company's financial position or results of operations.

RECLASSIFICATIONS—Certain balances included in prior year's financial statements have been reclassified to conform to the current year's presentation.

NOTE 3—LOAN PURCHASES AND ORIGINATIONS

Kennedy Wilson's investment in loan purchases and originations was $29.4 million and $84.7 million at September 30, 2018 and December 31, 2017, respectively.

Kennedy Wilson converted a loan portfolio into 100% direct ownership in six hotels located across the United Kingdom that had a carrying value of approximately $52.8 million when the Company gained control of the underlying properties on January 1, 2018.

Kennedy Wilson recognized immaterial amounts of interest income on loans during the three and nine months ended September 30, 2018, respectively, and $8.5 million and $15.0 million during the three and nine months ended September 30, 2017, respectively.

NOTE 4—REAL ESTATE AND IN-PLACE LEASE VALUE

The following table summarizes Kennedy Wilson's investment in consolidated real estate properties at September 30, 2018 and December 31, 2017:

(Dollars in millions)	September 30, 2018	December 31, 2017
Land	$1,393.6	$1,509.4
Buildings	4,058.6	4,558.0
Building improvements	611.2	511.2
In-place lease values	359.3	417.3

	6,422.7	6,995.9
Less accumulated depreciation and amortization	(602.4)	(552.2)
Real estate and acquired in place lease values, net of accumulated depreciation and amortization	$5,820.3	$6,443.7

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Real property, including land, buildings, and building improvements, 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 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 8.9 years at September 30, 2018.

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) relative to their respective estimated fair values.

During the nine months ended September 30, 2018, Kennedy Wilson acquired the following consolidated properties:

(Dollars in millions)		Purchase Price Allocation at Acquisition[1]					
Location	Description	Land	Building	Acquired in place lease values[2]	Investment debt	NCI	KWH Shareholders' Equity
Western U.S.	Three multifamily properties and one commercial property	$53.0	$ 109.3	$ 0.8	$ 103.5	$ —	$ 59.6
United Kingdom	One residential property	4.2	—	—	—	—	4.2
Ireland	One multifamily property	11.1	96.0	2.1	61.3	—	47.9
		$68.3	$ 205.3	$ 2.9	$ 164.8	$ —	$ 111.7

(1) Excludes net other assets.

(2) Includes above and below market leases in this table. Above and below market leases are part of other assets and accrued expenses and other liabilities.

Loans Converted to Real Estate

See Note 3 for detail on conversion of loans into real estate for the nine months ended September 30, 2018.

Gains on Sale of Real Estate, Net

During the nine months ended September 30, 2018, Kennedy Wilson recognized gains on sale of real estate, net of $299.1 million of which $70.0 million was allocated to non-controlling interest. The net gains include the sale of 21 commercial properties in the United Kingdom, one commercial property in Ireland, one commercial property in Italy, six multifamily properties in Ireland, three multifamily properties in the Western United States, and one residential property in Ireland, and one residential property in the Western United States. Included in the net gains is an impairment loss identified upon the sale of a soon to be vacated office building in United Kingdom of $11.2 million.

AXA Joint Venture

AXA Investment Managers - Real Assets ("AXA") and the Company entered into a joint venture agreement ("AXA Joint Venture") targeting multifamily assets (also referred to as private rented sector ("PRS")) in Ireland. The AXA Joint Venture commenced with AXA investing in a 50% ownership stake in 1,173 multifamily units across three assets in Dublin, Ireland previously held by the Company and a different equity partner (held in 50/50 joint ventures) that was previously consolidated in the Company’s financial statements. During the three months ended September 30, 2018, the Company sold 411 multifamily units across two assets in Dublin, Ireland and one in Cork, Ireland that were each wholly owned by the Company, to the AXA Joint Venture.

The Company continues to hold a 50% ownership interest in the assets discussed above through its ownership in this new joint venture with AXA. As the Company does not control the new joint venture with AXA, the assets are no longer consolidated and its investment with AXA is accounted for under the equity method. The Company has elected the fair value option on its interest in the joint venture and will record the investment at fair value going forward. Under ASC Subtopic 610-20, due to the deconsolidation, the Company recognized a gain of $169.5 million through gain on sale of real estate of which the Company's share, net of noncontrolling interest, was $102.7 million for the nine months ended September 30, 2018. Additionally, as such investments have been sold, the related accumulated other comprehensive income

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associated with foreign currency translation adjustments and hedged derivative instruments have been recognized in the consolidated statements of operations.

