Laura Campbell
Executive Vice President, Investor Relations & Marketing

Good morning, everyone. Thanks for joining us. With me on the call today are Victor Coleman, CEO & 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 the 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 discuss macro conditions in relation to our business, Mark will provide detail on our office leasing, and Harout will review our financial results and 2023 outlook. Thereafter, we'll be happy to take your questions.

Victor J. Coleman
Chairman & Chief Executive Officer

In the first few months of the year, macroeconomic challenges have persisted, exacerbating uncertainty and putting downward pressure on office market fundamentals. We will touch on how this is impacting our leasing activity in a moment. Recently, however, we've seen more big tech return-to-work announcements about bringing employees back to the office multiple days a week citing performance and efficiency concerns. These include Amazon, Oracle, Redfin, Lyft, and Docusign, to name a few. Kastle data and transit ridership also show improvement across our markets. With the return to office unfolding slower than many expected, we remain cautiously optimistic that these announcements and related trends will translate into increased physical occupancy and improved tenant demand at our assets.

Important indicators continue to support the notion that the Bay Area and Seattle remain epicenters for talent and capital networks that drive the tech industry. For example, first quarter venture capital investment was in line with the historic 10-year average, with the Bay Area continuing to receive the bulk of these funds. The early 2020s brought a wave of funding accelerated by Covid-related macro forces—and with minimal office leasing. Beyond AI, which is currently driving over 600,000 square feet of requirements in San Francisco alone, other sectors like cybersecurity, defense and energy remain

compelling areas for growth. While it will take time for this to positively contribute to our leasing efforts, it reaffirms our view that our office properties are located in compelling growth markets.

Turning to our studios, last week, the Writers Guild of America elected to strike leading to a halt in domestic film and TV production. Unlike prior strikes, where production ramped up in advance, there was instead a significant slowdown in filming through the first quarter. We suspect this is primarily the result of streaming companies' more robust existing content pipeline, although studio austerity measures may have also played a roll. For example, in the LA market overall, first quarter film and TV shoot days declined approximately 30% compared to the same period last year. This initial slowdown impacted independent studios and service providers, such as ours, first, as major studios consolidated productions on-site. With the strike underway, productions at all studios have now been disrupted.

This slowdown was a precursor to what we will experience during the strike, with the overall economic impact to be felt much more broadly. The 2007/2008 writers strike, which lasted 14 weeks, cost the California economy $2.1 billion, or $2.8 billion in today's dollars. There have been seven such strikes since the 1950s, ranging from 2 to 22 weeks, with the average being 14 weeks. Whether brief or protracted, the strike will impact our entire studio business, albeit less so our Sunset Studios assets, where nearly 70% of our stage square footage is under multi-year leases with guaranteed minimums for service revenue. Lack of visibility around the strike's duration led us to suspend our 2023 FFO outlook and related studio assumptions, while still providing assumptions related to our 2023 office outlook. Harout will discuss this further later on the call.

These studio-related union strikes are both temporary and relatively infrequent, and we believe underlying fundamentals for content production, and thus for our studio business, remain solid. Even if spend on high-quality, original content moderates in the coming years in pursuit of profitability, current estimates indicate it will be at least on par with last year following a period of ramp up post-strike.

In these uncertain times, we're staying focused on what we can control, executing on leasing, prudently allocating capital, reducing corporate expenses, proactively working on asset sales, and further fortifying our balance sheet. We continue to limit upfront capital spend for market-ready suites, common area and base building improvements until we have certainty around demand. We're currently evaluating potential disposition of six distinct assets, including a land parcel.

We've also recently received Board approval to reduce our dividend by 40-50%, with the precise amount

to be finalized at our Board meeting later this month. This will bring our dividend policy in line with other capital preservation efforts. However, even without the dividend reduction, we have a path to address all of our maturities through year end 2025, which Harout will also review later on the call.

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Mark T. Lammas
President

Our 344,000 square feet of first quarter leasing activity reflects tenants' continued slow decision making, which notably decelerated amid recession fears in the third and fourth quarter of last year. Our in-service office portfolio leased percentage was 88.7% compared to 89.7% at the end of last year. Note this quarter we've added 10900-10950 Washington to our future development pipeline. It is the only residential conversion we're considering at this point, and we're actively working through entitlements to build approximately 500 units. Thus, the decline in leased percentage was mostly attributable to small- to mid-sized expirations at our Peninsula and Silicon Valley assets.

At the same time, the preponderance of our first quarter leasing activity also resulted from small, sub-5,000 square foot tenants in those markets. Our GAAP and cash rents fell approximately 3% and 5% respectively, with the decline mostly driven by a significantly below market 20,000 square foot short-term renewal. Our tenant improvements were in line with the trailing 12-month per square foot average, but look higher on an annual basis due to shorter weighted average lease term. Trailing 12-month net effective rents are nearly 6% higher than last year, and in-line with pre-pandemic, that is, first quarter 2020, trailing 12-month net effective rents.

The weighted average lease term of 42 months reflects the impact of three larger, short-term renewals. For new deals alone, our weighted average lease term was 67 months, which is typical given an average size of 4,000 square feet. Trailing 12-month weighted average lease term is approximately 9% higher than last year, and in-line with our pre-pandemic trailing 12-month weighted average lease term.

