

Hudson Pacific Properties, Inc.

Form 10-Q

November 02, 2018

Hudson Pacific Properties, Inc.000148251212/31Large Accelerated

Filer10-Q9/30/20182018Q3falseFALSEFALSEHudson Pacific Properties, L.P.000149626412/31Non-accelerated

Filer10-Q9/30/20182018Q3falseFALSEFALSE0.010.01490,000,000490,000,000155,649,125155,602,508156,218,170156,171

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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.)

Commission File Number: 333-202799-01 (Hudson Pacific Properties, L.P.)

Hudson Pacific Properties, Inc.
Hudson Pacific Properties, L.P.

(Exact name of registrant as specified in its charter)

Hudson Pacific Properties, Inc. **Maryland** **27-1430478**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

Hudson Pacific Properties, L.P. **Maryland** **80-0579682**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

**11601
Wilshire
Blvd., Ninth
Floor
Los
Angeles,
California
90025**

(Address of principal executive offices)
(Zip Code)

(310) 445-5700

(Registrant's telephone number, including area code)

N/A

(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.

Hudson Pacific Hudson Pacific
Properties, Inc. Properties, L.P.
Yes No Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Hudson Pacific Hudson Pacific
Properties, Inc. Properties, L.P.
Yes No Yes No

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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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Hudson Pacific Properties, Inc.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>	

Hudson Pacific Properties, L.P.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>
Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>	

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.

Hudson Pacific Properties, Inc. <input type="checkbox"/>	Hudson Pacific Properties, L.P. <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Hudson Pacific Properties, Inc. <input type="checkbox"/>	Hudson Pacific Properties, L.P. <input type="checkbox"/>
Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

The number of shares of common stock of Hudson Pacific Properties, Inc. outstanding at October 30, 2018 was 156,702,662.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 of Hudson Pacific Properties, Inc., a Maryland corporation, and Hudson Pacific Properties, L.P., a Maryland limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” or “our Company” refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

Hudson Pacific Properties, Inc. is a real estate investment trust, or REIT, and the sole general partner of our operating partnership. As of September 30, 2018, Hudson Pacific Properties, Inc. owned approximately 99.6% of the outstanding common units of partnership interest (including unvested restricted units) in our operating partnership, or common units. The remaining approximately 0.4% of outstanding common units at September 30, 2018 were owned by certain of our executive officers and directors, certain of their affiliates and other outside investors. As the sole general partner of our operating partnership, Hudson Pacific Properties, Inc. has the full, exclusive and complete responsibility for our operating partnership’s day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of Hudson Pacific Properties, Inc. and the operating partnership into this single report results in the following benefits:

- enhancing investors’ understanding of our Company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation because a substantial portion of the disclosures apply to both our Company and our operating partnership; and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between our Company and our operating partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between our Company and our operating partnership in the context of how we operate as an interrelated, consolidated company. Hudson Pacific Properties, Inc. is a REIT, the only material assets of which are the units of partnership interest in our operating partnership. As a result, Hudson Pacific Properties, Inc. does not conduct business itself, other than acting as the sole general partner of our operating partnership, issuing equity from time to time and guaranteeing certain debt of our operating partnership. Hudson Pacific Properties, Inc. itself does not issue any indebtedness but guarantees some of the debt of our operating partnership. Our operating partnership, which is structured as a partnership with no publicly traded equity, holds substantially all of the assets of our Company and conducts substantially all of our business. Except for net proceeds from equity issuances by Hudson Pacific Properties, Inc., which are generally contributed to our operating partnership in exchange for units of partnership interest in our operating partnership, our operating partnership generates the capital required by our Company’s business through its operations, its incurrence of indebtedness or through the issuance of units of partnership interest in our operating partnership.

Non-controlling interest, stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of our Company and those of our operating partnership. The common units in our operating partnership are accounted for as partners’ capital in our operating partnership’s consolidated financial statements and, to the extent not held by our Company, as a non-controlling interest in our Company’s consolidated financial statements. The differences between stockholders’ equity, partners’ capital and non-controlling interest result from the differences in the equity issued by our Company and our operating partnership.

