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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hudson Pacific Properties Second Quarter 2022 Conference Call. All participants are in a 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-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. The audio webcast of this call will be available for replay on our website.

Some of the information we'll share on this call today 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 touch on our strategy and the macro environment. Mark will discuss progress on leasing, development, and asset sales. And Harout will provide more detail on our second quarter 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.

Thank you, Laura, and thank you, everyone, for joining us today. Day-in and day-out, every level of our organization is committed and focused as we work to make the right decisions that move our business forward in alignment with our core investment thesis. We're continuing to evolve in line with the synergistic conversion and secular nature of the tech and media industries, leveraging our unique ability to deliver world-class office and studio facilities that position us to outperform over the long term. The fact that we're making progress against the persistent pandemic backdrop and rapidly evolving economic environment is a testament to our team's efforts and dedication. Office utilization throughout our portfolio continues to rise and is now in the mid-40s to 50% range, up from its low 5% to 10% in the height of the pandemic.

For most of our office tenants, it's clear, executives want employees back in the office in some capacity. Not only are they witnessing the curation of culture, collaboration, and mentorship, but there's also growing evidence of reduced productivity and accuracy among key functional groups. Companies, including Google, Amazon, and Netflix, three of our largest tenants, operate with a very long-term perspective and have continued to lease, build-out, and/or occupy well-located, high-quality, sustainable and collaborative workspace, like we have in our portfolio. We believe that for competitive reasons, our leading tech, media and creative companies, if they have not already, will ultimately follow suit.

Despite historically low unemployment, it's challenging to predict the precise near-term net impact that hybrid work, capital constraints and potential layoffs could have on office demand. For the second quarter overall, in several of our markets, we saw tenant requirements and gross leasing grow, sublease space stabilize or decline, and positive net absorption in the six figures, yet the swelling demand and activity we witnessed at the beginning of the second quarter tempered in June and July as some of the companies paused to digest the impact of

increased market volatility and the possibility of a recession. Benefiting from our diversification at our studio assets, we continue to see robust demand for integrated offering of Class A office, high-quality stages, support space, and production services. While our on-lot ancillary production office space is leasing up, albeit slowly, our stages and support spaces are essentially fully occupied. Our studio facilities are ideal for the type of original content of streaming and other media companies will continue to rely on to win subscribers. Currently, we can accommodate only a fraction of the inbound stage and support space related inquiries, which ultimately bodes well for our on-lot Class A and production office space.

Pro-business leadership and policies appear to be gaining momentum across all of our markets, and this is very positive in terms of development. Most recently, California's proposal to establish an annual property tax surcharge on properties valued at over $4 million, the latest effort to repeal Prop 13 failed to garner the requisite signatures to be included on November ballot. From Seattle to San Francisco to Los Angeles, we're seeing greater support for pro-business candidates, with an emphasis on cleaned-up cities, supporting police and ensuring urban centers remain open for business. At the end of the day, regardless of the changing macro or regulatory environments, we're doing what is within our control and what we do best. Leveraging our expertise and relationships, staying laser-focused on leasing and making strategic enhancements and additions to our portfolio to capture tenant demand now and in the future. We're in front of every relevant space requirement on our markets. We're effectively determining where repositioning other capital improvement dollars can have the greatest impact and we're recycling out non-strategic assets, while executing on select projects within our development pipeline, and we're pursuing only studio and studio-related acquisitions that are synergistic and accretive to our existing platform.

Finally, I encourage all of our investors to check out our latest Corporate Responsibility Report, which we published during the quarter. I'm proud of our continued accomplishments and of the value of our Better Blueprint ESG platform and its creating value for our stakeholders. Today, we have the highest percentage of LEED-certified properties among our major office REITs. Our operations are carbon-neutral, and we have further reduced emissions by 25%. And to address homelessness, we've invested and donated a total of $4 million towards supportive housing solutions in our communities. And we've also strengthened our commitment to diversity, equity and inclusion, hiring a DEI Head and launching an innovative impact fund, EquiBlue, to support these efforts within our industries and our communities.

With that, I'm going to turn it over to Mark.

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

Thank you, Victor. This quarter, as part of our ongoing focus on leasing, we signed over 700,000 square feet of new and renewal office leases, including nearly 500,000 square feet of deals in the Bay Area alone. This includes two significant renewals. Stanford renewed the entirety of its 43,000 square feet leased at Page Mall Center in Palo Alto through 2027. That lease was set to expire in Q4 of this year. We also renewed 199,000 square feet of Nutanix 2024 expiration and expanded them into another 16,000 square feet at 1740 Technology in San Jose, thereby extending about 50% of their current space through 2030. As part of this agreement, Nutanix early terminated 14,000 square feet at Concourse in May of this year, and we've already backfilled that space with another tenant as part of a larger new deal. Nutanix will terminate 67,000 square feet and another 42,000 square feet in Metro Plaza in January and June of 2023 respectively, leaving 117,000 square feet to naturally expire in June of 2024.