Guarantees

Kennedy Wilson has certain guarantees associated with loans secured by consolidated assets. As of September 30, 2018, the maximum potential amount of future payments (undiscounted) Kennedy Wilson could be required to make under the guarantees was approximately $53.4 million which is approximately 2% of the investment level debt of Kennedy Wilson and its equity partners. The guarantees expire through 2025, and Kennedy Wilson's performance under the guarantees would be required upon liquidation if there is a shortfall between the principal amount of the loan and the net sale proceeds from the property. Based on the Company's 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, 2018 and December 31, 2017 were immaterial.

NOTE 5—UNCONSOLIDATED INVESTMENTS

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. Accordingly, these investments are accounted for under the equity method.

Joint Venture Holdings

The following table details Kennedy Wilson's investments in joint ventures by investment type and geographic location as of September 30, 2018:

(Dollars in millions)	Multifamily	Commercial	Mixed-Use	Funds	Residential and Other	Total
Western U.S.	$ 195.7	$ 44.0	$ —	$91.4	$ 242.2	$573.3
Ireland	132.4	—	78.7	—	—	211.1
United Kingdom	—	5.3	—	—	—	5.3
Total	$ 328.1	$ 49.3	$ 78.7	$91.4	$ 242.2	$789.7

The following table details the Company's unconsolidated investments by investment type and geographic location as of December 31, 2017:

(Dollars in millions)	Multifamily	Commercial	Funds	Residential and Other	Total
Western U.S.	$ 199.7	$ 42.1	$85.3	$ 179.8	$506.9
United Kingdom	—	9.9	—	—	9.9
Japan	2.5	—	—	—	2.5
Total	$ 202.2	$ 52.0	$85.3	$ 179.8	$519.3

During the nine months ended September 30, 2018, multifamily investments increased due to the joint venture with AXA in Ireland described in Note 4 which was offset by the sales of a multifamily property and a multifamily development site in the Western United States. Commercial investments decreased due to the sale of an office property. Fund investments increased due to contributions to Kennedy Wilson Real Estate Fund V, LP ("Fund V") and Kennedy Wilson Real Estate Fund VI, LP ("Fund VI") and performance-based carried interest allocations, which were partially offset by asset sales. Residential and other investments increased due to an increased ownership interest in a development project in Hawaii and capital expenditures on active developments, which were offset by condominium unit and lot sales.

Vintage Housing Holdings ("VHH")

Through our VHH partnership we develop and acquire properties that provide affordable housing for seniors and families. The VHH portfolio includes over 6,500 rental units with approximately another 2,000 units currently under development or undergoing entitlements in the Western United States. VHH typically utilizes tax-exempt bond financing and the sale of federal tax credits to help finance its investments. The Company accounts for its investment under the equity method as it does not control the investment and has elected the fair value option on its unconsolidated investment in VHH. As of September 30, 2018 and December 31, 2017, the carrying value in VHH was $111.0 million and $114.8 million, respectively.

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The partnerships generate cash flow through their interests in entities owning multifamily housing that is predominantly structured with tax-exempt bond financing and federal tax credits. The total equity income recognized was $7.0 million and $22.6 million during the three and nine months ended September 30, 2018, respectively, and $5.6 million and $21.3 million, during three and nine months ended September 30, 2017, respectively, and was comprised of fair value gains and operating distributions. Fair value gains recognized through equity income were $5.2 million and $17.3 million for the three and nine months ended September 30, 2018, respectively and $3.7 million and $16.1 million during the three and nine months ended September 30, 2017, respectively. Fair value gains are primarily generated from resyndications in which VHH dissolves an existing partnership and recapitalizes into a new partnership with tax exempt bonds and tax credits that are sold to a new tax credit partner and, in many cases, yields cash back to VHH. Upon resyndication, VHH retains a GP interest in the partnership and receives various future streams of cash flows including: development fees, asset management fees, other GP management fees and distributions from operations. Since the investment is accounted for under the fair value option, operating distributions are recorded as equity income. See Note 6 for additional details. Operating distributions recognized through equity income were $1.8 million and $5.3 million for the three and nine months ended September 30, 2018, respectively, and $1.9 million and $5.1 million for the three and nine months ended September 30, 2017, respectively.

Performance Fees

During the three and nine months ended September 30, 2018, there was $7.6 million and $24.7 million, respectively, of performance fees recorded as a component of income from unconsolidated investments. During the three and nine months ended September 30, 2017, there were $4.7 million and $8.6 million, respectively, of performance fees that were previously presented as a component of investment management, property services and research fees and have been reclassified to income from unconsolidated investments in the current year presentation.

Contributions to Joint Ventures

During the nine months ended September 30, 2018, Kennedy Wilson contributed $293.1 million to joint ventures, of which $131.8 million was related to the AXA Joint Venture, $79.1 million was related to a mixed-use development project in Ireland, $30.2 million was related to increasing our ownership interest in a development project in Hawaii, and $15.0 million was related to Kennedy Wilson Real Estate Fund VI, LP with the balance to fund the Company's share of development projects, capital expenditures and working capital needs.

