Hudson Pacific Properties, Inc.
Form 10-Q
November 07, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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 001-34789

Hudson Pacific Properties, Inc.
(Exact name of Registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-1430478 (I.R.S. Employer Identification Number)
11601 Wilshire Blvd., Suite 1600 Los Angeles, California	90025
(Address of principal executive offices)	(Zip Code)

(310) 445-5700
(Registrant’s telephone number, including area code)
(Former name, former address and
former fiscal year if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
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). Yes o No x.

The number of shares of common stock outstanding at November 1, 2013 was 56,712,744.

Table of Contents

Hudson Pacific Properties, Inc.
FORM 10-Q
September 30, 2013
TABLE OF CONTENTS

		Page
PART I — FINANCIAL INFORMATION		3
	Consolidated Balance Sheets for Hudson Pacific Properties, Inc. as of September 30, 2013 (Unaudited) and December 31, 2012	3
	Consolidated Statements of Operations for Hudson Pacific Properties, Inc. for the three and nine months ended September 30, 2013 and 2012 (Unaudited)	4
	Consolidated Statements of Comprehensive Income (Loss) for Hudson Pacific Properties, Inc. for the three and nine months ended September 30, 2013 and 2012 (Unaudited)	5
	Consolidated Statements of Equity for Hudson Pacific Properties, Inc. for the nine months ended September 30, 2013 and 2012 (Unaudited)	6
	Consolidated Statements of Cash Flows for Hudson Pacific Properties, Inc. for the nine months ended September 30, 2013 and 2012 (Unaudited)	8
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	39
ITEM 4.	Controls and Procedures	40
PART II — OTHER INFORMATION		40
ITEM 1.	Legal Proceedings	40
ITEM 1A.	Risk Factors	40
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
ITEM 3.	Defaults Upon Senior Securities	40
ITEM 4.	Mine Safety Disclosures	40
ITEM 5.	Other Information	40
ITEM 6.	Exhibits	41

Table of Contents

PART I—FINANCIAL INFORMATION

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
REAL ESTATE ASSETS		
Land	$581,842	$478,273
Building and improvements	1,257,236	831,791
Tenant improvements	93,932	75,094
Furniture and fixtures	14,386	11,545
Property under development	50,597	23,961
Total real estate held for investment	1,997,993	1,420,664
Accumulated depreciation and amortization	(104,609)	(80,303)
Investment in real estate, net	1,893,384	1,340,361
Cash and cash equivalents	29,341	18,904
Restricted cash	17,679	14,322
Accounts receivable, net	11,922	12,167
Notes receivable	—	4,000
Straight-line rent receivables	19,601	12,732
Deferred leasing costs and lease intangibles, net	107,041	81,010
Deferred finance costs, net	8,278	8,175
Interest rate contracts	87	71
Goodwill	8,754	8,754
Prepaid expenses and other assets	6,209	4,588
Assets associated with real estate held for sale	—	54,608
TOTAL ASSETS	$2,102,296	$1,559,692
LIABILITIES AND EQUITY		
Notes payable	$891,175	$582,085
Accounts payable and accrued liabilities	39,270	18,578
Below-market leases, net	47,667	31,560
Security deposits	6,083	5,291
Prepaid rent	6,705	11,276
Interest rate contracts	863	—
Obligations associated with real estate held for sale	—	1,205
TOTAL LIABILITIES	991,763	649,995
6.25% series A cumulative redeemable preferred units of the Operating Partnership	12,475	12,475
EQUITY		
Hudson Pacific Properties, Inc. stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 authorized; 8.375% series B cumulative redeemable preferred stock, $25.00 liquidation preference, 5,800,000 shares outstanding at September 30, 2013 and December 31, 2012, respectively	145,000	145,000
Common stock, $0.01 par value, 490,000,000 authorized, 56,711,202 shares and 47,496,732 shares outstanding at September 30, 2013 and December 31, 2012, respectively	567	475

Additional paid-in capital	899,251	726,605
Accumulated other comprehensive loss	(1,989)	(1,287)
Accumulated deficit	(45,101)	(30,580)
Total Hudson Pacific Properties, Inc. stockholders’ equity	997,728	840,213
Non-controlling interest—members in Consolidated Entities	46,340	1,460
Non-controlling common units in the Operating Partnership	53,990	55,549
TOTAL EQUITY	1,098,058	897,222
TOTAL LIABILITIES AND EQUITY	$2,102,296	$1,559,692

The accompanying notes are an integral part of these consolidated financial statements.
3

Table of Contents

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Office				
Rental	$ 33,575	$ 22,039	$ 89,665	$ 64,161
Tenant recoveries	6,520	4,989	17,617	15,856
Parking and other	3,426	2,537	10,472	7,062
Total office revenues	43,521	29,565	117,754	87,079
Media & entertainment				
Rental	5,977	6,075	17,162	17,331
Tenant recoveries	500	406	1,241	1,071
Other property-related revenue	3,170	4,476	11,368	10,797
Other	180	44	616	146
Total media & entertainment revenues	9,827	11,001	30,387	29,345
Total revenues	53,348	40,566	148,141	116,424
Operating expenses				
Office operating expenses	16,766	12,211	44,191	35,977
Media & entertainment operating expenses	6,136	6,934	18,133	17,993
General and administrative	5,020	4,083	15,195	12,748
Depreciation and amortization	20,256	12,808	53,069	37,614
Total operating expenses	48,178	36,036	130,588	104,332
Income from operations	5,170	4,530	17,553	12,092
Other expense (income)				
Interest expense	7,319	4,511	18,673	13,977
Interest income	(22)	(142)	(262)	(149)
Acquisition-related expenses	483	455	992	815
Other (income) expenses	(13)	(125)	41	(35)
	7,767	4,699	19,444	14,608
Loss from continuing operations	(2,597)	(169)	(1,891)	(2,516)
(Loss) income from discontinued operations	(10)	(105)	1,608	481
Impairment loss from discontinued operations	(145)	—	(5,580)	—
Net (loss) income from discontinued operations	(155)	(105)	(3,972)	481
Net loss	(2,752)	(274)	(5,863)	(2,035)
Net income attributable to preferred stock and units	(3,231)	(3,231)	(9,693)	(9,693)
Net income attributable to restricted shares	(71)	(69)	(229)	(226)
Net loss attributable to non-controlling interest in Consolidated Entities	118	—	399	—
Net loss attributable to common units in the Operating Partnership	242	179	636	704
Net loss attributable to Hudson Pacific Properties, Inc. common stockholders	$ (5,694)	$ (3,395)	$ (14,750)	$ (11,250)
Basic and diluted per share amounts:				
	$ (0.10)	$ (0.07)	$ (0.20)	$ (0.29)