We still have activity on both of our 2023 large block expirations, including 60% coverage on Block's space at 1455 Market, but given the broader dynamics in the Mid-Market neighborhood, we expect that backfill will take time. We also remain in discussions around a potential renewal with our full-building tenant at Met Park North, even as we proactively market the space. In total, we currently have 47% coverage on our remaining 2023 expirations, with an average tenant size of roughly 11,000 square feet.
Our leasing pipeline, which includes deals in leases, LOIs, or proposals, has increased, up 11% to 2 million square feet since it dipped in the third quarter of last year. The average deal size within our pipeline is

13,000 square feet, above the 8,000 square feet on average for signed deals over the last five years. The weighted average lease term of deals currently within our pipeline is more closely aligned with our 5-year average of 82 months.

Separately, tours at our assets are at the highest level since first quarter 2017. Since slowing in third quarter last year, the number of tours has increased more than 30%, largely driven by activity at our Silicon Valley assets. First quarter tours represent over 1.8 million square feet of requirements, up 130% since third quarter last year, in part driven by an increase in average requirement size from 8,000 to 14,000 square feet. While it remains unclear how quickly these trends will translate into signed leases, historically we've seen a clear correlation between an uptick tour activity and new deals.

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Harout Diramerian
Chief Financial Officer

Compared to first quarter 2022, our first quarter 2023 revenue increased 3.2% to $252.3 million, primarily due to our acquisition of Quixote, which we purchased in the third quarter of last year.

Our first quarter FFO, excluding specified items, was $49.7 million, or $0.35 per diluted share, compared to $75.2 million, or $0.50 per diluted share last year. Specified items in the first quarter consisted of transaction-related expenses of $1.2 million, or $0.01 per diluted share, compared to transaction-related expenses of $0.3 million, or $0.00 per diluted share, and a trade name non-cash impairment of $8.5 million, or $0.06 per diluted share, a year ago. The year-over-year decrease in FFO was mostly due to lower production activity impacting Quixote in the lead up to the writers strike, though we were also impacted by higher interest expense and lower office occupancy compared to last year. First quarter FFO was in line with our expectations, but for our studio results, particularly with respect to March projections.

Our first quarter AFFO was $35.0 million, or $0.24 per diluted share, compared to $58.8 million, or $0.39 per diluted share, with the decrease largely attributable to the aforementioned items affecting FFO.

Our same-store cash NOI grew to $125.6 million, up 7.2% from $117.2 million, mostly due to significant office lease commencements at Harlow and 1918 Eighth, as well as higher production-related revenue and lower operating expenses at Sunset Gower and Sunset Bronson Studios.

During the first quarter, we repaid our $110 million Series A notes, and applied $102 million of sales

proceeds from Skyway Landing to pay down our credit facility. At the end of the quarter, we had $828.3 million of total liquidity comprised of $163.3 million of unrestricted cash and cash equivalents and $665.0 million of undrawn capacity on our unsecured revolving credit facility. We have additional capacity of $138.9 million under our One Westside and Sunset Glenoaks construction loans.

At the end of the first quarter, our company's share of net debt to company's share of undepreciated book value was 38.2%. 66.2% of our debt is unsecured and 90.3% is fixed or capped rate debt.

As Victor noted, we continue to focus on deleveraging by exploring asset sales, financings, and cost and dividend reductions. Our anticipated dividend alignment will result in $58-72 million of annual cash flow savings to further enhance our balance sheet.

Market conditions have rightfully heightened focus on our debt maturities, and I'll take a minute to walk through our exposure. Following our paydown of the Quixote loan in April, we have only one small maturity remaining this year—a $50 million private placement note.

Our two 2024 maturities are both secured debt, the largest of which is One Westside, for which we have indicative terms from third party brokers on a refinancing. With respect to our $98 million, 20% ratable share of the loan secured by Bentall Centre maturing in July of next year, our partner Blackstone has already taken the lead in discussions with the existing lenders.

As for our 2025 maturities, 96% of that indebtedness does not mature until the final two months of 2025, more than 2.5 years from today. Three of our four 2025 maturities, comprising nearly two thirds of the maturing amount, are secured by high-quality assets, 1918 Eighth, Element LA, and Sunset Glenoaks, the first two of which enjoy high-credit, single-tenant occupancy, with remaining lease term into 2030. Sunset Glenoaks will be a fully operational, state-of-the-art studio campus before its 2025 maturity. Our fourth and final 2025 maturity consists of a $259 million private placement loan scheduled to mature in December 2025. While we are more than 2.5 years away from that maturity, we are focused on insuring that we have capital availability to address that loan ahead of its repayment.

Turning to our outlook, we are continuing to provide several 2023 assumptions, including those most closely associated with our office portfolio to provide continued visibility. However, due to the high-level of uncertainty around the duration of the writers strike, we will not provide a 2023 FFO outlook or studio-

related assumptions at this time. Please note that we've provided an office same-store cash NOI growth projection, rather than our customary combined office and studio estimate, in light of the writers strike uncertainty.

As always, our 2023 outlook excludes the impact of any opportunistic and not previously announced acquisitions, dispositions, financings and capital markets activity.