GAAP and cash rents were up 16% and nearly 6% from prior levels. Our office portfolio at the end of the quarter was 90.8% occupied and 92.3% leased. Our leasing pipeline that is deals and leases, LOIs, or proposals is now

approximately 2 million square feet and we've just over 1 million square feet of inquiries and tours on top of that. Excluding [indiscernible] (00:08:14) Qualcomm we're on leases or have LOIs or proposals at about 55% of our remaining 2022 expirations within our in-service office portfolio, with another 10% in discussions. Regarding Skyport Plaza in North San Jose, where Qualcomm's lease expires at the end of July, we're working on various reposition scenarios, including enhanced lobbies, common areas and amenity and outdoor space for office use.

There are some large office requirements in the market with only a handful of availabilities that can accommodate tenants in the 400,000 square foot range. So we feel that with strategic capital improvements, we will be competitive. We remain in leases with a single tenant to backfill this space, at 10900 and 10950 Washington in Culver City, and we have interest from two other tenants for the entirety of both buildings. Block gave notice that they will vacate the entirety of their space at 1455 Market, when their lease expires in Q3 2023. We're continuing our marketing efforts to backfill that space, which includes discussions with existing subtenants who are in about 125,000 square feet or 25% of Block's space. Separately, we have had some recent interest on another 200,000-plus square feet, largely from a single tenant. We're also evaluating reposition ideas to meet market demand, and we're prepared to backfill this space with single floor and full podium users, ranging from 25,000 square feet and 90,000 square feet. That was our original plan to address BofA's rollout when we purchased the asset and prior to Block's and Uber's rapid expansion.

Turning to development, Company 3 and Google are building out their tenant improvements at Harlow and One Westside with GAAP rents already commenced and stabilization on track for Q4 2022 and Q2 2023 respectively. These projects will contribute a combined $45 million of additional NOI annually. Sunset Glenoaks and Washington 1000 are under construction with anticipated delivery in Q3 2023 and Q1 2024 respectively. These two projects upon stabilization will contribute $42 million of additional NOI annually. We also recently received planning approval for two projects within our 3.6 million square foot future development pipeline, including Burrard Exchange, a 450,000 square foot hybrid mass-timber office building in Vancouver and a 1.2 million square foot Sunset Waltham Cross studio outside London, both in partnership with Blackstone. We now have the option to start construction on both projects next year.

Finally, to provide an update on our held-for-sale office assets, we've entered into contract to sell Northview Center in Lynwood, Washington and Del Amo in Torrance, California. Together, these transactions which we expect to close before the end of Q3 of this year will yield approximately $50 million of gross proceeds. We continue to market and have buyer interest in both 6922 Hollywood and Skyway Landing. We are also exploring alternative uses for these assets, 6922 as hotel or residential and Skyway Landing as life science.

And with that, I'll turn things over to Harout.

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

Thanks, Mark. Compared to the second quarter 2021, our second quarter 2022 revenue increased 16.6% to $251.4 million. Our same-store property cash NOI grew by 7.3% to $125.2 million, primarily driven by the commencement of cash loans on various leases, including Califia Farms, Twitch Interactive and WeWork at Maxwell and Rivian at Clocktower Square.

Our second quarter FFO, excluding specified items, was $74.6 million or $0.51 per diluted share, compared to $74.4 million or $0.49 per diluted share. Specified items in the second quarter consist of transaction-related expenses of $1.1 million or [ph] $0.01 per diluted share (00:12:33) and a one-time property tax expense of $0.5 million or $0.00 per diluted share compared to transaction-related expenses of $1.1 million or $0.01 per share and a one-time property tax expense of $0.3 million or $0.00 per diluted share a year ago. Year-to-date AFFO

continues to improve by $4.7 million or 4.2% or $0.05 per diluted share or 6.6%. At the end of the second quarter, we had $781.5 million of total liquidity comprised of $266.5 million of unrestricted cash and cash equivalents and $515 million of undrawn capacity on our unsecured revolving credit facility.

Note, our total liquidity as of the quarter's end includes proceeds from settlement of the US government securities used to repay the $126.4 million of in-substance defeased fees debt subsequent to the quarter. We also have access to $143.9 million of undrawn capacity under our One Westside construction loan and $85.5 million of undrawn capacity under our Sunset Glenoaks construction loan. Approximately 69% of our debt is unsecured and 66% is fixed rate. Our weighted average loan term with extensions is 4.7 years.

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 market activity. We are updating full-year 2020 FFO guidance to a range of $2 to $2.06 per diluted share, excluding specified items. Specified items consist of $1.4 million of transaction-related expenses, $8.5 million of trade name non-cash impairment, and $0.5 million of one-time property tax expense identified as excluded items in our year-to-date 2022 FFO.