Net loss from continuing operations attributable to common stockholders				
Net (loss) income from discontinued operations	—	—	(0.07)	0.01
Net loss attributable to common stockholders' per share—basic and diluted	$(0.10)	$(0.07)	$(0.27)	$(0.28)
Weighted average shares of common stock outstanding—basic and diluted	56,144,099	46,668,862	54,815,763	39,945,249
Dividends declared per share of common stock	$0.1250	$0.1250	$0.3750	$0.3750

The accompanying notes are an integral part of these consolidated financial statements.
4

Table of Contents

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$(2,752)	$(274)	$(5,863)	$(2,035)
Other comprehensive loss: cash flow hedge adjustment	(846)	(72)	(731)	(425)
Comprehensive loss	(3,598)	(346)	(6,594)	(2,460)
Comprehensive income attributable to preferred stock and units	(3,231)	(3,231)	(9,693)	(9,693)
Comprehensive income attributable to restricted shares	(71)	(69)	(229)	(226)
Comprehensive loss attributable to non-controlling interest in consolidated real estate entities	118	—	399	—
Comprehensive loss attributable to common units in the Operating Partnership	276	183	665	729
Comprehensive loss attributable to Hudson Pacific Properties, Inc. stockholders	$(6,506)	$(3,463)	$(15,452)	$(11,650)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(in thousands, except share and per share amounts)

	Hudson Pacific Properties, Inc. Stockholders' Equity								
	Shares of Common Stock	Stock Amount	Series B Cumulative Redeemable Preferred Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Deficit) Income	Non-controlling Interests — Common units in the Operating Partnership	Total Equity	Non-controlling Interests — Series A Cumulative Redeemable Preferred Units
Balance, January 1, 2012	33,840,854	$ 338	$ 87,500	$ 552,043	$ (13,685)	$ (883)	$ 63,356	$ 688,669	$ 12,475
Proceeds from sale of common stock, net of underwriters' discount	13,225,000	132		190,666				190,798	
Common stock issuance transaction costs				(485)				(485)	
Issuance of Series B Cumulative Redeemable Preferred Stock			57,500					57,500	
Series B stock issuance transaction costs				(1,870)				(1,870)	
Issuance of unrestricted stock	5,472							—	
Issuance of restricted stock	21,567							—	
Shares repurchased	(28,896)			(503)				(503)	
Declared Dividend			(9,108)	(16,060)			(932)	(26,100)	(585)
Amortization of stock-based compensation				3,212				3,212	
Net income (loss)			9,108		(11,024)		(704)	(2,620)	585
Cash Flow Hedge Adjustment						(400)	(25)	(425)	
Exchange of Non-controlling Interests — Common units in the Operating Partnership for common stock	155,878	2		3,780			(3,782)	—	
	47,219,875	$ 472	$ 145,000	$ 730,783	$ (24,709)	$ (1,283)	$ 57,913	$ 908,176	$ 12,475

Balance, September
30, 2012

The accompanying notes are an integral part of these consolidated financial statements.
6

Table of Contents

	Hudson Pacific Properties, Inc. Stockholders' Equity									
	Shares of Common Stock	Stock Amount	Series B Cumulative Redeemable Preferred Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Deficit) Income	Non-controlling Interests — Common units in the Operating Partnership	Non-controlling Interest - Members in Consolidated Entities	Total Equity	Non-controlling Interests — Series A Cumulative Redeemable Preferred Units
Balance, January 1, 2013	47,496,732	$475	$145,000	$726,605	$(30,580)	$(1,287)	$55,549	$1,460	$897,222	$12,475
Contributions								45,704	45,704	
Distributions								(425)	(425)	
Proceeds from sale of common stock, net of underwriters' discount	9,200,000	92		189,796					189,888	
Common stock issuance transaction costs				(392)					(392)	
Issuance of Series B Cumulative Redeemable Preferred Stock									—	
Series B stock issuance transaction costs									—	
Issuance of unrestricted stock	4,214								—	
Issuance of restricted stock	44,219								—	
Forfeiture of restricted stock	(3,415)								—	
Shares repurchased	(30,548)			(650)					(650)	
Declared Dividend			(9,108)	(21,267)			(894)		(31,269)	(585)
Amortization of stock-based compensation				5,159					5,159	
			9,108		(14,521)		(636)	(399)	(6,448)	585

Net income (loss)										
Cash Flow Hedge Adjustment						(702)	(29)		(731)	
Balance, September 30, 2013	56,711,202	$567	$145,000	$899,251	$(45,101)	$(1,989)	$53,990	$46,340	$1,098,058	$12,475

The accompanying notes are an integral part of these consolidated financial statements.
7

Table of Contents

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(5,863)	$(2,035)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,858	39,422
Amortization of deferred financing costs and loan premium, net	421	876
Amortization of stock-based compensation	4,974	3,198
Straight-line rent receivables	(7,632)	(3,246)
Amortization of above-market leases	1,999	2,736
Amortization of below-market leases	(6,343)	(5,091)
Amortization of lease incentive costs	37	68
Bad debt expense	176	489
Amortization of ground lease	185	185
Impairment loss	5,580	—
Change in operating assets and liabilities:		
Restricted cash	(122)	(1,176)
Accounts receivable	344	(359)
Deferred leasing costs and lease intangibles	(13,440)	(3,679)
Prepaid expenses and other assets	(1,764)	(2,087)
Accounts payable and accrued liabilities	16,774	13,832
Security deposits	(439)	209
Prepaid rent	(4,813)	(3,652)
Net cash provided by operating activities	43,932	39,690
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(53,576)	(13,667)
Property acquisitions	(389,883)	(184,297)
Acquisition of Notes receivable	—	(4,000)
Proceeds from sale of real estate	52,994	—
Net cash used in investing activities	(390,465)	(201,964)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	369,361	93,000
Payments of notes payable	(167,255)	(132,844)
Proceeds from issuance of common stock	189,888	190,798
Common stock issuance transaction costs	(392)	(485)
Proceeds from issuance of Series B cumulative redeemable preferred stock	—	57,500
Series B stock issuance transaction costs	—	(1,870)
Dividends paid to common stock and unit holders	(22,161)	(16,992)
Dividends paid to preferred stock and unit holders	(9,693)	(9,693)
Distribution to non-controlling member in consolidated real estate entity	(425)	—
Acquisition of non-controlling member in consolidated real estate entity	—	—
Repurchase of vested restricted stock	(650)	(503)
Payment of loan costs	(1,703)	(3,054)
Net cash provided by financing activities	356,970	175,857