To help investors understand the significant differences between our Company and our operating partnership, this report presents the consolidated financial statements and Note 13—Earnings Per Share separately for our Company and our operating partnership. All other sections of this report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are presented together for our Company and our operating partnership. In order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that our Company and our operating partnership are compliant with Rule 13a-15 or Rule

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15d-15 of the Securities Exchange Act of 1934, or the Exchange Act and 18 U.S.C. §1350, this report also includes separate Part I, Item 4

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“Controls and Procedures” sections and separate Exhibit 31 and 32 certifications for each of Hudson Pacific Properties, Inc. and our operating partnership.

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	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment in real estate, at cost	\$ 6,690,374	\$ 6,219,361
Accumulated depreciation and amortization	(649,624)	(521,370)
Investment in real estate, net	6,040,750	5,697,991
Cash and cash equivalents	52,456	78,922
Restricted cash	10,782	22,358
Accounts receivable, net	12,125	4,234
Straight-line rent receivables, net	131,713	106,466
Deferred leasing costs and lease intangible assets, net	256,100	239,029
U.S. Government securities (Note 11)	148,315	—
Prepaid expenses and other assets, net	92,609	61,139
Assets associated with real estate held for sale	—	411,931
TOTAL ASSETS	\$ 6,744,850	\$ 6,622,070
LIABILITIES AND EQUITY		
Liabilities		
Unsecured and secured debt, net	\$ 2,332,795	\$ 2,421,380
In-substance defeased debt	139,003	—
Accounts payable, accrued liabilities and other	193,941	162,346
Lease intangible liabilities, net	43,289	49,540
Security deposits and prepaid rent	64,169	62,760
Liabilities associated with real estate held for sale	—	4,903
Total liabilities	2,773,197	2,700,929

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Redeemable preferred units of the operating partnership	9,815	10,177	
Redeemable non-controlling interest in consolidated real estate entity	50,092	—	
Equity			
Hudson Pacific Properties, Inc. stockholders' equity			
Common stock, \$0.01 par value, 490,000,000 authorized, 155,649,125 shares and 155,602,508 shares outstanding at September 30, 2018 and December 31, 2017, respectively	1,556	1,556	
Additional paid-in capital	3,597,904	3,622,988	
Accumulated other comprehensive income	27,834	13,227	
Total Hudson Pacific Properties, Inc. stockholders' equity	3,627,294	3,637,771	
Non-controlling interest—members in consolidated entities	266,986	258,602	
Non-controlling interest—units in the operating partnership	17,466	14,591	
Total equity	3,911,746	3,910,964	
TOTAL LIABILITIES AND EQUITY	\$ 6,744,850	\$ 6,622,070	

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

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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except share data)

	Three Months Ended September 30,			Nine Months Ended
	2018	2017	2018	September 30,
				2017
REVENUES				
Office				
Rental	\$ 129,963	\$ 139,157	\$ 389,777	\$ 406,275
Tenant recoveries	24,615	24,982	67,479	67,421
Parking and other	6,868	8,035	19,272	22,146
Total office revenues	161,446	172,174	476,528	495,842
Studio				
Rental	11,731	11,012	32,822	26,802
Tenant recoveries	299	133	1,153	927
Other property-related revenue	6,988	6,561	18,724	14,964
Other	234	141	758	271
Total studio revenues	19,252	17,847	53,457	42,964
Total revenues	180,698	190,021	529,985	538,806
OPERATING EXPENSES				
Office operating expenses	57,295	59,102	164,475	162,524
Studio operating expenses	10,511	10,588	28,714	24,842
General and administrative	14,280	13,013	46,047	41,329
Depreciation and amortization	62,224	71,158	183,483	217,340
Total operating expenses	144,310	153,861	422,719	446,035
Operating income	36,388	36,160	107,266	92,771
OTHER EXPENSE (INCOME)				
Interest expense	20,131	22,461	59,965	66,086
Interest income	(418)	(44)	(493)	(90)
Unrealized gain on non-real estate investment	—	—	(928)	—
Unrealized loss on ineffective portion of derivative instrument	—	37	—	82
Transaction-related expenses	165	598	283	598
Other income	(25)	(1,402)	(748)	(2,656)
Total other expenses	19,853	21,650	58,079	64,020
Income before gains on sale of real estate	16,535	14,510	49,187	28,751
Gains on sale of real estate	3,735	—	43,337	16,866
Net income	20,270	14,510	92,524	45,617