Distributions from Joint Ventures

During the nine months ended September 30, 2018, Kennedy Wilson received $81.7 million in operating and investing distributions from its joint ventures.

The following table details cash distributions by investment type and geographic location for the nine months ended September 30, 2018:

	Multifamily		Commercial		Funds		Residential and Other		Total	
(Dollars in millions)	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing	Operating	Investing
Western U.S.	$21.2	$ 27.5	$ 1.3	$ 2.3	$10.4	$ 10.9	$ 0.7	$ 5.1	$33.6	$ 45.8
Japan	0.1	2.2	—	—	—	—	—	—	0.1	2.2
Total	$21.3	$ 29.7	$ 1.3	$ 2.3	$10.4	$ 10.9	$ 0.7	$ 5.1	$33.7	$ 48.0

Investing distributions resulted primarily from recapitalizations and the sale of multifamily and commercial properties in the Western United States. Operating distributions resulted from sales distributions in excess of invested basis and operating cash flow generated by the joint venture investments.

Capital Commitments

As of September 30, 2018, Kennedy Wilson had unfulfilled capital commitments totaling $46.6 million to four of its joint ventures, primarily closed-end funds managed by Kennedy Wilson, under the respective operating agreements.

The Company may be called upon to contribute additional capital to joint ventures in satisfaction of such capital commitment obligations.

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NOTE 6—FAIR VALUE MEASUREMENTS AND THE FAIR VALUE OPTION

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, 2018:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Unconsolidated investments	$ —	$—	$597.7	$597.7
Net currency derivative contracts	—	(56.2)	—	(56.2)
Total	$ —	$(56.2)	$597.7	$541.5

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, 2017:

(Dollars in millions)	Level 1	Level 2	Level 3	Total
Unconsolidated investments	$—	$—	$380.7	$380.7
Marketable securities	7.5	—	—	7.5
Net currency derivative contracts	—	(100.9)	—	(100.9)
Total	$7.5	$(100.9)	$380.7	$287.3

Unconsolidated Investments

Kennedy Wilson elected to use the fair value option ("FV Option") for twenty-one unconsolidated investments 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 $506.3 million and $295.4 million at September 30, 2018 and December 31, 2017, respectively, which is included in unconsolidated investments in the accompanying balance sheets.

As referenced in Note 4, the Company entered into a joint venture agreement targeting multifamily assets in Ireland with AXA. The Company has elected the FV Option on its interest in the joint venture agreement and will record the investment at fair value going forward. There were no changes recorded in the current period.

Additionally, Kennedy Wilson records its investments in Kennedy Wilson Real Estate Fund IV, Fund V and Fund VI (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. During the third quarter of 2018 Fund IV disposed its final investment. Kennedy Wilson's investment balance in the Funds was $91.4 million and $85.3 million at September 30, 2018 and December 31, 2017, respectively, which is included in unconsolidated investments in the accompanying consolidated balance sheets. As of September 30, 2018, Kennedy Wilson had unfunded capital commitments to the Funds in the amount of $38.0 million.

In estimating fair value of real estate held by the Funds and the 21 FV Option investments, the Company considers significant unobservable inputs such as capitalization and discount rates.

The following table summarizes the Company's investments in unconsolidated investments held at fair value by type:

(Dollars in millions)	September 30, 2018	December 31, 2017
FV Option	$ 506.3	$ 295.4
Funds	91.4	85.3
Total	$ 597.7	$ 380.7

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The following table presents changes in Level 3 investments in Funds and FV Options for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2018	2017	2018	2017
Beginning balance	$478.3	$361.9	$380.7	$356.7
Unrealized and realized gains	31.6	16.0	69.8	47.5
Unrealized and realized losses	(8.1)	—	(14.3)	(0.8)
Contributions	131.3	22.4	247.3	47.5
Distributions	(10.2)	(21.4)	(60.5)	(95.9)
Other	(25.2)	(0.1)	(25.3)	23.8
Ending balance	$597.7	$378.8	$597.7	$378.8

Unobservable Inputs for Real Estate

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

	Estimated Rates Used for	
	Capitalization Rates	Discount Rates
Multifamily	4.75% - 7.75%	8.00% - 9.75%
Office	4.50% - 6.75%	7.00% - 8.75%
Retail	5.25% - 9.50%	6.50% - 11.50%
Residential	N/A	12.00% - 15.00%

In valuing indebtedness, the Company considers 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 by Kennedy Wilson for these types of investments range from 1.29% to 3.46%.