Net increase in cash and cash equivalents	10,437	13,583
Cash and cash equivalents—beginning of period	18,904	13,705
Cash and cash equivalents—end of period	$29,341	$27,288

The accompanying notes are an integral part of these consolidated financial statements.
8

Table of Contents

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2013	2012
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of amounts capitalized	$19,589	$13,176
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for investment in property	$6,204	$3,411
Assumption of secured debt in connection with property acquisitions (Notes 3 and 5)	$102,299	$—
Non-controlling interest in consolidated real estate entity (Note 3)	$45,704	$1,481
Assumption of other assets and liabilities in connection property acquisitions, net (Note 3)	$(2,423)	$(889)

The accompanying notes are an integral part of these consolidated financial statements.
9

Table of Contents

Notes to Consolidated Financial Statements
(Unaudited and in thousands, except square footage and share data or as otherwise noted)

1. Organization

Hudson Pacific Properties, Inc. (which is referred to in these financial statements as the "Company," "we," "us," or "our") is a Maryland corporation formed on November 9, 2009 that did not have any meaningful operating activity until the consummation of our initial public offering and the related acquisition of our predecessor and certain other entities on June 29, 2010 ("IPO"). Concurrently with the closing of our IPO, we combined with our predecessor and Howard Street Associates, LLC and acquired certain other entities.

We determined that one of the entities comprising our predecessor, SGS Realty II, LLC, was the acquirer for accounting purposes in our formation transactions that occurred in connection with our IPO. In addition, we concluded that any interests contributed by the controlling member of the other entities comprising our predecessor and Howard Street Associates, LLC in connection with our IPO was a transaction between entities under common control. As a result, the contribution of interests in each of these entities was recorded at historical cost.

Since the completion of the IPO, the concurrent private placement, and the related formation transactions, we have been a fully integrated, self-administered, and self-managed real estate investment trust ("REIT"). Through our controlling interest in Hudson Pacific Properties, L.P. (our "Operating Partnership") and its subsidiaries, we own, manage, lease, acquire and develop real estate, consisting primarily of office and media and entertainment properties. As of September 30, 2013, we owned a portfolio of 24 office properties and two media and entertainment properties. These properties are located in California and Washington. The results of operations for properties acquired after our IPO are included in our consolidated statements of operations from the date of each such acquisition.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The effect of all significant intercompany balances and transactions has been eliminated.

The accompanying unaudited interim 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 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. The accompanying unaudited financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. The interim financial statements should be read in conjunction with the consolidated financial statements in our 2012 Annual Report on Form 10-K and the notes thereto. Any reference to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm's review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties, its accrued liabilities, and its performance-based equity compensation awards. The Company bases its estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from these estimates.

Table of Contents
Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

Investment in Real Estate Properties

The properties are carried at cost less accumulated depreciation and amortization. The Company assigns the cost of an acquisition, including the assumption of liabilities, to the acquired tangible assets and identifiable intangible assets and liabilities based on their estimated fair values in accordance with GAAP. The Company assesses fair value based on estimated cash flow projections that utilize discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it was vacant.

Acquisition-related expenses associated with acquisition of operating properties are expensed in the period incurred.

The Company records acquired "above and below" market leases at fair value using discount rates that reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the extended term for any leases with below-market renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on the Company's evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes estimates of lost rents at market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Indirect development costs, including salaries and benefits, office rent, and associated costs for those individuals directly responsible for and who spend their time on development activities are also capitalized and allocated to the projects to which they relate. Capitalized personnel costs were were approximately $0.5 million and $1.5 million for the three and nine months ended September 30, 2013, respectively and approximately $0.3 million and $0.7 million for three and nine months ended September 30, 2012, respectively. Interest is capitalized on the construction in progress at a rate equal to the Company's weighted average cost of debt. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of tenant improvements but no later than one year after cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as they are incurred. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as they are incurred.

The Company computes depreciation using the straight-line method over the estimated useful lives of 39 years for building and improvements, 15 years for land improvements, 5 or 7 years for furniture and fixtures and equipment, and over the shorter of asset life or life of the lease for tenant improvements. Above- and below-market lease intangibles are amortized to revenue over the remaining non-cancellable lease terms and bargain renewal periods, if applicable. Other in-place lease intangibles are amortized to expense over the remaining non-cancellable lease term. Depreciation is discontinued when a property is identified as held for sale.

Impairment of Long-Lived Assets

The Company assesses the carrying value of real estate assets and related intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impairment losses are recorded on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company recognizes impairment losses to the extent the carrying amount exceeds the fair value of the properties. Properties held for sale are recorded at the lower of cost or estimated fair value less cost to sell. The Company recorded $5.6 million of impairment charges related to a property held for sale during the nine months ended September 30, 2013 with no comparable charge for the nine months ended 2012. There were no properties held for sale at September 30, 2013 and one property was held for sale at December 31, 2012.

Table of Contents

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired and liabilities assumed in business combinations. Our goodwill balance as of September 30, 2013 was $8,754. We do not amortize this asset but instead analyze it on an annual basis for impairment. No impairment indicators have been noted during the three and nine months ended September 30, 2013 and 2012.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and in banks, plus all short-term investments with a maturity of three months or less when purchased.

The Company maintains some of its cash in bank deposit accounts that, at times, may exceed the federally insured limit. No losses have been experienced related to such accounts.

Restricted Cash

Restricted cash consists of amounts held by lenders to provide for future real estate taxes and insurance expenditures, repairs and capital improvements reserves, general and other reserves and security deposits.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due for monthly rents and other charges. The Company maintains an allowance for doubtful accounts for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease. At September 30, 2013 and December 31, 2012, respectively, the Company has reserved $5 and $8 of straight-line receivables. The Company evaluates the collectability of accounts receivable based on a combination of factors. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Company's historical collection experience. The Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. Historical experience has been within management's expectations. The Company recognized $176 and $489 of bad debt expense for the nine months ended September 30, 2013 and 2012.