Our revised guidance reflects the impact of higher interest expense associated with steeper LIBOR and SOFR curves compared to prior projections, also reflects the anticipated disposition of Northview Center and Del Amo by the end of the third quarter for gross proceeds of approximately $48.8 million, which we expect to use to repay outstanding amounts under our credit facility.

Note that we increased our full-year same-store property NOI projection by 50 basis points to a revised range of 2.5% to 3.5%, which includes the full impact of all Qualcomm's expiration at Skyport Plaza without renewal or backfill. [ph] The increased stems (00:15:18) from improved leasing expectations, as well as lower operating expenses compared to prior projections. Adjusted for Qualcomm, full year same-store property cash NOI growth projections would be 4.25% to 5.25%.

Now, we'll happily take questions. Operator?

QUESTION AND ANSWER SECTION

Operator: 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.

Q

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Hey. Good morning. Good morning out there. Two questions for you. Victor, let me just ask bigger picture on the studios. There've been some announcements recently and I think these are all separate, but you'll correct me and let me know if these are actually all the same. But there was like Atlas that had something, East End Capital and I think there was one other, there have been a number of studio announcements. Are the economics for studios in L.A. changing and becoming more advantageous or is there just so much demand that people can make the numbers work regardless of cost escalations or how should we think about some of this increase announcements on the studio front from other people looking to either enter or expand their holdings?

A

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

Well, listen, Alex, I think it's specific to markets. If you're looking specifically at L.A., the demand for studios is still relatively high. Our Sunset Glenoaks, we've got multiple tenants who are interested in the whole thing or a series of stages, and the economics around our transaction are still very favorable. We went out and did a third-party study, which I'm sure our guys can share with you, if you want to call them offline to show supply, demand ratios in our main markets and some of the other main markets throughout the country and other parts of the world. And we are still seeing economics around building at the right price levels. I would caution, sort of the banter around some people saying they're building studios. I think what was planned earlier here and even to the extent at the end of last year, a lot of those deals are not going to materialize. I don't think there's a lot of debt on construction financing available for new development in unfettered groups who don't have a lot of experience. And so, I still think we're in a very good position on the assets that we have already said that we're going to be building and the activity that we have around them is still consistent with the yield, even with cost increases.

Q

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Okay. And then, Mark or Harout, on the interest expense, I think originally, on last quarter's call, you spoke about $325 million to $350 million of total disposed. You have $50 million now, so it sounds like there's still $300 million. You last time gave a 2.25% GAAP cap rate just because of a bunch of vacancy. But now we have a higher interest rate environment. So, net, Harout, as we think and I'm not asking for 2023 guidance, but as we think about modeling our interest expense line and what debt balances we should be thinking about that are affected by rates, what do you think on your numbers sort of the net impact of interest expense? Like some of the companies are giving absolute numbers like, hey, expect interest expense next year to be $40 million higher or something like that. Is there something that you can give us so that we can sort of be modeling in the ballpark for where your net floating rate will be and how much interest expense you think is going to increase next year?

A

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

Alex, thank you for the question. There's a lot to digest that we haven't provided anything in 2023, but maybe as a guidepost, I can give you a breakdown of our 2022, or our variable debt this year. So, you can get a sense of what the drivers are, and then use that to model. If you look at our variable debt, even though it's at 34.5%, it's

really comprised of – 14% of the total debt is [ph] $485,000 for the HR line (00:19:47), which we find to be temporary. And once we sell these other assets, we'll buy that down pretty significantly. Another 6.1% or $210 million relates to construction financing, both at One Westside and Sunset Glenoaks, which again is relatively temporary until those construction loans get taken out. And then you have another $328 million worth of debt that has some sort of cap on it, whether – various caps. And then that really leaves you with $172 million or $173 million of debt that's truly variable, meaning there's no caps, it's not temporary. So if you kind of break it down that way, you can look to use those numbers to project because ultimately, all we use are future LIBOR and SOFR curves. So we don't have any other crystal ball to utilize other than those.

A

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

Yeah. Alex, let me – just to respond to your question about the held for sales and impact on debt, if you cut through it, even if you assume kind of higher underlying SOFR or LIBOR rates on, which on the curve peak out in December and then start tapering back down, even if you assume kind of the higher end of that curve, the NOI generated by those assets, right, which until sold will continue to contribute, roughly offsets and it differs between 2016 and 2022, it's Skyway Landing, but collectively, they basically offset the savings associated with the debt repayments. So net, it's more or less a neutral outcome whether you sell it and pay down the debt or keep the assets, and carry the debt.

Q

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Okay. Thank you.