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Net income attributable to preferred units	(153)	(159)	(465)	(477)
Net income attributable to participating securities	(118)	(255)	(555)	(750)
Net income attributable to non-controlling interest in consolidated entities	(2,569)	(2,991)	(9,059)	(9,002)
Net income attributable to non-controlling interest in the operating partnership	(63)	(41)	(299)	(256)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 17,367	\$ 11,064	\$ 82,146	\$ 35,132
BASIC AND DILUTED PER SHARE AMOUNTS				
Net income attributable to common stockholders—basic	\$ 0.11	\$ 0.07	\$ 0.53	\$ 0.23
Net income attributable to common stockholders—diluted	\$ 0.11	\$ 0.07	\$ 0.52	\$ 0.23
Weighted average shares of common stock outstanding—basic	155,649,110	155,302,800	155,637,351	152,874,952
Weighted average shares of common stock outstanding—diluted	156,669,247	156,093,736	156,628,488	153,648,888

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

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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2018	2017	2018	2017	
Net income	\$ 20,270	\$ 14,510	\$ 92,524	\$ 45,617	
Other comprehensive income: change in fair value of derivatives	1,432	507	14,429	611	
Comprehensive income	21,702	15,017	106,953	46,228	
Comprehensive income attributable to preferred units	(153)	(159)	(465)	(477)	
Comprehensive income attributable to participating securities	(128)	(255)	(652)	(750)	
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,569)	(2,991)	(9,059)	(9,002)	
Comprehensive income attributable to non-controlling interest in the operating partnership	(68)	(43)	(351)	(276)	
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 18,784	\$ 11,569	\$ 96,426	\$ 35,723	

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

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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited, in thousands, except share data)

	Hudson Pacific Properties, Inc. Stockholders' Equity							Non-controlling Interest
	Shares of Stock Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Units in the Operating Partnership	Members in Consolidated Entities	Total Equity	
Balance at January 1, 2017	136,492,283	3,109,394	(16,971)	9,496	\$ 294,855	304,605	3,702,750	
Contributions	—	—	—	—	—	3,870	3,870	
Distributions	—	—	—	—	—	(74,836)	(74,836)	
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	18,686,575	647,195	—	—	—	—	647,382	
Issuance of unrestricted stock	917,086	(9)	—	—	—	—	—	
Shares withheld to satisfy tax withholding	(463,388)	(16,037)	—	—	—	—	(16,041)	
Declared dividend	—	(106,269)	(51,619)	—	(656)	—	(158,544)	
Amortization of stock-based compensation	—	13,249	—	—	2,666	—	15,915	
Net income	—	—	68,590	—	375	24,960	93,925	
Change in fair value of derivatives	—	—	—	7,353	45	—	7,398	
Redemption of common units in the operating partnership	—	(24,535)	—	(3,622)	(282,698)	—	(310,855)	
Balance at December 31, 2017	153,655,508	3,622,988	—	13,227	14,591	258,602	3,910,964	
	—	—	(231)	230	1	—	—	

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Cumulative adjustment related to adoption of ASU 2017-12								
Contributions	—	—	—	—	—	2,486	2,486	
Distributions	—	—	—	—	—	(3,112)	(3,112)	
Issuance of unrestricted stock	66,970	—	—	—	—	—	—	
Shares withheld to satisfy tax withholding	(20,353)	(693)	—	—	—	—	(693)	
Declared dividend	—	(35,055)	(82,470)	—	(534)	—	(118,059)	
Amortization of stock-based compensation	—	10,664	—	—	3,057	—	13,721	
Net income	—	—	82,701	—	299	9,010	92,010	
Change in fair value of derivatives	—	—	—	14,377	52	—	14,429	
Balance at September 30, 2018	15,649,125	\$ 3,597,904	—	\$ 27,834	\$ 17,466	266,986	3,911,746	

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

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

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 92,524	\$ 45,617
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	183,483	217,340
Non-cash portion of interest expense	4,527	3,558
Amortization of stock-based compensation	12,919	11,237
Straight-line rents	(25,546)	(15,174)
Straight-line rent expenses	368	296
Amortization of above- and below-market leases, net	(10,271)	(14,326)
Amortization of above- and below-market ground lease, net	1,807	2,088
Amortization of lease incentive costs	1,035	1,140
Other non-cash adjustments(1)	49	598
Gains on sale of real estate	(43,337)	(16,866)
Change in operating assets and liabilities:		
Accounts receivable	(8,655)	1,649
Deferred leasing costs and lease intangibles	(32,640)	(23,270)
Prepaid expenses and other assets	(630)	(3,000)
Accounts payable and accrued liabilities	23,448	34,660
Security deposits and prepaid rent	(1,201)	(5,943)
Net cash provided by operating activities	197,880	239,604
CASH FLOWS FROM		

