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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hudson Pacific Properties Third Quarter 2022 Conference Call. All lines will be in listen-only mode. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Laura Campbell, Executive Vice President of Investor Relations and Marketing. Please go ahead.

Laura Campbell
Executive Vice President-Investor Relations & Marketing, Hudson Pacific Properties, Inc.

Good morning, everyone. Thanks for joining us. With me on the call today are Victor Coleman, CEO and Chairman; Mark Lammas, President; Harout Diramerian, CFO; and Art Suazo, EVP of Leasing. Yesterday we filed our earnings release and supplemental on an 8-K with the SEC and both are now available on our website. An audio webcast of this call will be available for replay on our website.

Some of the information we'll share on this call is forward-looking in nature. Please reference our earnings release and supplemental for statements regarding forward-looking information as well as the reconciliation of non-GAAP financial measures used on this call.

Today, Victor will discuss macro conditions and our third quarter highlights, Mark will provide detail on our office leasing and Harout will touch on our financial results and outlook. Thereafter, we'll be happy to take your questions. Victor?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Laura. And thank you, everyone, for joining us today. At Hudson Pacific we're leveraging our expertise and relationships and continue to hustle every day to get leases signed. I'm proud of our team's effort in effectively navigating this very persistent, dynamic macro environment. The confluence of monetary policy, potential recession, tight labor markets and hybrid work continue to impact supply and demand fundamentals in all of our markets. One offset is that on a positive level we are finally seeing more companies bringing employees back to the office two to four days a week and office users are enquiring, touring and trading paper. Simply though, it's just taking longer to get leases over the finish line as tenants attempt to make mid- to long-term real estate decisions in the face of considerable uncertainty. Our strategy has positioned our portfolio optimally for this challenging cycle. And strong evidence is that our year-to-date leasing activity of 1.6 million square feet is in line with our historical year to date levels and up over 18% over last year.

For more than a decade, Hudson Pacific has partnered with tech and media companies to create campuses and workspaces that engage and inspire employees. And these companies define what the modern workspace could be. And they invested well above and beyond RTIs to ensure that their employees want to spend time at the office. We, in turn, invested in the infrastructure upgrades, onsite amenities, the latest technology and substantial ESG initiatives. And as a testament to the latter, we just ranked recently number one of 96 office companies in GRESB's 2022 Real Estate Assessment. We have a unique, vertically integrated platform and a modern, sustainable portfolio essential to meet tenant demand in the current marketplace.

Now, let me touch on some of this quarter's highlights. We signed over 380,000 square feet, representing 65 new and renewal leases that once again saw our GAAP and cash rents increase. This activity was largely driven by small to midsize tenants averaging 6,000 square feet across a range of industries, including tech, healthcare and government. The Bay Area comprised approximately 70% of the new and renewal leasing activity, including several large deals such as renewals of [indiscernible] (00:03:58) for 27,000 square feet, Amkor Technology for 23,000 square feet, and a State of California lease for 43,000 square feet. We're staying opportunistic in terms of our acquisitions as we continue to monitor market conditions. In the third quarter we acquired Quixote, a leading stage and production services provider, which was a key component to our strategy to build a premier full service global studio platform. With its combination of stage lease rights, production gear and vehicles, Quixote further enhances our ability to capitalize on robust production spend on and off our own Sunset Studio lots. Quixote is also a strong complement to our purchase of Zio Services as well as Star Waggons last year.

With the closing, our studio segment now comprises of approximately 13% of our NOI, with only one month of contribution from Quixote. If we pro forma that back to the start of the year, that number would be 15%. In terms of development we're on time and budget to deliver two under construction projects totaling 790,000 square feet. One, our seven-stage 241,000 square foot Sunset Glenoaks studio, which we're building in a 50/50 JV with Blackstone will deliver in the third quarter of next year. As the first purpose-built studio in Los Angeles in over 20 years, Glenoaks will benefit from the same favorable supply/demand fundamentals as our Hollywood assets, where stages are full and we can only accommodate less than 5% of our current increase. We already have interest from a major media company for a multi-stage multi-year deal, even as we anticipate Glenoaks will follow a more traditional studio model of leasing at least some stages on a show-by-show basis.

On the other construction project Washington 1000 Seattle, it doesn't deliver till 2024. We continue to ready our 3.6 million square foot future development pipeline, approximately 65% of which are studio or studio related office properties, so when the timing is right we can initiate construction. During and subsequent to the quarter, we executed three of our four non-core asset sales, generating total proceeds of $145 million with no seller financing required. And we're in conversations with two separate buyers on a fourth asset. We continue to review our portfolio for potential dispositions, that is assets that no longer align with our strategy based on location and growth potential.

We are committed to maintaining a strong, flexible balance sheet with excellent capital access and following our successful $350 million green bond offering in the third quarter, as well as the sale of 6922 Hollywood last month, we now have over $950 million of liquidity with 93% of our debt fixed or hedged. Time and again, we have demonstrated our ability to adequately navigate the capital markets. Between the green bond and the preferred stock offerings earlier this year, we've raised over $650 million over the past 12 months at rates 150 basis points and 500 basis points inside the current rates, respectively.

In summary, as we face current macroeconomic headwinds, we have a team, a platform and a portfolio to succeed. And we're energized to continue to lease our assets and drive future cash flow.

With that now I will turn over to Mark.