The following summarizes our accounts receivable net of allowance for doubtful accounts as of:

	September 30, 2013	December 31, 2012
Accounts receivable	12,754	13,742
Allowance for doubtful accounts	(832)	(1,575)
Accounts receivable, net	11,922	12,167

Notes Receivable

Notes receivable consisted of a loan we acquired on August 14, 2012 from Jeffries LoanCore LLC in the amount of $4.0 million. The borrower under the loan was WIP 3401 Expo BLVD Mezz, LLC (“WEBM”), which was the sole member of WIP 3401 Expo BLVD, LLC (“WEB”), the owner of that certain property located at 3401 Exposition Blvd. in Santa Monica, California (“3401 Exposition Boulevard”). The property is an approximately 63,376 square-foot office and industrial building currently being renovated for creative office uses. The loan was secured by, among other things, WEBM’s membership interest in WEB, bore interest at the rate of LIBOR plus 1300 basis points (subject to a 100 basis points floor on LIBOR), and was scheduled to mature on June 9, 2014, subject to three one-year extension options. The interest recognized on this loan is included in interest income in the accompanying consolidated statements of operations. The carrying value of the loan approximated its fair value as it was negotiated based upon fair value of loans with similar characteristics. The loan generated income of $155 for the nine months ended September 30, 2013.

In connection with the Company's purchase of 3401 Exposition Boulevard on May 22, 2013, the Company canceled the note associated with this loan and eliminated the note receivable.

Revenue Recognition

The Company recognizes rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;

- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;

- whether the tenant improvements are unique to the tenant or general-purpose in nature; and

- whether the tenant improvements are expected to have any residual value at the end of the lease.

Certain leases provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. Such revenue is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Other property-related revenue is revenue that is derived from the tenants' use of lighting, equipment rental, parking, power, HVAC and telecommunications (phone and Internet). Other property-related revenue is recognized when these items are provided.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred. The reimbursements are recognized and presented gross, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

The Company recognizes gains on sales of properties upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when (i) the collectability of the sales price is reasonably assured, (ii) the Company is not obligated to perform significant activities after the sale, (iii) the initial investment from the buyer is sufficient and (iv) other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition have been met.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the respective loan.

Derivative Financial Instruments

The Company manages interest rate risk associated with borrowings by entering into interest rate derivative contracts. The Company recognizes all derivatives on the consolidated balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value and the changes in fair value are reflected as income or expense. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income, which is a component of equity. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company held two interest rate contracts as of December 31, 2012 and three interest rate contracts as of September 30, 2013, all of which have been accounted for as cash flow hedges as more fully described in note 6 below.

Stock-Based Compensation

Accounting Standard Codification, or ASC, Topic 718, Compensation—Stock Compensation (referred to as ASC Topic 718 and formerly known as FASB 123R), requires us to recognize an expense for the fair value of equity-based compensation awards. Grants of stock options, restricted stock, restricted stock units and performance units under our equity incentive award plans are accounted for under ASC Topic 718. Our compensation committee will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs.

Income Taxes

Our taxable income prior to the completion of our IPO is reportable by the members of the limited liability companies that comprise our predecessor. Our property-owning subsidiaries are limited liability companies and are treated as pass-through entities for income tax purposes. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements for the activities of these entities.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”) commencing with our initial taxable year. To qualify as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

We have elected, together with one of our subsidiaries, to treat such subsidiary as a taxable REIT subsidiary (“TRS”) for federal income tax purposes. Certain activities that we undertake must be conducted by a TRS, such as non-customary services for our tenants, and holding assets that we cannot hold directly. A TRS is subject to federal and state income taxes.

The Company is subject to the statutory requirements of the states in which it conducts business.

The Company periodically evaluates its tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of September 30, 2013, the Company has not established a liability for uncertain tax positions.

Fair Value of Assets and Liabilities

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate and long-lived assets). Fair value is defined as the price that would

be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

Table of Contents

When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company uses several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establishes a fair value by assigning weights to the various valuation sources.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The Company considers the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the Company’s estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

The Company considers the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

The Company’s interest rate contract agreements are classified as Level 2 and their fair value is derived from estimated values obtained from observable market data for similar instruments.

As of September 30, 2013, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional Amount
Interest Rate Caps	2	$97.0 million
Interest Rate Swaps	1	$64.5 million

Non-designated Hedges

For the nine months ended September 30, 2013 and 2012, all of the Company's derivatives were designated as cash flow hedges.

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 30, 2013 and December 31, 2012. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the consolidated balance sheets.

Table of Contents
Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

	Asset Derivatives			Liability Derivatives		
		Fair Value as of			Fair Value as of	
	Balance Sheet Location	September 30, 2013	December 31, 2012	Balance Sheet Location	September 30, 2013	December 31, 2012
Derivatives designated as hedging instruments:						
Interest rate products	Interest rate contracts	$87	$ 71	Interest rate contracts	863	—
Total		$87	$ 71		863	—

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of the Company's derivative financial instruments on the Statement of Operations for the three months ended September 30, 2013 and 2012.

	Nine Months Ended September 30,	
	2013	2012
Beginning Balance of OCI related to interest rate contracts	1,465	1,036
Unrealized Loss Recognized in OCI Due to Change in Fair Value of interest rate contracts	847	436
Loss Reclassified from OCI into Income (as Interest Expense)	(116)	(11)
Net Change in OCI	731	425
Ending Balance of Accumulated OCI Related to Derivatives	2,196	1,461

Credit-Risk-Related Contingent Features

As of September 30, 2013, the Company had one derivative that was in a net liability position.

Recently Issued Accounting Literature

Changes to GAAP are established by the FASB in the form of ASUs. We consider the applicability and impact of all ASUs. Recently issued ASUs not listed below are not expected to have a material impact on our consolidated financial position and results of operations, because either the ASU is not applicable or the impact is expected to be immaterial.