**INVESTING
ACTIVITIES**

Additions to investment property	(278,004)	(224,797)
Property acquisitions	(71,152)	(257,734)
Payments for U.S. Government securities	(149,176)	—
Proceeds from sale of real estate	454,542	81,707
Distributions from unconsolidated entity	14,036	17,416
Contributions to unconsolidated entity	—	(1,071)
Deposits for property acquisitions	(27,500)	—
Net cash used in investing activities	(57,254)	(384,479)

**CASH FLOWS
FROM
FINANCING
ACTIVITIES**

Proceeds from debt	360,000	270,000
Payments of debt	(448,792)	(321,892)
Proceeds from issuance of common stock, net	—	647,524
Payment for redemption of common units in the operating partnership	—	(310,855)
Redemption of series A preferred units	(362)	—
Distributions paid to common stock and unitholders	(118,059)	(118,408)
Distributions paid to preferred unitholders	(465)	(477)
Contributions from redeemable non-controlling member in consolidated entity	37,294	—
Contribution from non-controlling member in consolidated real estate entities	2,486	3,870
Distributions to non-controlling member in consolidated entities	(3,112)	(15,369)
Payments to satisfy tax withholding	(693)	(4,203)
Payments of loan costs	(6,965)	—
Net cash (used in) provided by financing activities	(178,668)	150,190
	(38,042)	5,315

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Net (decrease) increase in cash and cash equivalents and restricted cash		
Cash and cash equivalents and restricted cash—beginning of period	101,280	108,192
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 63,238	\$ 113,507

1. Represents bad debt expense/recovery, unrealized loss/gain on ineffective portion of derivatives and unrealized loss/gain on non-real estate investment.

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

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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment in real estate, at cost	\$ 6,690,374	\$ 6,219,361
Accumulated depreciation and amortization	(649,624)	(521,370)
Investment in real estate, net	6,040,750	5,697,991
Cash and cash equivalents	52,456	78,922
Restricted cash	10,782	22,358
Accounts receivable, net	12,125	4,234
Straight-line rent receivables, net	131,713	106,466
Deferred leasing costs and lease intangible assets, net	256,100	239,029
U.S. Government securities (Note 11)	148,315	—
Prepaid expenses and other assets, net	92,609	61,139
Assets associated with real estate held for sale	—	411,931
TOTAL ASSETS	\$ 6,744,850	\$ 6,622,070
LIABILITIES AND CAPITAL		
Liabilities		
Unsecured and secured debt, net	\$ 2,332,795	\$ 2,421,380
In-substance defeased debt	139,003	—
Accounts payable, accrued liabilities and other	193,941	162,346
Lease intangible liabilities, net	43,289	49,540
Security deposits and prepaid rent	64,169	62,760
Liabilities associated with real estate held for sale	—	4,903
Total liabilities	2,773,197	2,700,929
Redeemable preferred units of the operating	9,815	10,177

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partnership			
Redeemable non-controlling interest in consolidated real estate entity	50,092	—	
Capital			
Hudson Pacific Properties, L.P. partners' capital			
Common units, 156,218,170 and 156,171,553 issued and outstanding at September 30, 2018 and December 31, 2017, respectively.	3,616,824	3,639,086	
Accumulated other comprehensive income	27,936	13,276	
Total Hudson Pacific Properties, L.P. partners' capital	3,644,760	3,652,362	
Non-controlling interest—members in consolidated entities	266,986	258,602	
Total capital	3,911,746	3,910,964	
TOTAL LIABILITIES AND CAPITAL	\$ 6,744,850	\$ 6,622,070	

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

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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except unit data)