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

Thanks, Victor. Our in-service portfolio ended the quarter at 89.3% leased, driven by non-vacate Qualcomm leaving 377,000 square feet at Skyport Plaza in North San Jose in July. But for Qualcomm, our in-service portfolio would have ended the quarter at 91.8% leased, down 44 basis points, which speaks to the overall strength of our tenants and assets even in the current macroeconomic climate. In terms of our leasing activity during and subsequent to the third quarter, we are executing and progressing deals with small to midsize tenants and with less velocity than we would like. Even so we are continuing to reload our leasing pipeline, which includes activity on all four of the recent or pending large tenant expirations through 2023. We currently have around 2 million square feet in various stages, providing us with 57% coverage on our remaining 2022 expirations and 39% coverage on our upcoming 2023 expirations, which are collectively 6% below market.

Let me touch on leasing priorities in each of our markets. In Los Angeles, our in-service portfolio is 98.9% leased. Our main focus remains backfilling non-vacate NFL's 168,000 square foot lease at 10900-10950 Washington in Culver City following their move to the SoFi Stadium complex in Inglewood and the lease expiration in December of this year. A highly sought after location for an array of office users, Culver City still has sub-6% vacancy, and we have two tenants interested in backfilling the entirety of NFL space, one in leases and the other in early negotiations. Apart from NFL, we have 44% coverage on 76,000 square feet expiring in Los Angeles through the end of 2023, with no tenant exceeding 0.2% of our total office ABR. Collectively, our remaining 2022 and 2023 expirations in Los Angeles are 18% below market.

Moving up to the Bay Area, our San Francisco in-service portfolio is 93.8% leased. Our primary focus is backfilling no-vacate blocks third quarter 2023, 469,000 square foot expiration at 1455 Market, which we own in a 55/45 JV with CPPIB. We're already in negotiations with existing block sub-tenants to remain in a portion of their square footage, as well as a new tenant to backfill an additional 250,000 square feet, which collectively translates to 65% coverage on that space. Apart from block, we have 75% coverage on 67,000 square feet expiring in San Francisco through 2023 with no tenant exceeding 0.2% of our total office ABR. Our remaining 2022 and 2023 San Francisco expirations, including blocks, are 6% below market. Our combined Peninsula and Silicon Valley in-service portfolio excluding Skyport Plaza where non-vacate Qualcomm moved out of 377,000 square feet in the third quarter is 88.2% leased.

Skyport is a quality asset but we are executing an approximately $12.5 million capital plan to further enhance interior and exterior finishes and amenities for both buildings. We are in early discussions with a potential tenant for about 50% of Qualcomm's former space.

Regarding our remaining 2022 and 2023 expirations, these are predominantly small to midsize tenants averaging around 6,000 square feet that typically only engage in earnest on renewals about three months in advance. Even so we have about 40% coverage on 297,000 square feet of remaining 2022 expirations, which are 8% below market and 25% coverage on 807,000 square feet of 2023 expirations, which are essentially at market rents.

In Seattle our in-service portfolio is 85.4% leased. We own four assets in the Denny Triangle submarket which are 100% leased with no significant expirations through 2023 but for a $140,000 square foot lease at Met Park North expiring in November of next year, which we are in very early discussions to potentially renew. Our Pioneer Square in-service lease percentage is 51.6% largely due to Dell EMC's decision to vacate 505 First earlier this year. We are currently in negotiations with a tenant on a 240,000 foot requirement for that asset. Apart from Amazon we have 100% coverage on 55,000 square feet expiring in Seattle through 2023, with no tenant exceeding 0.2% of our total office ABR. Rents at our remaining 2022 and 2023 expirations in Seattle, including Amazon, are about 20% below market.

Lastly in Vancouver where vacancy remains low at around 7%, our in-service portfolio is 94.4% leased. We have 47% coverage on our 197,000 square feet of remaining 2022 and 2023 expirations with no tenant exceeding 0.1% of our total office ABR and rents 15% below market.

With that, I'll turn the call over to Harout.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Thanks, Mark. Compared to third quarter 2021, our third quarter 2022 revenue increased 14.4% to $260.4 million. But for non-vacate Qualcomm and certain one-time prior period property tax reassessments our same-store property cash NOI would have increased 2.2% year-over-year rather than declining 2% year-over-year to $122.7 million compared to $125.2 million a year ago. Our third quarter FFO, excluding specified items, was $74.1 million or $0.52 per diluted share compared to $77.3 million or $0.50 per diluted share last year. Specified items in the third quarter consisted of transaction-related expenses of $9.3 million or $0.07 per diluted share and a one-time property tax expense of $0.4 million or $0.00 per diluted share compared to transaction-related expenses of $6.3 million or $0.04 per diluted share and a one-time debt extinguishment cost of $3.2 million or $0.02 per diluted share, offset by a one-time prior period property tax reimbursement of $1.3 million or $0.01 per diluted share a year ago.

Year-to-date, our AFFO is $183.3 million or $1.25 per diluted share, which is $0.05 per diluted share or 4.2% higher compared to last year. Our AFFO payout ratios for the third quarter and year to date were 55% and 60% respectively, making our dividend [ph] as not conservative (00:15:00) as it does not yet reflect cash flow coming online from One Westside and Harlow. We continue to execute on financings and asset sales to fortify our balance sheet. At the end of the third quarter we had $866.7 million of total liquidity comprised of $161.7 million of unrestricted cash and cash equivalents, $705 million of undrawn capacity on our unsecured revolving credit facility. This reflects the use of $40 million of proceeds from the sale of Northview and Del Amo to repay amounts outstanding on our credit facility upon payment of an additional $85 million. With proceeds from the sale of 6922 Hollywood in October we currently have $790 million of undrawn capacity on our revolving credit facility and $951.7 million of total liquidity. Including our access to undrawn capacity of $141.5 million under our One Westside construction loan and $69.8 million under our Sunset Glenoaks Construction loan, we currently have $1.2 billion of total capacity.