3. Investment in Real Estate

Acquisitions

During 2013, we acquired the following: 3401 Exposition, Pinnacle II, the Seattle portfolio and 1861 Bundy. The results of operations for each of these acquisitions are included in our consolidated statements of operations from the date of acquisition. The following table represents our purchase price accounting for each of these acquisitions:

16

Table of Contents

Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

	3401 Exposition	Pinnacle II	Seattle Portfolio	1861 Bundy	
Date of Acquisition	May 22, 2013	June 14, 2013	July 31, 2013	September 26, 2013	Total
Consideration paid					
Cash consideration	$8,489	$1,505	$368,389	$11,500	$389,883
Notes Receivable	4,000	—	—	—	4,000
Debt Assumed	13,233	89,066	—	—	102,299
Non-controlling interest in consolidated real estate entity	—	45,704	—	—	45,704
Total consideration	$25,722	$136,275	$368,389	$11,500	$541,886
Allocation of consideration paid					
Investment in real estate, net	25,439	134,289	367,094	11,500	538,322
Deferred leasing costs and lease intangibles, net	—	12,637	21,619	—	34,256
Fair market unfavorable debt value	—	(5,820)	—	—	(5,820)
Below-market leases	—	(7,783)	(14,666)	—	(22,449)
Other (liabilities) asset assumed, net	283	2,952	(5,658)	—	(2,423)
Total consideration paid	$25,722	$136,275	$368,389	$11,500	$541,886

During 2012, we acquired the following properties: 10900 Washington, 901 Market Street, Element LA (Olympic Bundy), 1455 Gordon Street and Pinnacle I. The results of operations for each of these acquisitions are included in our consolidated statements of operations from the date of acquisition. The following table represents our purchase price accounting for each of these acquisitions:

	10900 Washington	901 Market	Element LA	1455 Gordon Street	Pinnacle I	
Date of Acquisition	April 5, 2012	June 1, 2012	September 5, 2012	September 21, 2012	November 8, 2012	Total
Consideration paid						
Cash consideration	$ 2,605	$90,871	$ 88,436	$ 2,385	$208,023	$392,320
Non-controlling interest in consolidated real estate entity	—	—	—	—	1,481	1,481
Total consideration	$ 2,605	$90,871	$ 88,436	$ 2,385	$209,504	$393,801
Allocation of consideration paid						
Investment in real estate, net	2,600	97,187	88,024	2,384	200,175	390,370
Above-market leases	—	—	—	—	167	167
Leases in place	—	2,968	1,325	96	11,710	16,099
Other lease intangibles	—	548	46	22	3,456	4,072
Below-market leases	—	(10,249)	(666)	(27)	(5,076)	(16,018)
Other (liabilities) asset assumed, net	5	417	(293)	(90)	(928)	(889)
Total consideration paid	$ 2,605	$90,871	$ 88,436	$ 2,385	$209,504	$393,801

The table below shows the pro forma financial information for the nine months ended September 30, 2013 and 2012 as if these properties had been acquired as of January 1, 2012.

	Nine Months Ended September 30,	
	2013	2012
Total revenues	$166,685	$138,955
Net loss	$(8,889)	$(8,584)

17

Table of Contents
Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

Dispositions

On May 31, 2013, the Company entered into an agreement to sell its City Plaza property for approximately $56.0 million (before certain credits, prorations, and closing costs). The transaction closed on July 12, 2013. The transaction resulted in an approximately $5.6 million impairment loss. The Company reclassified City Plaza's results of operations for the three and nine months ended September 30, 2013 and 2012 to discontinued operations on its consolidated statements of operations.

The following table sets forth the discontinued operations for the three and nine months ended September 30, 2013 and 2012 for the City Plaza:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total office revenues	242	1,501	4,204	4,489
Office operating expenses	(252)	(832)	(1,807)	(2,200)
Depreciation and amortization	—	(774)	(789)	(1,808)
(Loss) income from discontinued operations	(10)	(105)	1,608	481

4. Lease Intangibles
The following summarizes our deferred leasing cost and lease intangibles as of:

	September 30, 2013	December 31, 2012
Above-market leases	$17,604	$17,283
Leases in place	87,235	67,097
Below-market ground leases	7,503	7,513
Other lease intangibles	37,494	30,747
Deferred leasing costs	20,585	9,302
	170,421	131,942
Accumulated amortization	(65,110)	(50,932)
Deferred leasing costs and lease intangibles, net	$105,311	$81,010
Below-market leases	67,541	46,042
Accumulated accretion	(19,874)	(14,482)
Below-market leases, net	$47,667	$31,560

5. Notes Payable

Senior Unsecured Revolving Credit Facility

On August 3, 2012, we replaced our $200.0 million secured revolving credit facility with a $250.0 million unsecured revolving credit facility with a group of lenders for which Wells Fargo Bank, N.A. acts as administrative agent and its affiliate acts as joint lead arranger, Bank of America, N.A. acts as joint lead arranger and, together with Barclays Capital, acts as joint syndication agent, and Keybank, N.A., acts as documentation agent. Our Operating Partnership is the borrower under our new unsecured revolving credit facility. The facility is required to be guaranteed by us and all

of our subsidiaries that own unencumbered properties. The facility includes an accordion feature that allows us to increase the availability by $150.0 million, to $400.0 million, under specified circumstances and subject to receiving commitments from lenders.
Our facility bears interest at a rate per annum equal to LIBOR plus 155 basis points to 220 basis points, depending on our leverage ratio. If the Company obtains a credit rating for its senior unsecured long-term indebtedness, it may make an irrevocable election to change the interest rate for the facility to a rate per annum equal to LIBOR plus 100 basis points to 185 basis points, depending on the credit rating. Our facility is subject to a facility fee in an amount equal to our unused commitments multiplied by a rate per

annum equal to 25 basis points to 35 basis points, depending on our usage of the facility, or, if we make the credit rating election, in an amount equal to the aggregate amount of our commitments multiplied by a rate per annum equal to 15 basis points to 45 basis points, depending upon the credit rating. The amount available for us to borrow under the facility is subject to compliance with certain covenants, including the following financial covenants:

- a maximum leverage ratio (defined as consolidated total indebtedness plus our pro rata share of indebtedness of unconsolidated affiliates to total asset value) of 0.60:1.00;
- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") plus our pro rata share of EBITDA of unconsolidated affiliates to fixed charges) of 1.50:1.00;
- a maximum secured indebtedness leverage ratio (defined as consolidated secured indebtedness plus our pro rata share of secured indebtedness of unconsolidated affiliates to total asset value) of 0.60:1:00 through and including August 3, 2014 and 0.55:1:00 thereafter;
- a maximum unencumbered leverage ratio (defined as consolidated unsecured indebtedness plus our pro rata share of unsecured indebtedness of unconsolidated affiliates to total unencumbered asset value) of 0.60:1:00;
- a minimum unsecured interest coverage ratio (defined as consolidated net operating income from unencumbered properties plus our pro rata share of net operating income from unencumbered properties to unsecured interest expense) of 1.60:1.00; and
- a maximum recourse debt ratio (defined as recourse indebtedness other than indebtedness under the revolving credit facility but including unsecured lines of credit to total asset value) of 0.15:1.00.