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

Q

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

Thanks. Maybe stepping back to talk a bit again about the leasing in the San Francisco area, obviously it was driven by the Nutanix and Stanford renewals, but kind of for that other half of the leasing, what really drove this demand? Was it new leases, expansion of tenants? Any specific sector that's kind of driving it?

A

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

Yeah. This is Art. It's really a mixed bag, which is promising, right? I mean, the valley in Peninsula – greater valley in the Peninsula has shown quite a bit of lift in the greater markets. There was roughly 3.1 million square feet of gross leasing, 2 million square feet of net absorption. And we've seen that driven four to five quarters in a row, right. And relative to our portfolio, it is – it's not just tech, but it's been law firms, it's been the fire sector and so forth. So it's very pleasing to see that it's coming really from all sectors.

Q

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

Great. That's helpful. And then, just wanted to get a sense on the sub-tenant exposure in the portfolio, I think Mark kind of touched on this in the prepared remarks, but could you see some of these go directors as future prospects for space in the future?

A

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

Yeah, absolutely. I think Mark alluded to 1455 in particular, which we're working with those tenants to keep them in some capacity. But across the portfolio, we're in front of every single one of our sub tenants and we'll keep them in some way, shape or form.

Q

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

Got you. Could you put a number around that sub-tenant exposure, kind of quantify it?

A

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

Total sublease in our portfolio?

Q

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

Yeah. Yeah.

A

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

Probably about – we're talking about probably at 400,000 square feet. A little bit more.

Q

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

Okay. Great. That's it for me. Thanks for the time.

Operator: Thank you. The next question comes from the line of Jamie Feldman with Bank of America. You may proceed.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Great. Thank you. Victor, I want to go back to the comment you made at the outset of the call about. It sounds like your tech in general and overall demand is still seems like it's there. Can you just talk more broadly about – I know, we're seeing the headlines and of course, the press is focusing on the negative. But what do you think the same tenants and the largest tech tenants are thinking about their long-term space plan today?

A

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

Yeah, Jamie, listen, I don't have a crystal ball as I'll use Harout's phrase here. But I think you've seen in the marketplace and I appreciate the rhetoric around negativity seems to have the highest highlight so – which we've seen. But the preponderance of the stable tenants even though there may be a pause or a hold back, have a vision beyond 24 months, 36 months, right. They're not – I think the encouraging aspect of the – I'll use Google as an example because we're seeing it in our own portfolio, they've come back to us on some space and said we

want to – it extend leases in the likes of that for 10 years out. That's their vision. And I think that's the encouraging aspect even though other tenants are saying we're going to wait and see and we're not going to renew or we're going to downsize. And so the overall rhetoric around some of the strong tenants staying related or not or we're staying put in certain assets and we know which ones in our portfolio they're staying put at. There are certain assets in our portfolio we have exposure, but we know they've reached out and said we want to renew early or we want to restructure or lease, so we have longer term. I think the silver-lining, if there is one on that, is the term that they're looking at is not a three-, four-year term. It's more a seven-, eight-, nine-year term longer. Art wants to comment on that.

A

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

Yeah. And not only term, but you've seen through – even the depth of the pandemic, Jamie, you've seen the same tenants taking additional space even with us. But even as we speak now, the tenants that are driving – the large tenants that are driving the market, Apple, still doing large deals in Silicon Valley. They just did almost 400,000 square feet, Microsoft doing 450,000 square feet in Vancouver, and the likes of those. We're still seeing those across the markets.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

So can you quantify, like, the size of that leasing pipeline, the stuff that's probably on hold for now, but on a longer-term view probably get leased at some point?

A

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

[indiscernible] (00:26:42) well, I do know that one of the markets that has some caution right now with regards to demand and leasing activity is Seattle. I know, there's four tenants close to about 100,000 square feet, that are tech tenants that have really – they've hit the pause button, they've not left the market, but they're still in the market. And that's – for Seattle right now, I think that's kind of our chief concern. But I couldn't give you a market-by-market breakdown of tenants, who have hit the pause button recently.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Okay. So maybe using them as an example, what do you think they're waiting for? Is it the economy? Is it understanding? How they're actually going to use space? Is it something else?

A

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

Yeah. I think it's a little of everything, really. But really, they're still working through what does return to work look like, right. And with kind of recent economic business, I think they're looking at it and being more judicious about what they're going to take in the new market.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Okay. Thank you. And then just thinking about economics, I mean, are you able to push rents? And what are the TI discussions like assuming a slower leasing market, you lose some pricing power?

A

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

Yeah. I mean, it's a mixed bag. Different – every market is different. In the valley, rates have remained pretty stable. There's no pressure on concessions right now as deal velocity starts to pick up. That's the valley in the peninsula. Vancouver has been very steady, steadily increasing through kind of the depth of pandemic. So we're really in good shape there. I think the ones that we have really keeping a close eye on is Seattle, where we're hypercompetitive. But we still have a pretty robust pipeline of deals that we're in negotiation, call it, north of 200,000 square feet. Those rates haven't eroded, but were still very competitive. And the biggest that – we all know and talk about is San Francisco. We're in a market there. Not only are we hypercompetitive, but we're going to have to go in and dig in we have the best team on the ground and start to dig into the 40 million square feet of expirations across the city that are going to take all over the next two years. So those are the two that we're keeping a really close eye on. And then as we move down to L.A., West Los Angeles, the tech and media tenants have been driving the market in a big way. And we haven't seen any deterioration in rents.

A

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

Hey, Jamie. Art [indiscernible] (00:29:19) a bit of a deep dive on that effective and this might be interesting to hear. Of the 1.2 million feet that we've signed so far, 1 million of it is in the Peninsula San Jose and Vancouver. And there – there's enough footage there to really get – start to get a real sense of net effective. And if you look at those markets, where net effectives are up year-over-year compared to last year's activity in those very same markets, 14%. And interestingly, they're not just up relative to 2021, they're higher than 2019 and 2020 across all three of those markets. So just to get to your original question about rents and TIs and so forth, based on the activity today, where there's real, a good sized sample of real activity sign is rents are looking great.

A

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

Right. And Jamie, if I can state the obvious that you mentioned before, listen, tenants are paying up for premium space. And there's a lot of – in the market that were not having to slug it out, there's a lot of premium space out there. And so we're the beneficiaries of them paying up to be in the assets.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Okay. Thanks. So the 14%, is that in your portfolio or that's across the entire market?

A

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

So that's in our – that's our activity in our portfolio.

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Okay. And then just housekeeping, it looks like the expected cost to build at Sunset Glenoaks is up about $5 million at the midpoint. Is there any – where does that come from?

A

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

Well, that's not – I don't think that's compared to last quarter, or is it?

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

I think it is.

A

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

Are you comparing it to Q1?

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Yeah, I think that the high end is up $10 million.

A

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

We – I don't know. Well – I'll have to...

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

I could be wrong.

A

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

I don't know, [indiscernible] (00:31:29).

Q

Jamie Feldman
Analyst, BofA Securities, Inc.

Okay. All right. Thank you.

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

Q

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Great. Just a couple of quick ones. One is just on – just a little bit more color on the Nutanix deal that you guys sort of mentioned earlier on. Just maybe what were they looking for and how do their space needs change, and what's the plan for sort of the re-lease and any sort of CapEx needs there? Thanks.

A

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

Yeah. I mean, first of all, and Art will jump in here to answer, but, the team, first of all, got way out in front on this and we're really proud of them. They identified the long-term, Nutanix long-term need, they had experienced

explosive, explosive growth. They were spread around three different assets. They were looking to kind of rationalize their footprint and consolidate. They never really used a fair amount of the footage that they had taken down. They never spent [indiscernible] (00:32:51) on it or anything. And so, totally uninfluenced by work-from-home, they were just looking at what they think their long-term requirement is and that's what got the team kind of focused and able to extend them on 50% or about 50% of their footage through 2030. I would add, by the way, that another almost 30% of their footprint doesn't expire until the middle of 2024, and that's still in play. They just don't know yet, what they want to do on that. So 75% of the footage is either staying in 2023 or has the potential for further extension. Art, I don't know, if you want to add to that.

A

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

Yeah. No, that's exactly right. And by the way, the mark was 6.5%, which is a solid mark going forward on their premises. And in the backfill portion, roughly about 15,000 square feet that was immediately backfilled this quarter, was at about a 13% – still over 13% mark. So all in, it was just a great deal.

Q

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Great, helpful. And then my next question is just on the – if you could maybe help us think about, there's a lot of ins and outs, obviously, with occupancy outside of, I think the Qualcomm, which you used to called out, but when I look at the lease expirations scattered over the next eight quarters, maybe from a high level, how are you guys thinking about the occupancy build maybe as you sort of finish out this year and into next, given all the leasing that you've done so far?

A

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

Yeah, that's a great question. Yeah, if the activity that's in the pipeline that we touched on in our prepared remarks, if you look at that activity and you kind of play it forward to year-end, we lose Qualcomm end of July, that's we're going to experience a bit of a dip in both loose percentage and occupancy on account of that. And so, but there's ongoing activity, a lot of activity throughout the third quarter and into the fourth quarter. And it looks to us like if that activity holds and by the way, there's potential even more favorable outcomes here if new requirements come around, which they always do. But if you just look at what's currently in process, if that activity holds, there's a very reasonable chance that we will end the year materially in line on a lease percentage basis.

Now, the reason I focused on lease percentage, one I think it's the more relevant between lease and occupancy. But two, we're going to be working on getting leases executed all the way to year end. And that may mean that there's a bit of a delay on that commencement, so we might experience a bit of a occupancy drag into year-end even as we've restored the lease percentage at or around the level it's currently at. So that's how it's looking. And I would say a fair amount – there's – that we've got to execute on the pipeline in Seattle. That's sort of – and there's 500,000 square feet of activity mostly in Pioneer Square and we're moving forward on that. But if that come through, we could end the year kind of right around where we are right now.

Q

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Great. And then my last one is maybe just a bigger picture one. I think you guys are one of the few office REITs with just a pure West Coast exposure. As you think about I think, all this commentary about tech pausing, clearly your long-term focus, but what are – I mean, what are some of the things where the signpost where are you guys

thinking about in terms of making – sticking with these markets or whether there's opportunities to add another one or diversify? Just maybe it's too soon now but what are some of the things you should be – you will be thinking about considering in terms of potentially adding diversification away from the West Coast? Thanks.

A

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

[indiscernible] (00:37:05) and I'll jump in on that. Listen, I think we've, we've looked at multiple markets compared to where we're at. We still think the West Coast markets even – throughout [ph] some small designs (00:37:16) also in high times and low times is the areas and markets that we feel most comfortable with. If the world is accurate and we're going to see some dip in all of these marketplaces and [ph] valuationships (00:37:28), it will only avail ourselves in the ability to actually go into those markets with the right cap, stack and structure, and enhance our portfolio with high-quality assets that are synergistic in the next two or three years to come. And so that would be the direction versus going somewhere else, and doing the external growth in other markets. So, our intent is to maintain our position and possibly grow it depending on where the economy is on the West Coast.

Q

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Great. That's it for me. Thanks so much.

A

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

Thank you.

Operator: Thank you. The next question comes from the line of Vikram Malhotra with Mizuho. You may proceed.

Q

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Thanks for taking the questions. Maybe just building upon that the occupancy, the prior occupancy question, some of your peers have started maybe giving some signpost, guideposts about 2023 in the sense of not obviously a specific number, but thinking about the direction of same-store NOI growth, the puts and takes on other line items. So, I'm wondering if you can just give us a sense of what are the major kind of variables, we should be thinking about as we sort of model and look forward to 2023 and anything that may be known like the interest expense kind of if you assume where rates are today versus maybe where the real swing factors are for 2023?

A

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

Sorry, Vikram. There's a lot in that question. On – some guideposts are on – we've already got – we've got a relatively on sort of lower expiration year, as we sit today and it will be even lower as we get to year end, then say we did in 2019, 2020, 2021, so, a little less expiration expected into 2023. And we – the mark on 2023 expirations as we sit today, it's almost 20%. So it's even better in 2023 than it was, as I recollect as we were heading into 2022. So really healthy mark, a little less expiration to contend with than we've had in the past couple of years. And as for interest expense, if you look at the curve, you'll see by the middle of next year. So let's take SOFR for example, I think you're back right around 3%. And there's – and it continues to decline from there. I think, there's a real chance we won't have quite as much floating rate debt on the books anyway. But to the extent that we have

some, there's probably in 2023, so we'll start to see some sort of relief, if you will, on interest expense. I'm not so sure, I can remember all the – all your questions Vikram but I give you some...

Q

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Yeah. No, that's helpful. This is more the big picture buckets going into 2023, whether it's the core, the same-store pool, the ins and outs, you talked about the expirations obviously there the non-move outs and the bumps and then you talked about the rate environment, I guess like ancillary income or any other line items that.

A

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

Yeah. For sure. Just as a reminder, there's also a few of our assets that are currently, the tenants are building other space and their cash NOI will really start contributing in 2023, the biggest of which is Google at One Westside, so in terms of cash NOI, annualized would be around $50 million for – on a consolidated basis.

A

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

Yeah.

Q

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

For Google?

A

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

Yeah. And [indiscernible] (00:41:36) – Sunset Glenoaks, will deliver, too. So that could be a contributor. And then you know the big 2023 expiration, it's a square, a Block at 1455 and we've already given you sort of line of sight on that.

A

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

Right. And the next biggest, we're in negotiations with which is Amazon for 139,000 square feet.

A

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

Yeah.

Q

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Okay. That makes sense. And then just maybe one, Victor, a bigger picture question. Obviously, you've gotten very early on the studio business, created a lot of value through the combination with office. Still sounds – obviously, there's a lot of demand for those certain select – for those high-quality assets. I'm just wondering like in the current portfolio, some would argue office is undervalued, some would argue the studios are dramatically undervalued. Is there a thought of some – you've done the JV with Blackstone. Is there a thought of something

more strategic, either just monetizing studios in its entirety or, frankly, even just where things are, what other alternatives would you look to create value at this point, whether – even if it's considering a broader sale of the company?

A

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

I mean, that's – yeah, that's obviously a loaded question there. But I will say, in terms of the – in terms of the studio business, both in the office and the soundstage side, I mean, the value upside that's not recognized beyond just your obvious comments of the commercial real estate and the soundstage undervalued based on where the perception is and the true value is, is the operating businesses. I mean, we consistently outperform the op businesses and have acquired companies, and we'll continue to do so in the future on the operating side. And the true multiple value and IRR value well exceeds what we're achieving just in stabilized office and stabilized studios. I mean, we're effectively double or more in terms of the returns. And so those aren't getting the values either. So the combination of all of that is nice to see that it's at least sitting there from our standpoint and pure cash standpoint. In terms of the greater picture, I'm not in the position to make a comment on that, on a public call with everybody.

Q

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

That's fair. Fair enough. Thanks so much.

A

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

Thank you, Vikram.

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

Q

Tayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Yes. Good afternoon. Sorry if you had addressed this because I got on the call a little late, but for Burrard Exchange in Vancouver and Sunset Waltham Cross studios, what would encourage you guys to start development in 2023, and what would be the thought around kind of funding the development sites?

A

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

That's a great question. So, I mean, listen, the encouragement level is what we're seeing right now on the ground. I mean, in terms of Burrard Exchange, we have a tenant that has indicated some interest in the entire property. We've got another tenant that has indicated interest, I think, in about 200,000 square feet. So tenant interest in that marketplace, given where the vacancy factor is, which I think is 4% or something to that effect, approximately. That market's a little different than what we would look at in – throughout other markets we're in. And I do think it's, fundamentally a very unique asset in that it's a timber-built and the desire around that is very high. And so, we'll continue to look at the fundamentals in that marketplace, which are extremely strong. And I say that I think maybe an outlier. In terms of Sunset Waltham Cross, that's going to be a world-class soundstage facility in a marketplace that is still woefully in need of excess studio and office space. We also have had interest

from single tenants for multiple soundstages and office space on that, and we just got approvals on that asset last Monday, a week ago Monday. And so that that asset will be indicative of our pre-marketing that we're working on now. We are going through all of that both here in Los Angeles and in London in terms of entertaining tenants and educating them on the amenity-based project that we're going to be looking to build. In terms of the capitalization, I mean, remember how the cap stack is, you know, we're a 75/25 with Blackstone at Burrard Exchange and we're 65/35, is that right?

A

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

80/20.

A

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

Oh, sorry. 80/20 and...

A

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

Yeah. 35/65.

A

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

35/65 – 65/35 with Blackstone at Waltham Cross. And so, the capital structure, from our standpoint for those – both those developments will be much more limited from Hudson's exposure and it will be a mutual discussion with Blackstone as to the right time to start to build.

A

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

Yeah. And, Blackstone has indicated that they, they'll launch construction financing in connection with both. So when you think about just capital needs from our side, the spend is very wide for us.

Q

Tayo Okusanya
Analyst, Credit Suisse Securities (USA) LLC

Got you. Great. Thank you.

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

Q

Daniel Ismail
Analyst, Green Street Advisors LLC

Great. Thank you. Maybe just staying on the timber front and ESG, Victor, you mentioned ESG in the opening remarks and a possible tenant interest in Burrard Exchange. I'm just curious more broadly, are you seeing those ESG factors are translating into higher rents or better tenants attraction or retention quite yet?

A

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

Well, yeah, listen that's – it's a great question. I think the awareness on the ESG side has finally come to fruition on the institutional quality tenants who are – whether it's – any aspect of our assets that are upgraded on the ESG side have had an attractive level of certain tenants that will only go in those assets or those type of assets that have already been upgraded to that extent. So has it correlated specifically to increased rents? I don't think you can directly do that correlation. But I think the interest level outweighs the increased rents on that because we have a much higher interest and awareness level. I think that would be the most important aspect.

A

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

That's right. Even from a leasing perspective – this is Art, by the way. From a leasing perspective, we've seen over the last several years, it was a nice to have, became a check the box to gain with these institutional tenants. You're not going to get on the short list and that means everything.

Q

Daniel Ismail
Analyst, Green Street Advisors LLC

Got it. And then just one more small housekeeping question for me. On the Sunset Waltham developments, Victor, I think you mentioned approval is coming in earlier this week. I just noticed on the supplemental an increase in the estimated square footage of the project. Was that related to the increase? Was that related to the approvals or was that a change in design or what drove the increase in size?

A

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

Yeah. No, the increase in size is we bought an adjacent property that we can add some support staff space and some outdoor space. And so that in itself increased the square footage. And it was – I think we purchased that in spring sometime. And so that's why it was increased in the supplemental.

Q

Daniel Ismail
Analyst, Green Street Advisors LLC

Got it. Thank you.

Operator: Thank you. The next question is a follow-up question from Michael Griffin with Citi. You may proceed.

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Hey, it's Michael Bilerman here with Griffin. Victor, it's noted more of a clarification question. You obviously have an extraordinarily close relationship with Blackstone going all the way back to when you [indiscernible] (00:50:14) portfolio and when they came on the board and obviously at studios and everything. Is there anything in your relationship that precludes them from selling the shares they bought back at the beginning of 2021, or for that matter, adding to that position, given all of your relationships and ventures, whether it's up in Canada or the UK or the studio business? I didn't know if there was effective lock up on those shares. I'm just trying to understand if there anything is precluding that.

A

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

No. I mean, listen, their information from the standpoint of a shareholder is like everybody else's, it's publicly traded information. And in terms of their information on the partnership, it's also a publicly held information. But there is no restrictions on the stock.

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

And so – and I recognize the absence of John, but they bought almost a 4 million share position [indiscernible] (00:51:10), you would think that there would be more interest at these levels given everything that you've been able to produce and all of your commentary on the call.

A

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

I wonder if what you're referring to is the position that they carried back in connection with the contribution of the portfolio in 2015?

A

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

Is that what you're referring to?

A

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

Is that what you're referring to?

A

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

Are you referring to open market mines or the ...

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Yeah. No, I mean – yeah, that was the open market purchase, wasn't the 3.8 million shares they've just held since.

A

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

No, they held a substantial position, roughly half of the $3.5 billion purchase was carried back in equity in 2015. And then it took them – there was a lockout for a while, and it took a little while for them to liquidate that position. I'm going to say three or four, but they held nothing at that point and they've since done open market purchases. But ...

A

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

We're not partying those open market purchases.

A

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

Yeah.

A

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

Yeah.

[indiscernible] (00:52:20)

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Yeah. [indiscernible] (00:52:20) exactly, and that's what's life and I'm just trying to – I wanted to better understand because obviously the open market purchases were back earlier last year right as the stock had fallen off of – had recovered a little bit. And I just didn't know if there was anything precluding them from selling that stock given all the relationships. And I would see ...

A

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

No.

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

... information about your prospects, and if there wasn't, the opposite question that I asked was, well, shouldn't they be buying, given all of the basis in value? So, that's where I was trying to understand it better.

A

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

Yeah.

A

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

Yeah. As I said, there are no restrictions and I think you can ask them if they want to continue to buy. We would love to hear you [indiscernible] (00:53:03).

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Yes, I'm sure you would. Is there – the other one topic, is there anything – and I recognize your comment about the overall marketplace. Anything you're thinking about from dipping back into the stock. Obviously, you did accelerate the share repurchase hindsight to 2020, you can't go back in time at that time, you liquidated, you had proceeds and you executed the trade. I just – how are you thinking about furthering that? Do you feel like that was a good exercise to go through or sort of look at other ways to drive shareholder value and help the stock price follow suit?

A

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

Look – listen, I think it was an excellent execution at the time and it was something that we said we were going to do. And subsequent to that, we have been averaging down, so to speak in the, in the ATM structure on a daily basis up until the point where we were locked out. That will open up again sometime in early August. And I think the intent is for us to continue the game plan on that basis.

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Do you have incremental asset sales to put to market to generate more proceeds to effectuate those purchases?

A

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

Yeah. I mean, we've commented on the two small ones that they're selling and we've got two more that they're in active negotiations. And then we'll revisit market conditions and other assets that potentially may fall into that category.

Q

Michael Jason Bilerman
Analyst, Citigroup Global Markets, Inc.

Okay. All right, thanks for the time.

A

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

Thanks, Michael.

Operator: Thank you. The next question comes from the line of David Rodgers with Baird. You may proceed.

Q

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

Hey. Just one follow-up for me, I think it was Victor, you made the comment about strength in the studio and support business. Did see that Netflix had taken a charge on real estate and I think that was related to Burbank. But I do think there's some questions around at any of that impact to you guys, do you see any communication with them related to why don't give back, terminate space or sublease it?

A

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

No. I mean, listen that was on [indiscernible] (00:55:09). I believe that was maybe their animation group or something like that, right, that we can offer the space.

A

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

Yeah, we expect it wasn't even – they haven't even occupied the level of build out.

A

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

Yeah. Yeah, we had zero communication on that level that they're interested in giving back any space in any of our portfolio. And quite frankly, I've heard nothing in Hollywood in general from them at all in other assets too.

Q

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

All right. Great. Thanks.

Operator: We will now begin – that concludes the question-and-answer session. I would like to turn the conference back over to Victor Coleman, Chairman and CEO for any closing remarks.

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

Thank you, operator and participating everybody on the call today. I want to reiterate what Mark's comment was about the Hudson team and the great efforts that they make quarter in and quarter out and we look forward to speaking with everybody next quarter. Thanks so much.

Operator: The conference call has concluded.

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

Good-bye.

Operator: You may disconnect.

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