As of the end of the quarter, our company's share of unsecured and secured debt net of cash and cash equivalents was $3.7 billion, 91% of which was fixed or hedged with weighted average term of maturity of 4.4 years, including extensions. Again this factors in repayments of our revolving credit facility from Northview and Del Amo sales as well as net proceeds from our $350 million green bond offering. Adjusted for a post-quarter paydown of our credit facility related to our sale of 6922, 93.2% of our debt is fixed or hedged.

Now I'll turn to guidance. As always, our guidance excludes the impact of any opportunistic and not previously announced acquisitions, dispositions, financings and capital markets activity. We are narrowing our full year 2022 FFO guidance to a range of $2.01 to $2.05 per diluted share excluding specified items. Specified items consists of $8.5 million trade name non-cash impairment, $10.7 million transaction-related expenses and $0.8 million one-time property tax expense identified as excluded items in our year to date 2022 FFO. Now we'll be happy to take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Absolutely. We will now begin the question and answer session. [Operator Instructions] The first question comes from the line of Alexander Goldfarb with Piper Sandler. You may proceed.

Alexander Goldfarb
Analyst, Piper Sandler & Co. Q

Hello. Hey, I think it's still morning out there, so good morning. First, just before we get into the fun on leasing and some of the tech stuff, especially the Amazon news. Just want to go back to the mobile studios. As you guys assess those businesses historically, how durable have you found the earnings and how much of a parallel do you see that – are the studios that you have in Hollywood, are those more durable or the mobile studios just as durable? I'm just trying to get a sense for the quality of those earnings from the mobile studios versus the on-site facilities in Hollywood.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
A

Hey, Alex, it's Victor. Listen, I think, thanks for the question. I think you would say they're parallel because you can't do one without the other. Even on studio location, whether it's the ancillary revenue services, the equipment itself or the mobile studios, they're filming for the most part on location and in studios, whether it's 40% on location, 60% studios or vice versa. They're using both for the type of filming that we have in our studios and the relationships that we have overall. So these trailers and the actual equipment that we use, generators, backup facilities, bathrooms, all of that inclusive of LNG is probably in line with the studio business in general. The only difference I would add is the 26 soundstages that we own now with the Quixote purchase are a lot more day-to-day, show-to-show versus long-term commitments.

Alexander Goldfarb
Analyst, Piper Sandler & Co.
Q

Okay. And then getting to the leasing. Obviously, the Amazon news today that they're freezing hiring, one of your office competitors had some pretty cautious comments about tech in West Coast. You guys, appreciate the color on the space that you're trying to backfill. But just overall how would you compare the leasing market now as far as what expectations for rents, for TIs and just as tenants are coming up for renewal, are they taking the same amount of space, shrinking or are they relocating maybe a San Fran tenant to move into the Peninsula or maybe it's moving to other markets. Just trying to get a real sense because obviously the headlines out of the tech companies has not been encouraging.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
A

Hey, listen, your question is a very vague sort of wide open, I don't mean that critically. It's just there's a lot there. So let me sort of talk high level and Art can jump in on some factual aspects. Amazon is one of many tenants that have commented on what their game plan is. Overall, your understanding of the tech tenants is exactly where we see it, which is this is a time of pause, slowness and maybe even reversing paths and giving back space and laying off people. And so we're seeing that, I think, effectively on our portfolio, specific to what we currently have, we don't see an impact until potentially end of 2023 with Met Park North and we're in conversations in. And those conversations are going forward. But they're telling us they're not going to let us know between now and, let's say, May or June, give us six months' notice as to what they're going to do. And I think they're optimistic in terms of laying out whether they stay or go. We really won't know that. So I know we get a couple of calls between now and then people are going to ask the question, we're not going to know because they're telling us we're not going to know. That being said, just in general we're not seeing any lowering of rents or increase in TIs on the deals that we're making or the conversations we're having on a material basis. Now, that's not to say it won't happen or it could not happen, but the deals that we're talking about right now, rental rates are being supported and TIs are being supported from a capital standpoint for the most part. I mean, Art, you want to jump in?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.
A

Yeah, it's really a function on the TIs. Hi, Alex. Good morning.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Good morning.

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

A

It's really a function of construction cost, not as a function of a deal from a leverage perspective, right? And so it really comes down to what condition is the space in, in most of the markets, what condition is the space in? And we figure out how much we need to spend, again, construction costs. We're in a great place because of our VSP program, and we have prebuilt space that's pretty much ready to go with minor improvements. And so I feel like we're well situated, especially in this environment where there's pressure on a little bit of pressure on TIs and free rent.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Okay. Victor, thank you. Art, thank you. Appreciate it.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks, Alex.