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2018	2017	2018	2017	
REVENUES					
Office					
Rental	\$ 129,963	\$ 139,157	\$ 389,777	\$ 406,275	
Tenant recoveries	24,615	24,982	67,479	67,421	
Parking and other	6,868	8,035	19,272	22,146	
Total office revenues	161,446	172,174	476,528	495,842	
Studio					
Rental	11,731	11,012	32,822	26,802	
Tenant recoveries	299	133	1,153	927	
Other property-related revenue	6,988	6,561	18,724	14,964	
Other	234	141	758	271	
Total studio revenues	19,252	17,847	53,457	42,964	
Total revenues	180,698	190,021	529,985	538,806	
OPERATING EXPENSES					
Office operating expenses	57,295	59,102	164,475	162,524	
Studio operating expenses	10,511	10,588	28,714	24,842	
General and administrative	14,280	13,013	46,047	41,329	
Depreciation and amortization	62,224	71,158	183,483	217,340	
Total operating expenses	144,310	153,861	422,719	446,035	
Operating income	36,388	36,160	107,266	92,771	
OTHER EXPENSE (INCOME)					
Interest expense	20,131	22,461	59,965	66,086	
Interest income	(418)	(44)	(493)	(90)	
Unrealized gain on non-real estate investment	—	—	(928)	—	
Unrealized loss on ineffective portion of derivative instrument	—	37	—	82	
Transaction-related expenses	165	598	283	598	
Other income	(25)	(1,402)	(748)	(2,656)	
Total other expenses	19,853	21,650	58,079	64,020	
Income before gains on sale of real estate	16,535	14,510	49,187	28,751	

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Gains on sale of real estate	3,735	—	43,337	16,866
Net income	20,270	14,510	92,524	45,617
Net income attributable to non-controlling interest in consolidated entities	(2,569)	(2,991)	(9,059)	(9,002)
Net income attributable to Hudson Pacific Properties, L.P.	17,701	11,519	83,465	36,615
Net income attributable to preferred units	(153)	(159)	(465)	(477)
Net income attributable to participating securities	(118)	(255)	(555)	(750)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$ 17,430	\$ 11,105	\$ 82,445	\$ 35,388
BASIC AND DILUTED PER UNIT AMOUNTS				
Net income attributable to common unitholders—basic	\$ 0.11	\$ 0.07	\$ 0.53	\$ 0.23
Net income attributable to common unitholders—diluted	\$ 0.11	\$ 0.07	\$ 0.52	\$ 0.23
Weighted average shares of common units outstanding—basic	156,218,155	155,871,845	156,206,396	153,736,796
Weighted average shares of common units outstanding—diluted	157,238,292	156,662,781	157,197,533	154,510,732

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

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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2018	2017	2018	2017	
Net income	\$ 20,270	\$ 14,510	\$ 92,524	\$ 45,617	
Other comprehensive income: change in fair value of derivatives	1,432	507	14,429	611	
Comprehensive income	21,702	15,017	106,953	46,228	
Comprehensive income attributable to preferred units	(153)	(159)	(465)	(477)	
Comprehensive income attributable to participating securities	(128)	(255)	(652)	(750)	
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,569)	(2,991)	(9,059)	(9,002)	
COMPREHENSIVE INCOME ATTRIBUTABLE TO PARTNERS' CAPITAL	\$ 18,852	\$ 11,612	\$ 96,777	\$ 35,999	

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

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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(unaudited, in thousands, except unit data)

	Hudson Pacific Properties, L.P. Partners' Capital							
	Number of Common Units	Common Units	Accumulated Comprehensive Income	Other	Total Partners' Capital	Non-controlling Interest—Members in Consolidated Entities	Total Capital	
Balance at January 1, 2017	14,942,855	3,392,264	\$	5,878	\$ 3,398,142	\$ 304,608	\$	3,702,750
Contributions	—	—	—	—	—	3,870	—	3,870
Distributions	—	—	—	—	—	(74,836)	—	(74,836)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	18,656,383	—	—	—	647,382	—	—	647,382
Issuance of unrestricted units	917,086	—	—	—	—	—	—	—
Units withheld to satisfy tax withholding	(463,688)	—	—	—	(16,041)	—	—	(16,041)
Declared distributions	—	(158,544)	—	—	(158,544)	—	—	(158,544)
Amortization of unit-based compensation	—	15,915	—	—	15,915	—	—	15,915
Net income	—	68,965	—	—	68,965	24,960	—	93,925
Change in fair value of derivatives	—	—	7,398	—	7,398	—	—	7,398
Redemption of common units	(8,881,055)	—	—	—	(310,855)	—	—	(310,855)
Balance at December 31, 2017	156,670,386	13,276			3,652,362	258,602		3,910,964
Cumulative adjustment related to adoption of ASU 2017-12	—	(231)	231	—	—	—	—	—
Contributions	—	—	—	—	—	2,486	—	2,486
Distributions	—	—	—	—	—	(3,112)	—	(3,112)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	—	—	—	—	—	—	—	—
Issuance of unrestricted units	66,970	—	—	—	—	—	—	—