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 and 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 capitalization rates, discount rates, liquidity risks, and estimates of future cash flows could significantly affect the fair value measurement amounts.

Currency Derivative Contracts

Kennedy Wilson uses foreign currency derivative contracts such as forward contracts and options to manage its foreign currency risk exposure against the effects of a portion of its certain non-U.S. dollar denominated currency net investments. Foreign currency options are valued using a variant of the Black-Scholes model tailored for currency derivatives and the foreign currency forward contracts are valued based on the difference between the contract rate and the forward rate at maturity of the underlying currency applied to the notional value in the underlying currency discounted at a market rate for similar risks. Although the Company has determined that the majority of the inputs used to value its currency derivative contracts fall within Level 2 of the fair value hierarchy, the counterparty risk adjustments associated with the currency derivative contracts utilize Level 3 inputs. However, as of September 30, 2018, Kennedy Wilson 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, the Company has determined that its derivative valuation in its entirety be classified in Level 2 of the fair value hierarchy.

Changes in fair value are recorded in accumulated other comprehensive income (loss) 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.

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The fair value of the currency derivative contracts held as of September 30, 2018 and December 31, 2017 are reported in other assets for hedge assets and included in accrued expenses and other liabilities for hedge liabilities on the accompanying balance sheet.

The table below details the currency derivative contracts Kennedy Wilson held as of September 30, 2018 and the activity during the nine months ended September 30, 2018. For the nine months ended September 30, 2018, Kennedy Wilson had a gross foreign currency translation loss on its net assets of $47.4 million. See Note 11 for a complete discussion on other comprehensive income including currency derivative contracts and foreign currency translations.

(Dollars, Euros and British Pound Sterlings in millions)			September 30, 2018		Nine Months Ended September 30, 2018		
Currency Hedged	Underlying Currency	Notional	Hedge Asset	Hedge Liability	Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Cash Received (Paid)
Outstanding							
EUR	USD	€ 175.0	$—	$ (5.2)	$ (2.8)	$ (2.4)	$ —
EUR[1]	GBP	€ 310.8	—	(70.0)	0.1	—	—
EUR[1][2]	GBP		—	—	(1.6)	—	—
GBP	USD	£ 600.3	21.2	(2.1)	24.6	—	(0.8)
Total Outstanding			21.2	(77.3)	20.3	(2.4)	(0.8)
Settled							
EUR[4]	USD		—	—	(1.5)	23.1	14.4
GBP	USD		—	—	3.5	0.7	(6.7)
Total Settled			—	—	2.0	23.8	7.7
Total			$21.2	$ (77.3)	$22.3 [3]	$ 21.4	$ 6.9

[1] Hedge is held by KWE on its wholly-owned subsidiaries.
[2] Relates to KWE's Euro Medium Term Note. See discussion in Note 8.
[3] Excludes deferred tax benefit of $8.1 million and $2.8 million of amounts reclassified out of OCI relating to deferred taxes
[4] Amounts associated with investments that were part of AXA transaction. Amounts reclassified out of OCI to gain on sale of real estate.

The gains recognized through other comprehensive income will remain in accumulated other comprehensive income until the underlying investments that they were hedging are substantially liquidated by Kennedy Wilson.

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.

Debt liabilities are accounted for 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, 2018 and December 31, 2017 for the mortgages, Kennedy Wilson unsecured debt, and KWE unsecured bonds were estimated to be approximately $5.4 billion and $5.8

billion, 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 the Company's credit risk to the current yield of a similar security, compared to their carrying value of $5.4 billion and $5.7 billion at September 30, 2018 and December 31, 2017, respectively. The inputs used to value the Company's mortgages, Kennedy Wilson unsecured debt, and KWE unsecured bonds are based on observable inputs for similar assets and quoted prices in markets that are not active and are therefore determined to be Level 2 inputs.

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NOTE 7—OTHER ASSETS

Other assets consist of the following:

(Dollars in millions)	September 30, 2018	December 31, 2017
Above-market leases, net of accumulated amortization of $48.9 and $44.3 at September 30, 2018 and December 31, 2017, respectively	$ 46.2	$ 63.1
Development project asset	41.1	55.3
Furniture and equipment net of accumulated depreciation of $38.5 and $35.8 at September 30, 2018 and December 31, 2017, respectively	33.6	44.3
Straight line rent	32.5	24.0
Goodwill	23.9	23.9
Hedge assets	21.2	2.4
Prepaid expenses	17.8	13.3
Leasing commissions, net of accumulated amortization of $3.3 and $2.2 at September 30, 2018 and December 31, 2017, respectively	11.8	10.1
Other, net of accumulated amortization of $2.7 and $2.6 at September 30, 2018 and December 31, 2017, respectively	11.3	10.7