Operator: Thank you, Mr. Goldfarb. The next question comes from the line of Blaine Heck with Wells Fargo. You may proceed.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. Good morning. Just a follow up kind of on the leasing market. You guys have been very transparent with respect to recent and upcoming moves out of Qualcomm, NFL, Nutanix and Block, which has been really helpful, I think, in setting expectations. Victor, at this point, I know you just talked about Amazon, but kind of past that, do you feel like the large move [indiscernible] (00:23:37) is likely to be lower in the future, or are there any additional large tenants that you're just not quite sure about past those you've kind of spoken to and singled out?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Hey, Blaine, I'll tell you. I think, listen, we've laid out what we perceive to be tenants that are going to leave or potentially leave. And you listed them. I mean, in no particular order. It's Qualcomm, as we know, they're gone. NFL in about two months from now. And then the next wave is Block/Square. And Art's got an update on that. And then the next one after that is Amazon. After that we have nothing of substance until 2025 and that's Uber. So really and I think we've laid out where we see the vacancies and where we see the possibility of us signing deals. And we've got activity on a lot of that right now. But I think the reality is the large tenants in our portfolio are pretty stable after the ones that we've mentioned.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful. And then Victor, sticking with you, we're all going to be out in San Francisco for Nayarit in a couple of weeks. You've talked about crime and other social issues impacting the CBD in the past. Should we expect to see much improvement while we're there and just wanted to get kind of your thoughts on whether you think some of these social and safety issues are still affecting your markets and the decision to return to the office?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

I mean, listen, we've been pretty vocal, myself maybe more than others or maybe not as not as more as much as a few, but more than others about where the political environment is in our marketplaces specific to Seattle, San Francisco and Los Angeles. Next week is a big week for Los Angeles where we're hoping that there may be a little bit of a sea change like there was in San Francisco. Specific to San Francisco, I think it's got a long way to go. But we have seen a change. I think the voices are loud enough, ours being one of them. I would encourage you to come to our event on Monday where we're going to have the mayor there and the former mayor as well. And we're going to talk specifically about this on a little fireside chat which is the Monday before Nayarit.

I do think, Blaine, that there is progression, there is absolute reality that business needs to survive with decisions that are hard and fast and efficient. I'm not going to stand on a soapbox and give you my political beliefs, but I do think, as I said, those messages are out there. I would caution those who've not been to San Francisco. I was there three weeks ago, last Monday. I was pleasantly surprised on the activity in the streets and the flow of traffic, both people in and out of areas, specifically in the Financial District down by our building in the ferry building. But I do think that the ridership is completely up as a result of that. Now, as you move south towards South San Francisco up Mission and the likes of that, you will see other avenues of maybe sketchiness that has still not been cleaned up. But there's a motive and there's a game plan. And I'm hopeful that that will continue to be progressive and entice tenants and residents to come back to the city in full force.

Blaine Heck
Analyst, Wells Fargo Securities LLC

Q

That's helpful. Thanks. See you all soon.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks, Blaine.

Operator: Thank you, Mr. Heck. The next question comes from the line of Michael Griffin with Citi. You may proceed.

Q

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Great. Thanks. Mark, I think you mentioned in your prepared remarks demand that you're seeing from smaller tenants taking space. The average seemed to be about 6,000 square feet for the quarter. Is this a trend that you expect to continue in the future and maybe kind of more broadly do you see a pivot away from tech tenants from this demand and maybe see your portfolio growing exposure to other non-tech sectors?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.
A

Yeah. I'll start with the response and Art will add some color. That comment was made in relation to the Peninsula and Silicon Valley, which our portfolio largely does cater to a smaller tenant base, small to midsize tenant base. We actually did a deeper dive to kind of look at what the pipeline looks like in that particular market. And the average sized tenant is a touch higher than the 6,000 square feet that we've been seeing lately. It actually came in closer to 8,000 feet, which I think is kind of an interesting trend to watch. So that kind of gives you a sense of sizing where the demand is coming from. The other thing is I would say we've seen and we've been talking about this now for quite a while a real uptick in professional services, law firms making up a significant component of the activity that we're seeing, even as we've seen a bit more of a slowdown in tech tenant demand. Art?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.
A

Yeah, that's exactly right. As Mark said, in the Valley it's still completely driven by tech with the uptick of professional services. But I will say really for the first time in Seattle this is going back two quarters, professional service has taken really kind of taken the lead in terms of the number of deals done relative to sector.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.
Q

Got you. That's helpful. Maybe turning to recent transaction activity, I'm curious if you can provide any additional color. I'm certainly curious about the Trailer Park building, the 6922 Hollywood, how did pricing compare at execution versus when the deal was originally marketed and then kind of any other insights or color? I know there are some bigger assets sort of on the trading block in that market. So anything you can provide there would be helpful.

Mark T. Lammas
President, Hudson Pacific Properties, Inc.
A

Sure. Pricing was a bit softer than our initial expectations kind of heading into, let's say, around in the first quarter of this year. I think we're still pleased with the execution. Northview held up pretty close to initial expectations. The Hollywood building, the Trailer Park building you referred to, that came in a bit lower than initial expectations, but still solid. Let me give you a couple of kind of data points you can use either for modeling purposes or to kind of get a handle on what the economics look like. On a GAAP basis, we did sell three buildings, so let me give you that so you can kind of get it straight in your model. If you take back half of this year NOI and [ph] a cap (00:30:40) rate basis, the three assets we sold and the Del Amo asset had actually negative, NOI on it came in at a 4.4% cap and on a cash basis that came in at a 3.4% cap. If you just take the two assets which I think people are kind of interested in, they both came in, again, this is on back half of the year NOI GAAP and cash. They came in essentially on top of each other at a 5% cap GAAP and at a 4% cap cash.