In addition to these covenants, the facility also includes certain limitations on dividend payouts and distributions, limits on certain types of investments outside of our primary business, and other customary affirmative and negative covenants. Our ability to borrow under the facility is subject to continued compliance with these covenants.
As of September 30, 2013, we were in compliance with our facility's financial covenants. As of September 30, 2013, we had approximately $237.3 million of total capacity under our unsecured revolving credit facility, of which $80.0 million had been drawn.
The following table sets forth information as of September 30, 2013 with respect to our outstanding indebtedness.

Debt	Outstanding September 30, 2013	December 31, 2012	Interest Rate[1]	Maturity Date
Unsecured Revolving Credit Facility	$80,000	$ 55,000	LIBOR+1.55% to 2.20%	8/3/2016
Mortgage loan secured by 625 Second Street[2]	33,700	33,700	5.85%	2/1/2014
Mortgage loan secured by 3401 Exposition Boulevard[3]	13,233	—	LIBOR+3.80%	5/31/2014
Mortgage loan secured by 6922 Hollywood Boulevard[4]	40,632	41,243	5.58%	1/1/2015
Mortgage loan secured by 275 Brannan	15,000	138	LIBOR+2.00%	10/5/2015
Mortgage loan secured by Pinnacle II[5]	88,813	—	6.313%	9/1/2016
Mortgage loan secured by 901 Market[6]	49,600	49,600	LIBOR+2.25%	10/31/2016
Mortgage loan secured by Sunset Gower/Sunset Bronson[7]	97,000	92,000	LIBOR+2.25%	2/11/2018
Mortgage loan secured by Rincon Center	106,404	107,492	5.134%	5/1/2018
Mortgage loan secured by First & King[8]	95,000	—	LIBOR+1.60%	8/31/2018
Mortgage loan secured by Met Park North[9]	64,500	—	LIBOR+1.55%	8/1/2020
Mortgage loan secured by First Financial[10]	43,000	43,000	4.58%	2/1/2022

Mortgage loan secured by 10950 Washington	29,406	29,711	5.316%	3/11/2022
Mortgage loan secured by Pinnacle I	129,000	129,000	3.954%	11/7/2022
Subtotal	$885,288	$ 580,884		
Unamortized loan premium, net[11]	5,887	1,201		
Total	$891,175	$ 582,085		

(1) Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed, excluding the amortization of loan fees and costs.

(2) This loan was assumed on September 1, 2011 in connection with the closing of our acquisition of the 625 Second Street property.

(3) This loan was assumed on May 22, 2013 in connection with the closing of our acquisition of the 3401 Exposition Boulevard property.

(4) This loan was assumed on November 22, 2011 in connection with the closing of our acquisition of the 6922 Hollywood Boulevard property.

(5) This loan was assumed on June 14, 2013 in connection with the contribution of the Pinnacle II building to the Company's joint venture for The Pinnacle project.

Table of Contents

Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

(6) On October 29, 2012, we obtained a loan for our 901 Market property pursuant to which we borrowed $49,600 upon closing, with the ability to draw up to an additional $11,900 for budgeted base building, tenant improvements, and other costs associated with the renovation and lease-up of that property.

(7) On March 16, 2011, we purchased an interest rate cap in order to cap one-month LIBOR at 3.715% with respect to $50,000 of the loan through its maturity on February 11, 2016. On January 11, 2012 we purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to $42,000 of the loan through its maturity on February 11, 2016. Effective August 22, 2013, the terms of this loan were amended to increase the outstanding balance from $92,000 to $97,000, reduce the interest rate from LIBOR plus 3.50% to LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018.

(8) Monthly debt service will equal interest only for the first two years. Beginning with the payment due August 1, 2015, monthly debt service will include annual debt amortization payments of $1,604 based on a 30-year amortization schedule.

(9) Monthly debt service will equal interest only at a rate equal to one-month LIBOR plus 1.55%. The full loan amount is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.1644% through the loan's maturity on August 1, 2020.

(10) This loan bears interest only for the first two years. Beginning with the payment due March 1, 2014, monthly debt service will include principal payments based on a 30-year amortization schedule, for total annual debt service of $2,639.

(11) Represents unamortized amount of the non-cash mark-to-market adjustment on debt associated with 625 Second Street, 6922 Hollywood Boulevard, and Pinnacle II.

The Company presents its financial statements on a consolidated basis. Notwithstanding such presentation, except to the extent expressly indicated, such as in the case of the project financing for our Sunset Gower and Sunset Bronson properties, our separate property-owning subsidiaries are not obligors of or under the debt of their respective affiliates and each property-owning subsidiary's separate liabilities do not constitute obligations of its respective affiliates.

The minimum future annual principal payments due on our secured and unsecured notes payable at September 30, 2013, excluding the non-cash loan premium amortization, were as follows (in thousands):

2013 (three months ending December 31, 2013)	$1,030
2014	51,729
2015	59,240
2016	220,514
2017	5,060
2018	290,230
Thereafter	257,485
Total	$885,288

6. Interest Rate Contracts

On February 11, 2011, we closed a five-year term loan totaling $92.0 million with Wells Fargo Bank, N.A., secured by our Sunset Gower and Sunset Bronson media and entertainment campuses. The loan bears interest at a rate equal to one-month LIBOR plus 3.50%. On March 16, 2011, we purchased an interest rate cap in order to cap one-month LIBOR at 3.715% on $50.0 million of the loan through its maturity on February 11, 2016. On January 11, 2012, we purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to $42.0 million of the loan through its maturity on February 11, 2016. We designated each of these interest rate cap contracts as a cash flow hedge for accounting purposes.

Effective August 22, 2013, the terms of this loan were amended to, among other changes, increase the outstanding balance from $92.0 million to $97.0 million and extend the maturity date from February 11, 2016 to February 11, 2018. The interest rate contracts described above were not changed in connection with this loan amendment.

On July 31, 2013, we closed a seven-year loan totaling $64.5 million with Union Bank, N.A., secured by our Met Park North property. The loan bears interest at a rate equal to one-month LIBOR plus 1.55%. The full loan is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.1644% through the loan's maturity on August 1, 2020.