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Units withheld to satisfy tax withholding	(20,693)	—	(693)	—	(693)	
Declared distributions	— (118,059)	—	(118,059)	—	(118,059)	
Amortization of unit-based compensation	— 13,721	—	13,721	—	13,721	
Net income	— 83,000	—	83,000	9,010	92,010	
Change in fair value of derivatives	—	14,429	14,429	—	14,429	
Balance at September 30, 2018	156,218,170	3,616,824	\$ 27,936	\$ 3,644,760	\$ 266,986	3,911,746

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

Table of Contents**HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)**

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 92,524	\$ 45,617
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	183,483	217,340
Non-cash portion of interest expense	4,527	3,558
Amortization of unit-based compensation	12,919	11,237
Straight-line rents	(25,546)	(15,174)
Straight-line rent expenses	368	296
Amortization of above- and below-market leases, net	(10,271)	(14,326)
Amortization of above- and below-market ground lease, net	1,807	2,088
Amortization of lease incentive costs	1,035	1,140
Other non-cash adjustments(1)	49	598
Gains on sale of real estate	(43,337)	(16,866)
Change in operating assets and liabilities:		
Accounts receivable	(8,655)	1,649
Deferred leasing costs and lease intangibles	(32,640)	(23,270)
Prepaid expenses and other assets	(630)	(3,000)
Accounts payable and accrued liabilities	23,448	34,660
Security deposits and prepaid rent	(1,201)	(5,943)
Net cash provided by operating activities	197,880	239,604

**CASH FLOWS
FROM
INVESTING
ACTIVITIES**

Additions to investment property	(278,004)	(224,797)
Property acquisitions	(71,152)	(257,734)
Purchase of U.S. Government securities	(149,176)	—
Proceeds from sale of real estate	454,542	81,707
Distributions from unconsolidated entity	14,036	17,416
Contributions to unconsolidated entity	—	(1,071)
Deposits for property acquisitions	(27,500)	—
Net cash used in investing activities	(57,254)	(384,479)

**CASH FLOWS
FROM
FINANCING
ACTIVITIES**

Proceeds from debt	360,000	270,000
Payments of debt	(448,792)	(321,892)
Proceeds from issuance of common units, net	—	647,524
Payments for redemption of common units	—	(310,855)
Redemption of series A preferred units	(362)	—
Distributions paid to common unitholders	(118,059)	(118,408)
Distributions paid to preferred unitholders	(465)	(477)
Contributions from redeemable non-controlling member in consolidated entity	37,294	—
Contributions from non-controlling member in consolidated entities	2,486	3,870
Distributions to non-controlling member in consolidated entities	(3,112)	(15,369)
Payments to satisfy tax withholding	(693)	(4,203)

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Payments of loan costs	(6,965)	—
Net cash (used in) provided by financing activities	(178,668)	150,190
Net (decrease) increase in cash and cash equivalents and restricted cash	(38,042)	5,315
Cash and cash equivalents and restricted cash—beginning of period	101,280	108,192
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—END OF PERIOD	\$ 63,238	\$ 113,507

1. Represents bad debt expense/recovery, unrealized loss/gain on ineffective portion of derivatives and unrealized loss/gain on non-real estate investment.

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

Table of Contents**Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.****Notes to Unaudited Consolidated Financial Statements****(Unaudited, tabular amounts in thousands, except square footage, share and unit data)****1. Organization**

Hudson Pacific Properties, Inc. is a Maryland corporation formed on November 9, 2009 as a fully integrated, self-administered and self-managed real estate investment trust (“REIT”). Through its controlling interest in the operating partnership and its subsidiaries, Hudson Pacific Properties, Inc. owns, manages, leases, acquires and develops real estate, consisting primarily of office and studio properties. Unless otherwise indicated or unless the context requires otherwise, all references in these financial statements to “the Company” refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

On April 1, 2015, the Company completed the acquisition of the EOP Northern California Portfolio (“EOP Acquisition”) from Blackstone Real Estate Partners V and VI (“Blackstone”). The EOP Acquisition consisted of 26 high-quality office assets totaling approximately 8.2 million square feet and two development parcels located throughout Northern California. The total consideration paid for the EOP Acquisition before certain credits, proration and closing costs included a cash payment of \$1.75 billion and an aggregate of 63,474,791 shares of common stock of Hudson Pacific Properties, Inc. and common units in the operating partnership.