Early indications when we were talking about those three assets being up for sale, we – on a cash cap rate basis our thinking was we were in like a 2.8% kind of a cash cap rate for the three assets. And as I just indicated, they came in at like 3.4%. So they're really not much different from what our initial hope was, but just a touch softer in terms of final value.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
A

Yeah. Michael, and I'll just jump in on, I think you probably know in the markets that we're in, there's very few transactions that are getting executed at where the initial underwriting was, let's just say 90 days or 120 days ago. A lot of these transactions clearly are asking for seller financing. A little bit of the weakness on 6922 and Trailer

Park for us is that we had some solid interest, four or five real buyers there, but a few of them wanted seller financing. And we weren't prepared to do it at the terms that they wanted. And so we went with the all cash buyer with the sure deal. The stuff that we see in the marketplace right now, obviously, the multitenant stuff is very challenged in terms of getting the execution where people perceive values to be.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Q

Got you. I appreciate the color. Thanks so much.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks, Michael.

Operator: Thank you, Mr. Griffin. The next question comes from the line of John Kim with BMO Capital Markets. You may proceed.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thanks. Good morning. You talked a lot about backfilling and addressing some of your upcoming expirations, but also recognizing the economic environment has changed and we're seeing decision making has slowed. I'm wondering if you had an update as to when you think occupancy is going to bottom in your portfolio?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yeah, sure. I mean, listen, I think – I mean, Art could sort of walk you through our main big deals, our occupancy bounce is going to be effective when we execute a couple of the big deals in Seattle and San Francisco that we're working on right now. And then I think, to backfill NFL, I don't want to give any perceptive analysis other than what Mark's prepared remarks were on our Qualcomm building. That building, we don't have the type of activity that we would have hoped for currently after they've moved out in August. But the other buildings that we're talking about, we have lots of activity and we're hopeful that we can execute a few deals. Art, you want to get into some specifics around that?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

A

Yeah, absolutely. So the next two, obviously NFL which we are in leases on and have a massive deal behind that we feel pretty, pretty confident about that. And then the one that's staring everybody in the face is the block of 470,000 square feet that comes up in September of next year. We already have 65% coverage on that. What does that mean? Well, 250,000 square feet of net new deals that we're negotiating, a deal that we're negotiating on currently. And there is about 125,000 square feet of sub-tenancy within that number. And we're going to keep these two sub-tenants by the way. We're going to keep both of them in some footprint, collectively bringing us to 65% coverage effectively a year out. And so we're being as aggressive as we need to do to get activity and to get deals closed in that market.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

And what about on the studio side? I noticed that occupancy did tick up 40 basis points sequentially. Is that momentum going to continue over the next couple of quarters?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

Yeah, it should. I mean, we've been sort of giving the background around that. That's the result of improved occupancy in the component of the studios that our office users that use space unrelated to stage use. So people in the entertainment business but not the actual stage users and I think we've indicated that since we measure occupancy on the studios on a trailing 12-month basis we saw during COVID a bit of a pullback on that type of occupancy and we've seen that improve over the last two or three quarters and so on a trailing twelve-month basis you should expect to see that steadily improve.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Sticking with the studio business, it looks like you made a small acquisition in New Mexico. I was wondering if you could discuss the pricing rationale and [ph] it's related now (00:36:11) to the Quixote acquisition?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

Well, no, it is related to production services business. If you read the footnote, we try to get some color around what the nature of this property is. It's 35,000 feet of part office, part kind of industrial that historically has had occupancy for media companies, most recently Warner. But more importantly, it sits on a very, very large parcel, 29-acre parcel. And we currently park over 90 transportation vehicles, Star Waggons vehicles that both serve the Albuquerque studio owned by Netflix, which is about 2.5 miles away, and all of the other studio business in and surrounding Albuquerque, which is a busy media market. And so we had an opportunity to secure this site, to give us the long-term ability to park our trailers, perhaps down the road maybe even lease at 35,000 feet to a user. But most importantly, it's there to service that very busy production services market.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Thanks for that. And what was the price?

A

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

Well, there's no point in giving a cap rate, because it wasn't occupied when we bought it and we didn't buy it for that purpose. But it was approximately $8 million.

John P. Kim
Analyst, BMO Capital Markets Corp.

Q

Okay. Great. Thank you.

Operator: Thank you, Mr. Kim. The next question comes from the line of Dave Rodgers with Baird. You may proceed.

David Bryan Rodgers
Analyst, Robert W. Baird & Co., Inc.

Q

Hi, yeah. Good morning out there. Victor, in your opening comments you had talked about being opportunistic with acquisitions, and I think that was probably your entry into Quixote. But curious on what you're seeing in the acquisition market today and then maybe a dovetail to that as obviously you took studios, cut it in half and now have tripled it. So can you give us a sense of kind of where that might be going here with this opportunistic acquisition comment at all? Thanks.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yeah. I mean, listen, you nailed it. It was correlated around the Quixote acquisition because we really hadn't talked about it since we closed the transaction. But 100% correlated to that. I'll start on the offset. As I said, we're seeing some deals in the marketplace. I'm nowhere near the flow just given where the debt markets are and the appetite of people to sell into a increasing cap rate marketplace. I do think you're going to see, I know of some institutional quality assets that are going to come to market, whether they trade or not on the office side in our markets are going to be very interesting to see where that pricing comes into play.