The combined fair market value of the interest rate caps at September 30, 2013 and December 31, 2012 was $87 and $71, respectively. The fair market value of the interest rate swap at September 30, 2013 was $(863).

7. Future Minimum Base Rents and Lease Payments Future Minimum Rents

Our properties are leased to tenants under operating leases with initial term expiration dates ranging from 2013 to 2020. Approximate future combined minimum rentals (excluding tenant reimbursements for operating expenses and without regard to cancellation options) for properties at September 30, 2013 are presented below for the years/periods ended December 31. The table below does not include rents under leases at our media and entertainment properties with terms of one year or less.

Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

2013 (three months ending December 31, 2013)	$31,486
2014	130,431
2015	141,716
2016	137,498
2017	116,954
2018	102,677
Thereafter	439,587
Total	$1,100,349

Future Minimum Lease Payments
In conjunction with the acquisition of the Sunset Gower property, our subsidiary, SGS Realty II, LLC, assumed a ground lease agreement (expiring March 31, 2060) for a portion of the land with an unrelated party. As a result of the March 2011 rent adjustment, monthly rent increased to $31, whereas the monthly rent totaled $14 at the time of acquisition. The rental rate is subject to adjustment again in March 2018 and every seven years thereafter.
In conjunction with the acquisition of the Del Amo Office building, our subsidiary, Hudson Del Amo Office, LLC, assumed a ground sublease (expiring June 30, 2049) with an unrelated party. Rent under the ground sublease is $1.00 per year, with the sublessee being responsible for all impositions, insurance premiums, operating charges, maintenance charges, construction costs and other charges, costs and expenses that arise or may be contemplated under any provisions of the ground sublease.
In conjunction with the acquisition of the 9300 Wilshire Boulevard building, our subsidiary, Hudson 9300 Wilshire, LLC, assumed a ground lease (expiring August 14, 2032) with an unrelated party. Minimum rent under the ground lease is $75 per year (additional rent under this lease of 6% of gross rentals less minimum rent, as defined in such lease, is not included in this amount).
In conjunction with the acquisition of the 222 Kearny Street building, our subsidiary, Hudson 222 Kearny, LLC, assumed a ground lease (expiring June 14, 2054) with an unrelated party. Minimum rent under the ground lease is the greater of $975 per year or 20.0% of the first $8,000 of the tenant's "Operating Income" during any "Lease Year," as such terms are defined in the ground lease. The table below reflects the $975 per year lease payment.
The following table provides information regarding our future minimum lease payments at September 30, 2013 under these lease agreements.

2013 (three months ending December 31, 2013)	$354
2014	1,417
2015	1,417
2016	1,417
2017	1,417
2018	1,417
Thereafter	50,825
Total	$58,264

8. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, receivables, payables, and accrued liabilities are reasonable estimates of fair value because of the short-term maturities of these instruments. Fair values for notes payable are estimates based on rates currently prevailing for similar instruments of similar maturities using Level 2 instruments. The estimated fair values of interest-rate contract/cap arrangements were derived from estimated values based on observable market data for similar instruments.

21

Table of Contents
Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes payable	$891,175	$901,025	$582,085	$588,191
Derivative assets, disclosed as "Interest rate contracts"	87	87	71	71
Derivative liabilities, disclosed as "Interest rate contracts"	(863)	(863)	—	—

9. Equity

Non-controlling Interests

Common units in the Operating Partnership

Common units in the operating partnership consisted of 2,382,563 common units of partnership interests, or common units, not owned by us. Common units and shares of our common stock have essentially the same economic characteristics, as they share equally in the total net income or loss distributions of our operating partnership. Investors who own common units have the right to cause our operating partnership to redeem any or all of their common units for cash equal to the then-current market value of one share of common stock or, at our election, issue shares of our common stock in exchange for common units on a one-for-one basis. In February 2012, one of our common unit holders required us to redeem 155,878 common units, and in December 2012, one of our common unit holders required us to redeem 72,500 common units. In both cases, we elected, in accordance with our limited partnership agreement, to issue shares of our common stock in exchange for the common units to satisfy the redemption notice. Accordingly, our outstanding common units decreased from 2,610,941 common units outstanding to the current 2,382,563 common units outstanding, with a corresponding increase to our outstanding common stock as of the date of such exchanges, as reflected in the table below under the caption "—Exchange of Common Units for Common Stock."

Non-controlling interest—members in consolidated entities

Non-controlling interest—members in consolidated entities refers to our joint venture partner, Media Center Partners, LLC, a California limited liability company ("MCP"), with which we have entered into a joint venture, Hudson MC Partners, LLC, a Delaware limited liability company (the "Pinnacle JV"), to acquire The Pinnacle, a two-building (Pinnacle I and Pinnacle II), 625,640 square-foot office property located in Burbank, California. As of September 30, 2013, we own a 65.0% in the Pinnacle JV, which owns the 625,640 square-foot project known as The Pinnacle. As of December 31, 2012 and until the acquisition by the Pinnacle JV of the 231,864 square-foot Pinnacle II building on June 14, 2013, we owned a 98.25% interest in the Pinnacle JV, which owns the 393,776 square-foot Pinnacle I building.

6.25% series A cumulative redeemable preferred units of the Operating Partnership

6.25% series A cumulative redeemable preferred units of the Operating Partnership are 499,014 series A preferred units of partnership interest in our operating partnership, or series A preferred units, that are not owned by us. These series A preferred units are entitled to preferential distributions at a rate of 6.25% per annum on the liquidation preference of $25.00 per unit and became convertible at the option of the holder into common units or redeemable into cash or, at our option, exchangeable for registered shares of common stock, after June 29, 2013. In October 2013, one of our series A preferred unit holders required us to redeem 80,000 series A preferred units. We elected to redeem

these units for cash equal to the liquidation preference of $25.00 per unit. As a result of this redemption, our outstanding series A preferred units decreased from 499,014 units outstanding to 419,014 units outstanding. For a description of the conversion and redemption rights of the series A preferred units, please see “Description of the Partnership Agreement of Hudson Pacific Properties, L.P.—Material Terms of Our Series A Preferred Units” in our June 23, 2010 Prospectus.

8.375% Series B cumulative redeemable preferred stock

8.375% series B cumulative redeemable preferred stock are 5,800,000 shares of 8.375% preferred stock, with a liquidation preference of $25.00 per share, $0.01 par value per share. In December 2010, we completed the public offering of 3,500,000 share of our series B preferred stock (including 300,000 shares of series B preferred stock issued and sold pursuant to the exercise of the underwriters’ option to purchase additional shares in part). Total proceeds from the offering, after deducting underwriting discount, were approximately $83.9 million (before transaction costs). On January 23, 2012, we completed the public offering of 2,300,000 of our series B cumulative preferred stock (including 300,000 shares of series B

22

preferred stock issued and sold pursuant to the exercise of the underwriters' option to purchase additional shares in full). Total proceeds from the offering, after deducting underwriting discount, were approximately $57.5 million (before transaction costs).

Dividends on our series B preferred stock are cumulative from the date of original issue and payable quarterly on or about the last calendar day of each March, June, September and December, at the rate of 8.375% per annum of its $25.00 per share liquidation preference (equivalent to $2.0938 per share per annum). If, following a change of control of the Company, either our series B preferred stock (or any preferred stock of the surviving entity that is issued in exchange for our series B preferred stock) or the common stock of the surviving entity, as applicable, is not listed on the New York Stock Exchange, or NYSE, or quoted on the NASDAQ Stock Market, or NASDAQ (or listed or quoted on a successor exchange or quotation system), holders of our series B preferred stock will be entitled to receive cumulative cash dividends from, and including, the first date on which both the change of control occurred and either our series B preferred stock (or any preferred stock of the surviving entity that is issued in exchange for our series B preferred stock) or the common stock of the surviving entity, as applicable, is not so listed or quoted, at the increased rate of 12.375% per annum per share of the liquidation preference of our series B preferred stock (equivalent to $3.09375 per annum per share) for as long as either our series B preferred stock (or any preferred stock of the surviving entity that is issued in exchange for our series B preferred stock) or the common stock of the surviving entity, as applicable, is not so listed or quoted. Except in instances relating to preservation of our qualification as a REIT or in connection with a change of control of the Company, our series B preferred stock is not redeemable prior to December 10, 2015. On and after December 10, 2015, we may redeem our series B preferred stock in whole, at any time, or in part, from time to time, for cash at a redemption price of $25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If at any time following a change of control either our series B preferred stock (or any preferred stock of the surviving entity that is issued in exchange for our series B preferred stock) or the common stock of the surviving entity, as applicable, is not listed on the NYSE or quoted on NASDAQ (or listed or quoted on a successor exchange or quotation system), we will have the option to redeem our series B preferred stock, in whole but not in part, within 90 days after the first date on which both the change of control has occurred and either our series B preferred stock (or any preferred stock of the surviving entity that is issued in exchange for our series B preferred stock) or the common stock of the surviving entity, as applicable, is not so listed or quoted, for cash at $25.00 per share, plus accrued and unpaid dividends, if any, to, but not including, the redemption date. Our series B preferred stock has no maturity date and will remain outstanding indefinitely unless redeemed by us, and it is not subject to any sinking fund or mandatory redemption and is not convertible into any of our other securities. For a full description of the Series B cumulative redeemable preferred stock, please see "Description of our Preferred Stock" in our December 7, 2010 Prospectus.

May 2012 Common Stock Offering

On May 18, 2012, we completed the public offering of 13,225,000 shares of common stock and the exercise of the underwriters' option to purchase an additional 1,725,000 shares of our common stock at the public offering price of $15.00 per share. Funds affiliated with Farallon Capital Management, L.L.C. acquired 2,000,000 of the shares of common stock offered in this offering.

Total proceeds from the public offering, after underwriters' discount, were approximately $190.8 million (before transaction costs).

February 2013 Common Stock Offering

On February 12, 2013, we completed the public offering of 8,000,000 shares of common stock and the exercise of the underwriters' option to purchase an additional 1,200,000 shares of our common stock at the public offering price of $21.50 per share.

Total proceeds from the public offering, after underwriters' discount, were approximately $189.9 million (before transaction costs).

Exchange of Common Units for Common Stock

In February 2012, we elected to issue 155,878 shares of our common stock in exchange for a corresponding number of common units to satisfy the common unit redemption notice of Glenborough Fund XIV, L.P.

In December 2012, we elected to issue 72,500 shares of our common stock in exchange for a corresponding number of common units to satisfy the common unit redemption notice of Howard S. Stern.

Table of Contents

Notes to Consolidated Financial Statements—(Continued)
(Unaudited and in thousands, except square footage and share data)

The table below represents the net loss attributable to stockholders and transfers from non-controlling interest (in thousands) for the nine months ended:

	September 30,	
	2013	2012
Net loss attributable to Hudson Pacific Properties, Inc.	$(5,413)	$(1,916)
Transfers from the non-controlling interests		
Increase in common stockholders additional paid-in capital for exchange of common units	—	3,780
Change from net loss attributable to common stockholders and transfer from non-controlling interests	$(5,413)	$1,864

Dividends

During the third quarter for 2013, we declared dividends on our common stock and non-controlling common partnership interests of $0.125 per share and unit. We also declared dividends on our series A preferred partnership interests of $0.3906 per unit. In addition, we declared dividends on our series B preferred shares of $0.5234 per share. The third quarter dividends were declared on September 10, 2013 to holders of record on September 20, 2013.

Taxability of Dividends

Earnings and profits, which determine the taxability of distributions to stockholders, may differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, and compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

Stock-Based Compensation

The Board of Directors awards restricted shares to non-employee board members on an annual basis as part of such board members' annual compensation and to newly elected non-employee board members in accordance with our Board of Directors compensation program. The share-based awards are generally issued in the second quarter, and the individual share awards vest in equal annual installments over the applicable service vesting period, which is three years.

In addition, the Board of Directors awards restricted shares to employees on an annual basis as part of the employees' annual compensation. The share-based awards are generally issued in the fourth quarter, and the individual share awards vest in equal annual installments over the applicable service vesting period, which is three years.

The following table summarizes the restricted share activity for the nine months ended September 30, 2013 and status of all unvested restricted share awards to our non-employee board members and employees at September 30, 2013:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2013	632,344	$17.12
Granted	44,219	22.50
Vested	(106,045)	16.77

Canceled	(3,415)	16.09
Outstanding at September 30, 2013	567,103	$ 17.61

Nine Months Ended September 30,	Non-Vested Shares Issued	Weighted Average Grant - dated Fair Value