The Company’s portfolio consists of properties located throughout Northern and Southern California and the Pacific Northwest. The following table summarizes the Company’s portfolio as of September 30, 2018:

Segments	Number of Properties	Square Feet (unaudited)
Office	51	13,498,837
Studio	3	1,246,423
TOTAL⁽¹⁾	54	14,745,260

1. Includes redevelopment and development properties.

2. Summary of Significant Accounting Policies***Basis of Presentation***

The accompanying consolidated financial statements of the Company and the operating partnership are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to the Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. References to number of properties and square-feet are not covered by the auditor’s review procedures.

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, 2018. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the 2017 Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. and the notes thereto.

Certain amounts in the consolidated financial statements for the prior period have been reclassified to conform to the current period presentation. Included in the reclassified amounts are properties held for sale. These amounts relate to our Peninsula Office Park property, which was sold on July 27, 2018.

Table of Contents**Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.****Notes to Unaudited Consolidated Financial Statements****(Unaudited, tabular amounts in thousands, except square footage, share and unit data)*****Principles of Consolidation***

The unaudited interim consolidated financial statements of the Company include the accounts of the Company, the operating partnership and all wholly owned and controlled subsidiaries. The consolidated financial statements of the operating partnership include the accounts of the operating partnership and all wholly owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Under the consolidation guidance, the Company first evaluates an entity using the variable interest model, then the voting model. The Company ultimately consolidates all entities that the Company controls through either majority ownership or voting rights, including all variable interest entities (“VIEs”) of which the Company is considered the primary beneficiary. The Company accounts for all other unconsolidated joint ventures using the cost or equity method of accounting. In addition, the Company continually evaluates each legal entity that is not wholly owned for reconsideration based on changing circumstances.

VIEs are defined as entities in which equity investors do not have:

- the characteristics of a controlling financial interest;
- sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; and/or
- the entity is structured with non-substantive voting rights.

The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with both the power to direct the activities that most significantly affect the VIE’s economic performance and the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. As of September 30, 2018, the Company has determined that four joint ventures and our operating partnership met the definition of a VIE. Three of the joint ventures are consolidated entities and one joint venture is a non-consolidated entity.

Consolidated Entities

As of September 30, 2018, the operating partnership has determined that three of its joint ventures met the definition of a VIE and are consolidated:

Entity	Property	Ownership Interest
Hudson 1455 Market, L.P.	1455 Market	55%
Hudson 1099 Stewart, L.P.	Hill7	55%
HPP-MAC WSP, LLC	One Westside and 10850 Pico	75%

On March 1, 2018, the Company entered into a joint venture agreement with Macerich WSP, LLC (“Macerich”) to form HPP-MAC WSP, LLC (“HPP-MAC JV”). On August 31, 2018, Macerich contributed Westside Pavilion to the HPP-MAC JV. The Company intends to redevelop Westside Pavilion into approximately 500,000 square feet of state-of-the-art creative office space called One Westside, while maintaining approximately 95,987 square feet of retail and entertainment space at 10850 Pico. The HPP-MAC JV is held 75% by the Company and 25% by Macerich, with the Company serving as the managing member and developer. The joint venture agreement lacks substantive participating or kick-out rights and is therefore a VIE. The Company, through its subsidiaries, has the right to (i) receive benefits and absorb losses and (ii) has the power to direct the activities that most significantly affect the joint venture and, as a result, is the primary beneficiary and consolidates the joint venture.

As of September 30, 2018, the Company has determined that its operating partnership met the definition of a VIE and is consolidated. Substantially all of the assets and liabilities of the Company are related to VIEs.

On October 9, 2018, the Company entered into a joint venture with Allianz U.S. Private REIT LP (“Allianz”) to purchase the Ferry Building property located in San Francisco, California. The Company owns 55% of the joint venture. See Note 19 for details.