On the studio side, there is currently today one asset that's come to marketplace that we'll be curious to see where that price is. But so far what we're seeing from the first round bids and understanding is it's fairly aggressive and a very minimal increase in cap rate on that asset. There's another potential asset that possibly comes to marketplace. But after that, I don't see a lot of depth on the studio side. I do, Dave, see maybe an acquisition or two in the services side, not for us, but they are going to be coming out. So that would support where I think our valuation is on our Quixote, Star Waggons and Zio purchases in the last year plus. So that sort of gives you a snapshot of what's out there. But it is obviously apparent that the flow of deals is nowhere near what we've seen in the past.

David Bryan Rodgers
Analyst, Robert W. Baird & Co., Inc.

Q

I appreciate the color, Victor, on the one asset, the studio asset in the market and maybe one coming to market. Are those assets you're bidding on or are those just going to be good comps for your company?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

One of the assets we are going to be bidding on, which is the one coming into the marketplace, we did not bid on the one that is in the market now.

David Bryan Rodgers
Analyst, Robert W. Baird & Co., Inc.
Q

I appreciate that. And then maybe just a follow-up, shifting over to NFL, you've been talking about those two tenants for a while. It sounds like maybe one is close to inking the deal. Can you talk about rate and then maybe any down time as you're negotiating the leases as we get closer here to the expiration?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
A

Yeah. We've been in leases for some time. It's a complicated transaction. And the deal behind it really came up not too long ago. But we do think of it as a viable backup. Can't get into rate. We're in [ph] negotiations now, (00:40:57) and we're not going to get into rate and deal specifics with you at this point. But we do feel like, I think we've talked about, it's going to be kind of early 2024, first quarter, second quarter occupancy.

David Bryan Rodgers
Analyst, Robert W. Baird & Co., Inc.
Q

All right. Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
A

Thanks.

Operator: Thank you, Mr. Rodgers. The next question comes from the line of Daniel Ismail with Green Street. You may proceed.

Daniel Ismail
Analyst, Green Street Advisors LLC
Q

Great. Thank you. Maybe going back to the New Mexico deal, assuming the deal was also being included in the Blackstone partnership?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.
A

Dan, this is Mark. The short answer to that is no. As you know we own the production services business and this acquisition is part, it sort of supports that production service business. So we own it on our own. While we have you on the phone, Dan, we wanted to take the opportunity to add some information if you will on the back of your note the other day regarding dividend coverage, which I realize is not a response to your question but we're going to do it anyway.

So we ran some math around it. And let us give you just our math around your math if only to kind of give investors a little bit more to go by. For those who haven't read the note, you had our dividend distribution 98% for 2022, that year is essentially, I mean, you have three quarters actual, only one quarter projected. Off of our essentially actual NOI, we expect to be more like 65% distributed relative to your 98%. Now you're careful in your note to point out that you normalize, the main difference is probably the normalization of recurring CapEx, TIs obviously recurring.

We took your convention relative to 2022 and even under your conventions. So putting aside what we actually expect to spend even under your convention, we get to 78%, not 98%. And again, that's against 2022 actual. The other thing we did too just to kind of gut check it all is we ran two-year forward, three-year forward, four-year forward and five-year forward on projections against our NOI but using your convention of spend relative to NOI and the peak amount of – just in terms of the percentage distributed during that period, it never exceeds 85% and that's in this 2 to 3 year period while we're dealing with some of these bigger vacancies. But over the five-year period it's 78%. So similar to where 2022 landed, we never get anywhere remotely close to 98%. And again that's using your convention on recurring CapEx. So anyway we thought it was important to round out the explanation.

Oh, I would also just add, for what it's worth, I know you're using a convention. I think that sector-wide convention on the NOI recurring, if we go back all the way to 2016, I think we went back, we've actually been spending closer to 24% on recurring CapEx relative to NOI. So under your convention we're, say, 400 or 500 basis points higher than what our historical spend has been.

Daniel Ismail
Analyst, Green Street Advisors LLC Q

Okay. Appreciate those comments. We'll have to go back and look at my assumptions and happy to take it offline, too, and chat more about the differences in methodology, but I appreciate the comments nonetheless. Maybe just a second question regarding the transaction markets. Victor, you mentioned the lack of comps and the difficulty in obtaining financing.

I believe you two have – I believe you have two assets on the market in downtown LA, pretty decent quality assets [indiscernible] (00:45:27) long-term. I'm just curious how marketing is going for those assets. So we heard seller financing was being included in the marketing of those deals and curious about attracting any more bidders than anything else you guys have been marketing out there.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc. A

Yeah. Daniel, there are two assets in the portfolio that we're marketing. We've got multiple offers on them. They all include with the exception of one some form of seller financing. Obviously, I'm not going to get into the terms and conditions of that, but it's up to 50%. And that's the limit. There have been bids on both assets from people and then individual assets. Depending where pricing comes into play, we'll make a decision what we're going to do. One of the more interesting buyers is a user for one whole building which is fully leased for several more years. But there's an ability for them to get the asset back. So we'll keep you posted as things move forward.

Daniel Ismail
Analyst, Green Street Advisors LLC Q

Got it. I appreciate the color. Thanks, everyone.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc. A

Yeah. And by the way, I forgot, we also, as Mark mentioned in his prepared remarks, we sold three or four assets. The fourth asset, our Skyway asset, where we talked a couple of quarters ago about the life science industry and the attractiveness of that asset. And it has been sort of been prepared for that. Our intent, as we said, was not to do that. The market had cooled on that. And as a result it's come back. We've got three potential buyers for that asset as well. So we'll keep you posted on that one too, Daniel, going forward, so there's three to talk about in the future.

Daniel Ismail
Analyst, Green Street Advisors LLC

Q

Sounds good. Thanks, everyone.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks.

Operator: Thank you, Mr. Ismail. The next question comes from the line of Ronald Camden with Morgan Stanley. You may proceed.

Q

Hey, it's me. [indiscernible] (00:47:26) on for Ronald. Just wanted to follow up on the prepared remarks. I think you said you had a tenant that's interested in 50% of the Qualcomm space, just remind us if that tenant was to move in, would there be, what are you expecting in terms of downtime and so forth? Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks. As I said, listen, we have a tenant. It's [ph] a user maybe (00:47:49) to potential ownership. I think it's just way too early for us to underwrite and give you some projections on that. I'll go back to what I said earlier. Of the assets that we have, large vacancy and the disclosure and transparency that we're giving you, I would not put a tremendous amount of credit in those two buildings versus the other stuff that we're talking about.

Q

Got it. Thank you. And then just to follow up on that, you have some debt coming due next year and the year after that. What are your plans to take care of that?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

I will probably use the line. I mean, we've got almost $800 million available on the line. If any of the asset sales we've been focused on happen, that would likely just improve that capacity. So in the very near term we've got $110 million coming due in January, can easily address that on the line, $50 million a little later in the year, again on the line. And then we can accommodate the final $150 million that's all the way at the end of next year also in the line if necessary, but a lot can happen between now and then. We always review the capital markets. So we use the line as our temporary holding period. But we always look at the bond market as [ph] a prime replacement (00:49:15) market, the terminal market to help us address all of our financing needs.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

But suffice to say, I mean, we've got a lot of liquidity right now on the balance sheet to get us through, nothing major after what Mark had mentioned comes due until 2025.

Q

Great. Thank you, guys.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks, Ronald. No, sorry. It wasn't Ronald, was it? [indiscernible] (00:49:42)

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Got it.

Operator: The next question comes from the line of Camille Bonnel with Bank of America. You may proceed.

Camille Bonnel
Analyst, Bank of America

Q

Hi. Following up on earlier questions, I noticed that the average lease term on your renewals were pretty short. And we've been hearing that occupiers are looking for flexibility in their leases given many are still trying to understand the impact of hybrid working on their office footprints. Are you seeing any change in the lease structures you are signing, whether there are additional clauses being put in place for expansion or contraction or even early breaks?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

A

Yeah. Camille, this is Art. Yeah, this is true. We had a sequential tick down in length of lease term on a blended basis. If you look our new deals picked up probably about seven months, on the average of seven months. It was really the renewal. There were three renewals in there that really dragged it down, then dragged the average down to about 30 months. But if you look at where length of term has been trending from Q2 2020, that's really where it bottomed out for us. We've steadily been increasing our length of term on deals from again from somewhere around 32 months to 52 months. And so we feel pretty comfortable about it directionally. I just think that with just three deals really on the renewal side it dragged down the quarterly average.

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

Yeah. If I could just maybe just add some analytics around Art's point because it's dead on. If you look not just at the recently completed quarter, which can be overly influenced by a couple of deals, if you look nine months, the full nine months of this year, it's actually up on just on the renewal of about 4% at 49.1 months compared to 47.1 months for the nine months of the same period last year. So we're actually seeing an improvement.

I would even add to that, if you want more to contextualize that, if you looked at overall lease term, while this particular quarter on a sequential basis was down, if you would, say, on a trailing 12-month basis for the most recently completed quarter, and you compare that to, say, trailing 12 months pre-COVID. So the last quarter of 2020, going back 12 months, they're essentially in line. We're like 0.5% lower than we were pre-COVID.

Camille Bonnel
Analyst, Bank of America

Q

Okay. I appreciate all the details so far around the leasing pipeline. Can you remind us what the retention rate was for this quarter and what do you view as the new normal on a go-forward basis for the company?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yes. Yes. So we've been – I think the last, certainly the last eight quarters or so, we've been trending around 60%, somewhere out 60%, 65% on retention. We think we're going to be pretty close to that.

Camille Bonnel
Analyst, Bank of America

Q

Thank you. And just switching to the financing side, can you talk to what the embedded costs were for the caps and swaps you obtained this quarter? And I believe you have $125 million of swaps burning off soon. What's your thinking about hedging this floating rate exposure through 2023?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yes. So we did not. All of the caps and swaps that we enumerated in the supplemental had pre-existed. So we didn't incur anything as it relates to hedging instruments in the quarter.

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

I think with the exception maybe of Bentall which I think happened in the current quarter. But Glenoaks was when we did the construction loan and the 3.5% [indiscernible] (00:53:55) happened as of the financing of that instrument.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

And then as it relates to that swap, that's a swap we actually had from a while ago. We paid off term debt and then we were able to keep that in place to continue offset floating rate exposure. When it burns off, we're going to look at what floating rates that we have, it's a little bit more than 400 at that point. And we're always monitoring hedging opportunities and depending on how that looks later in this year we might put further hedges in place.

Camille Bonnel
Analyst, Bank of America

Q

Okay. Thank you for taking my questions.

Operator: Thank you, Ms. Bonell. The next question comes from the line of Nick Yulico with Scotiabank. You may proceed.

Nicholas Yulico
Analyst, Scotiabank

Q

Hello, thanks. Hi, everyone. First question is just on thinking about the overall balance sheet leverage, debt to EBITDA has gone up a bit. You also have an issue over the next year where some of the move outs aren't factored into EBITDA. I know you get some EBITDA also from One Westside. But how should we think about how are you going to manage the balance sheet in regards to a leverage level and whether you do have more, let's say, asset sales contemplate or something else that would maybe address your leverage over the next year?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

Sure, I mean, just to address the net debt to EBITDA. It is [ph] all over (00:55:32) this quarter primarily because there's only one month of Quixote adding value. If you normalize that, it comes down a little. But you're correct, the future burn-off of tenants that are expiring isn't reflected in the current one. And neither, like you said, is One Westside. But the One Westside is significantly more impactful than the burn-off of almost all the tenants that are rolling. So from that perspective we feel pretty good about how that's going to continue. And obviously we're going to be focused on leasing and – sorry, in addition to Harlow, let's not forget, that has not provided any cash net debt to EBITDA as the cash rate start in the current quarter in Q4.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yeah, yeah. Just to add a little bit more specifics around this, we've given indications in the past over what pro forma adjustments look like for Harlow, for One Westside, we could do likewise for Quixote. But what you would see quickly, Nick, is that it drops below 7 on a pro forma basis. Last time we ran it, it was like 6.6 debt to EBITDA. And that, I mean, you can expect that to materialize as the cash rates from those kick in towards the end of this year and into next.

Nicholas Yulico
Analyst, Scotiabank

Q

All right. That's helpful. Thanks. A second question is on Washington 1000. I don't believe you have a construction loan in place. Just wanted to hear your latest thoughts or are you trying to pursue something there? And then also in terms of that project, realizing attractive location and very attractive design and but at the same time we are moving into a more uncertain environment from a leasing standpoint. And so just trying to understand why you're still confident in going forward with that project right now and if there's any chance that you would actually consider pausing it from a construction standpoint to preserve capital or wait for maybe a less uncertain leasing environment.

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

I'll just address the capital side and then Victor [ph] or Art (00:57:56) will address the question around leasing. In terms of capital, we've only got – we're fully locked in on costs, Nick. We're underway. It's probably close to being topped out by this point. All costs are under a guaranteed contract. So we have no cost risk. There's only about $170 million of spend left to go to complete that. So it's not going to be burdensome, particularly in terms of capital availability. There's obviously once we have a tenant in tow there's the spend associated with [ph] deals

(00:58:41) and commission, which we would be more than happy to spend, obviously. So it really is not, Nick, a material burden on our capital availability.

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

A

Yeah. So I mean, Nick, you said it's a great location. It's also a fantastic asset. There's a handful of large deals out in the market and we're talking to all of them. We're in negotiations with one in particular right now from 200,000 to 250,000 square feet. So, yeah, we still feel bullish on the large tenant demand and the trophy assets, the newer space is garnering all of the attention. So we still feel good about it. We have a little bit of time but we're out hustling to kind of get the next tenant behind this one as well.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Yeah. And then lastly, Nick, listen there's as there's flight to quality here. We believe in this asset. There's no turning back now, though. Let's be very candid. It sounds like we're going to stop construction and get in a situation where this building is not going to be completed. So as Mark said the capital spend is already in place. And we have a lot of activity specifically around a couple of hundred thousand square footers. And that means we've got to go to ground more and do [ph] 4.4% (00:59:58) deals. That's what we'll do to get the rest of it, at least.

Nicholas Yulico
Analyst, Scotiabank

Q

All right. Thanks, everyone.

Operator: Thank you, Mr. Yulico. The next question comes from the line of Tayo Okusanya with Credit Suisse. You may proceed.

Tayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

Yes. Good afternoon, everyone. First of all, just around the Quixote deal. Again if you take the September NOI that you guys provided in the supp and then annualize that, it looks like that deal was kind of done at like a 9% cap. But I think in the past when the deal was first announced it kind of was meant – we thought it was like a 12%, 13% cap type transaction. Could you just help us understand that a little bit better? I don't know if there's some seasonality in the business which is why just annualizing the September numbers may not be the right way to look at it?

Mark T. Lammas
President, Hudson Pacific Properties, Inc.

A

Yeah. I mean, you nailed it. You got one month of results there. You can't gauge the valuation of this business off of one month of result. But we'll see where full 2022 ultimately shakes out. And when we were guiding, we were really focused more on 2023 because that would be a full year of ownership where it's under our structure. It takes into account other opportunities we have of having combined this business with our pre-existing business. And we are still confident that this business off of 2023 relative to the $360 million we paid for it is like an 8% to 8.5% multiple on EBITDA. And you'll just have to continue to monitor the disclosure around that as we have more months to put in front of you to see how close we are to achieving that multiple.

Tayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

That's clear. Thank you. And then just a second question, just again, given all the conversation around slowdown in tech demand, I mean, how do we start to think about kind of potential new development starts going forward in regards to, is that landing a bit pre-lease, is that – how do we kind of think about when you may start something new, if at all?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

I mean, the market shift has led us to obviously be in a position where we would do – one of the multiple deals that we currently have in various forms and functions to break ground would have to be a pre-leasing component. The amount of pre-leasing and the tenant quality is obviously up in the air, but it's changed from [ph] where we looked (01:02:45) in the past.

Tayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Q

Got you. Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

A

Thanks so much.

Operator: Thank you, Mr. Okusanya. That concludes our question and answer session. I would like to turn the conference back over to Victor Coleman, Chairman and CEO.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thank you so much for the participation and appreciate all the questions and we'll look forward to seeing most of you in Nayarit in about two weeks.

Operator: Goodbye. That concludes the conference call. Thank you for your participation. You may now disconnect your line.