Table of Contents**Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.****Notes to Unaudited Consolidated Financial Statements****(Unaudited, tabular amounts in thousands, except square footage, share and unit data)*****Non-consolidated Entities***

On June 16, 2016, the Company entered into a joint venture to co-originate a loan secured by land in Santa Clara, California. The assets of the joint venture consist of notes receivable. As of September 30, 2018, the Company has determined it is not the primary beneficiary of the joint venture that meets the definition of a VIE. Due to its significant influence over the non-consolidated entity, the Company accounts for it using the equity method of accounting. Under the equity method, the Company initially records the investment at cost and subsequently adjusts for equity in earnings or losses and cash contributions and distributions. On July 10, 2018, the Company received a return of capital related to its share of the repayment of the notes receivable. The Company's net equity investment is reflected within prepaid expenses and other assets on the Consolidated Balance Sheets, which represents the Company's maximum exposure for loss. As of September 30, 2018, the net equity investment was \$92 thousand. The Company's share of net income or loss from the entity is included within other income on the Consolidated Statements of Operations. The Company owns 21% of the non-consolidated entity.

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 ongoing 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.

Revenue Recognition

The Company has compiled an inventory of its sources of revenues and has identified the following material revenue streams: (i) rental revenues (ii) tenant recoveries (iii) ancillary revenues (iv) guest parking revenues and (v) sale of real estate.

Revenue Stream	Components	Financial Statement Location
Rental revenues	Office rentals, stage rentals and storage rentals	Office and studio segments: rental
Tenant recoveries	Reimbursement of real estate taxes, insurance, repairs and maintenance, other operating expenses and monthly parking revenues	Office segment: tenant recoveries and parking and other Studio segment: tenant recoveries and other property-related revenue
Ancillary revenues	Revenues derived from tenants' use of lighting, equipment rental, power, HVAC	Studio segment: other property-related revenue

	and telecommunications (i.e., telephone and internet)	
Guest parking revenues	Parking revenue that is not associated with lease agreements	Office segment: parking and other Studio segment: other property-related revenue
Sale of real estate	Gains on sales derived from cash consideration less cost basis	Gains on sale of real estate

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.

Notes to Unaudited Consolidated Financial Statements

(Unaudited, tabular amounts in thousands, except square footage, share and unit data)

Currently, rental revenues are accounted for under ASC 840, *Leases*. Rental revenues will be accounted for under ASC 842, *Leases* (“ASC 842”), which the Company plans to adopt on January 1, 2019.

Currently tenant recoveries are accounted for under ASC 605, *Revenue Recognition* (“ASC 605”). Tenant recoveries will be accounted for under ASC 606, *Revenue from Contracts with Customers* (“ASC 606”), beginning on January 1, 2019, when the Company adopts ASC 842. Under the current ASC 842 guidance, the Company would be required to classify its tenant recoveries into lease and non-lease components. On March 28, 2018, the FASB agreed to issue an amendment to ASC 842, which, if elected, permits the Company to classify tenant recoveries as a single lease component and account for tenant recoveries with rental revenues in the Consolidated Statement of Operations. Please refer to our Update on ASC 842 implementation section below for details.

Ancillary revenues and guest parking revenues have been accounted for under ASC 606 since the Company adopted this standard on January 1, 2018. This standard requires the Company to recognize revenues based on a five-step model and will result in the consideration being recognized once all performance obligations are satisfied. The timing and pattern of revenue recognition as it relates to ancillary revenues and guest parking revenues have not changed from those under ASC 605.

Sale of real estate has been accounted for under ASC 610, *Other Income*, since the Company adopted this standard on January 1, 2018. This standard requires the Company to apply certain recognition and measurement principles in accordance with ASC 606 when it de-recognizes nonfinancial assets and in-substance nonfinancial assets, and the counterparty is not a customer. This is the case for the Company’s sales of real estate, and as a result the Company is required to evaluate the sales of real estate based on transfer of control. If a real estate sale contract includes ongoing involvement by the seller with the sold property, the seller must evaluate each promised good or service under the contract to determine whether it represents a performance obligation, constitutes a guarantee or prevents the transfer of control. The timing and pattern of revenue recognition might change as it relates to gains of sale of real estate if the sale includes continued involvement that represents a separate performance obligation.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (the “FASB”) in the form of Accounting Standards Update (“ASU”). The following ASUs were adopted by the Company in 2018: