

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 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. Our 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 a 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 and studio operations and development, and Harout will review our financial results and 2023 outlook. Thereafter, we'll be happy to take your questions. Victor?

Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Laura. Good morning, everybody, and thanks for joining our call. During the second quarter, we worked diligently to position Hudson Pacific optimally as we continue to navigate the unprecedented confluence of an unfavorable macroeconomic environment, the lingering impacts of remote work and, most recently, a historic and prolonged studio union strike. Office fundamentals across the West Coast markets remained challenged in the second quarter, with gross leasing either flat or decelerating quarter-over-quarter, sublease activity either stable or rising, and negative net absorption in all but Vancouver.

As expected, studio production in Los Angeles slowed significantly, with shoot days in the quarter falling 60% to 70% year-over-year for TV comedies and dramas, and 20% to 25% across film, unscripted TV, commercials and photoshoots.

Our focus in this environment remains on occupancy preservation and expense reductions, both at the corporate level and within our office and studio portfolios, as well as proactively managing our balance sheet. Mark and Harout will be discussing our progress on all these fronts in detail. But beyond today's challenges are a variety of bright spots emerging that have the potential to shift the dynamics around our business and provide for significant upside and opportunity specific to Hudson Pacific as we move to 2023 and beyond.

On the office front, according to a recent JLL study, the broader US office market is starting to show some signs of recovery. To date, the West Coast has lagged due to big tech rightsizing and tenants broadly staying defensive. But with mounting data pointing to historic declines in innovation, productivity and human capital development, big tech has taken notice.

The 10 largest tech companies now have concrete hybrid attendance policies impacting most of the workforce with the focus shifting into enforcement. These policy changes are starting to make positive contribution to Hudson Pacific's portfolio. As a sign of reintegration, year-to-date parking revenue was up in our portfolio 18% compared to last year, including 25% in San Francisco and 15% in Seattle, where Amazon returned to work May 1.

More recently, Amazon asked employees to move closer to team hubs or apply for new jobs within the company, or they will be considered to have voluntarily resigned. Furthermore, office demand increased quarter-over-quarter in both Seattle and in the Bay Area, increasing 18% in Seattle, 25% in San Francisco and 11% across the Peninsula and Silicon Valley.

As we've communicated in the past, upon reintegration, tenants often realize that they don't have enough workspace or conference rooms to comfortably accommodate employees on peak days. And given the growth in tech workforce through the pandemic for paying tenants, even net of layoffs, we're conservatively estimating a 45% increase in head count. Reintegration could begin to place expansionary pressures specific to our tenants and our markets. Couple this with the slowing of new office deliveries and accelerated conversions of older office space assets to non-office space uses, and we will see vacancy rates begin to turn as we approach year-end.

We continue to believe in our markets driven by tech and media, and we're going to provide a significant growth for long term. Although in its infancy, AI promises a wave of innovation and growth not seen since the advent of the Internet or the smartphone. Once again, the Bay Area, more specifically San Francisco, is the cradle for this groundbreaking industry and our portfolio is well-located to benefit from its growth. VC funding to generate AI in the first five months of the year grew 650% in the city, with companies there garnering 90% of the global AI-related funding. This is translating into office demand, and there are currently nine requirements totaling 870,000 square feet in the city. We're optimistic AI and relative service industry growth will begin to alleviate the lack of large square footage requirements and serve as a catalyst for sustained, positive net absorption, especially in the Bay Area.

Now turning to our studios. While the directors reached a new contract in June, the actors joined with the writers on strike in mid-July. And this is the first time since the 1960s that both unions have been on strike simultaneously, and that strike lasted 22 weeks. We're hopeful all parties are going to reach a fair agreement soon, although it appears currently that they remain far apart on important issues like streaming residuals, AI and writers' rooms. The simultaneous strikes do mean that previously written production activity that still could be filmed is now on pause.

However, we're nine weeks into the strike relative to an average strike of 14 weeks, and we continue to expect a significant ramp in production post-strike like the experience following COVID, but it's going to take time to fully reengage. And while studios have strategically spread out new releases, they could face significant shortfalls in 2024 if production isn't up and running before the fall.

Netflix, as an example, recently affirmed its intent to maintain content spend through 2024 at levels in line with 2022, albeit with some lumpiness post-strike similar to coming out of COVID. Comcast, too, noted a relative increase in content spend likely in 2024. And with subscriber growth and engagement across multiple broadband applications trending up, the underlying demand drivers for production remains strong.

A strike of this magnitude, while impactful, is rare and has historically proven to be relatively short-term in nature. Over the first half of the year, we've made significant enhancements to our studio cost structure. These equated to a \$12 million annual savings around labor and fixed operating expenses, as well as another \$15 million of savings attributable to deferred capital expenditures.

While we'll continue to evaluate additional operating and capital adjustments, we'll do so in a manner that weighs short-term cost savings against capitalizing on long-term value creation. Not all industry players have the ability to make this trade-off, which could present a compelling opportunity for us post-strike. We'll also be able to fully capitalize on the economies of scale from our now fully integrated service acquisitions post-strike, and we expect these synergies to result in approximately \$15 million of additional annual NOI in a normal operating environment.

So despite these current challenges, we've thus far been able to navigate the ever-changing landscape in a manner which speaks to the well-located portfolio we've assembled, our diversified asset classes, and the fortitude and experience of

the entire Hudson Pacific team. And we understand this was going to take time to overcome, but we believe in our strategy, and our long-term positioning sets us up to generate even stronger results in the coming quarters.

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

Mark T. Lammas

President

Thanks, Victor. We've signed approximately 50 office leases, roughly 50% new deals, totaling just over 400,000 square feet in the quarter. The average lease size was approximately 7,000 square feet, and 50% of that activity was in the San Francisco, Bay Area. Small and midsize tenants in tech and other industries continue to drive the preponderance of activity across our markets.

GAAP and cash rents were approximately 4% and 8% lower, respectively, on backfill and renewal leases with the change largely driven by a few midsize leases, both new and renewal across the Peninsula and Silicon Valley and in Vancouver. Our in-service portfolio ended the quarter at 87% leased, off about 170 basis points compared to first quarter, due primarily to the move-out of midsize tenants in those same markets.

Our leasing economics improved across the board quarter-over-quarter with net effective rents up close to 9% to \$44 per square foot. Tenant improvement and leasing commission costs improved close to 50%, down to \$6 per square foot per annum. And lease term increased by six months or 13% to 48 months.

In terms of our two larger 2023 expirations, we're still negotiating a renewal of our 140,000 square foot tenant in Seattle at Met Park North, whose lease expires in late November. We're in discussions with two requirements that could potentially partially backfill the 469,000-square-foot block lease at 1455 Market in San Francisco, which expires at the end of September; one for approximately 25,000 square feet, the other for approximately 275,000 square feet, with additional tenant interest behind these.

In regard to our remaining 2023 expirations overall, which were about 5% below market, we have 50% coverage, that is deals and leases, LOIs or proposals, with another 5% in discussions. Outside of the two large expirations I mentioned, the average expiring lease size is roughly 5,000 square feet. We're staying creative and flexible as we work to boost occupancy that even as the growing number of tenants commit to a three- to five-day in-office schedule, thus far they continue to transact very slowly.

Our current leasing pipeline totals 2 million square feet, slightly above our last call, even with continued leasing. And that pipeline includes over 285,000 square feet of deals and leases. We also have close to 1.2 million square feet of tours across our portfolio, roughly on par with this time last year, although down from last quarter. We did see an increase in both aggregate and average square footage of requirements for our assets across the Peninsula and Silicon Valley. This coincides with the rise in early interest we have seen more broadly in the Bay Area and Seattle, even as the timeline for getting leases across finish line remains unpredictable.

Turning to the studios, our in-service studio stages remained well-leased at 95.7% on a trailing 12-month basis and 94.1% on a trailing three-month basis due to the preponderance of long-term greater than one-year leases. On a trailing three-month basis, we actually experienced a 490-basis-point increase in lease percentage at our Quixote Studios. This was largely due to the commencement of a handful of long-term leases at our Central Valley and recently delivered North

Valley facilities, as well as a general influx of short-term non-strike impacted production, such as commercials and photoshoots.

This activity led to an additional \$1 million of rental and lighting and grip revenue quarter-over-quarter at our Quixote Studios. However, revenue from pro-supplies, transportation and other services was off by approximately \$4 million in aggregate, even as we still had activity from non-strike impacted production, such as music festivals and other large-scale

events. That said, we expect these service-related categories are likely to be further impacted, given seasonality and the expanded strike as long as it continues.

Throughout our portfolio, we're continuing to limit capital improvements until we have certainty around demand. This includes staying conservative on new developments. We do, however, have two in-process developments close to completion. We're on track to deliver our state-of-the-art Sunset Glenoaks Studio in Los Angeles by year-end as expected, pending receipt of Department of Water and Power permits. We've continued to tour major production companies despite the strike. We anticipate leveraging a more traditional show-by-show sales model for at least a portion of the facility, which we will be able to execute on to the fullest extent post-delivery. There is no directly competitive supply for this project, which has a delivery date potentially quite well timed to capture pent-up demand post-strike.

In Seattle, Washington 1000 is also on track and should deliver in the first quarter of next year. While we expect even greater interest once the project is complete, we're already in early discussions with three tenants, each with requirement over 100,000 square feet. As Victor mentioned, Amazon's push earlier this year to bring employees back at least three days a week and more recently telling workers to return to its main hub has accelerated return to work for many local businesses. Washington 1000 will be one of the nicest buildings in the city and is the only new product of its kind under development. Our all-in basis is only \$640 per square foot, representing as much as a 30% to 40% discount to comparable trade.

And now I'll turn it over to Harout.

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Harout Diramerian

Chief Financial Officer

Thanks, Mark. Our second quarter 2023 revenue was \$245.2 million compared to \$251.4 million in the second quarter of last year, primarily due to Qualcomm and NFL vacating Skyport Plaza and 10900-10950 Washington, respectively, the sales of office properties 6922 and Skyway Landing.

Our second quarter FFO, excluding specified items, was \$34.5 million or \$0.24 per diluted share, compared to \$74.6 million or \$0.51 per diluted share a year ago. Specified items in the second quarter consisted of transaction-related income of \$2.5 million or \$0.02 per diluted share, which includes lowering of accruals for future earnouts related to our Zio Studio Services acquisition, prior-period property tax reimbursement of \$1.5 million or \$0.01 per diluted share, deferred tax asset write-off expense of \$3.5 million or \$0.02 per diluted share, and a gain on debt extinguishment net of taxes of \$7.2 million or \$0.05 per diluted share.

Prior-year second quarter specified items consisted of transaction-related expenses of \$1.1 million or \$0.01 per diluted share and prior-period property tax expense of \$500,000 or \$0 per diluted share. The year-over-year decrease in FFO is

attributable to the aforementioned office tenant move-outs and asset sales, as well as higher studio production, higher studio operating expenses associated with Quixote acquisition and increased interest expense.

Our second quarter AFFO was \$31.1 million or \$0.22 per diluted share compared to \$60.3 million or \$0.41 per diluted share, with the decrease largely attributable to the aforementioned items affecting FFO. Our same-store cash NOI grew \$127.6 million, up 4.7% from \$121.9 million, with same-store cash office NOI up 5.1%, largely driven by significant office lease commencements at One Westside and Harlow.

During the second quarter, we repaid the Quixote note for \$150 million, a \$10 million discount on the principal balance with funds from our unsecured revolving credit facility. At the end of the quarter, we had \$581.2 million of total liquidity, comprised of \$109.2 million of unrestricted cash and cash equivalents and \$472 million of undrawn capacity on our unsecured revolving credit facility. We have additional capacity of \$122.4 million under our One Westside and Sunset Glenoaks construction loan.

At the end of the second quarter, our company's share of net debt to the company's share of undepreciated book value was 38.7% and 85.3% of our debt was fixed or capped. We remain focused on de-levering. This quarter, our board reduced our quarterly common stock dividend to \$0.125 per share, which resulted in additional \$17.9 million of cash flow savings this quarter.

We also continue to selectively explore asset sales. We currently have three deals under contract, including two office assets and one land parcel, which could collectively generate over \$100 million in gross proceeds within the next several months. We're also in negotiations to sell two more office assets, the pricing and timing of which are under discussion.

Regarding our upcoming maturities, we only have one small maturity remaining in 2023. Our \$15 million private placement note due next month, which we will pay with our line of credit. We have two maturities in 2024. Blackstone is leading discussions around the extension of our Bentall Centre loan, which matures in July 2024, of which our 20% ratable share is \$100.5 million. We've received indicative terms and are now formally commencing discussions around refinancing our One Westside/Westside Two loan, which matures in December 2024, and of which our 75% ratable share is \$243.5 million.

As per 2025, 96% of our indebtedness does not mature until the final two months of the year, and three of our four 2025 maturities comprising nearly two-thirds of the maturing amount are secured by high-quality assets, 1918, Element LA and Sunset Glenoaks, the first two of which have high-credit single tenant occupancy with the remaining lease terms into 2030. Sunset Glenoaks should be stabilized and fully operational state-of-the-art studio campus before its 2025 maturity.

Our fourth and final 2025 maturities consist of a \$259 million prior placement loan that matures in December 2025. While this is still nearly two-and-a-half years out, we're focused on ensuring that we have capital available ahead of repayments.

Turning to outlook, due to continued uncertainty around the duration of the studio union-related strikes, we're continuing to withhold our 2023 FFO outlook and studio-related assumptions, while providing certain assumptions related to our office outlook, including reaffirming an office same-store cash NOI growth projection range from 1% to 2%. This range includes the impact of a block lease expiration in September 2023, but does not include any of the aforementioned potential dispositions. We continue to expect FFO to be negatively impacted as long as the strike persists. As always, our 2023 outlook excludes the impact of any opportunistic and not previously announced acquisitions, dispositions, financings and capital market activity.

Now we're happy to take your questions. Operator?

QUESTION AND ANSWER SECTION

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Hey. Good afternoon or good morning out there. And again, thanks for moving the call time to avoid the overlap. So two questions. First, it sounds like the sales so far, not contemplating One Westside, I don't know if One Westside is in the potential two additional for sale, but Harout, when you think about all the assets that you guys may sell, what is the NOI impact that we should think about? And then more to Victor's opening comment on corporate expense, if you're selling a bunch, what does this mean about the need to reduce the cost structure of the company overall?

Harout Diramerian

Chief Financial Officer

So let me answer the first question, which is, we're not going to provide any NOI detail yet, primarily because the sales are uncertain. And once we have confirmation of the sales and feel confident, we will share all the relevant details around them. So doing that is not appropriate at this time. As far as the G&A goes, I think we've said before, we constantly look for ways to reduce our costs and reevaluate them. And depending on the sales and the impact, which will also garner our ability to reevaluate G&A. So they're always being evaluated and thought through.

Alexander Goldfarb

Analyst, Piper Sandler & Co

Okay. The second question is on Hollywood. Clearly, I mean, you guys benefit from owning independent studios, which is good. But when we think about some of the headlines we read, Disney and others who are talking about trouble with their screen productions or streaming services, how do you weigh like over-investment in streaming or ways that Hollywood may retrench after some tough goes with the resurged demand once the strike ends? Just trying to figure out, are we back to the races? Or is Hollywood reconsidering how much it puts into its production investments, just given some of the headlines we've read recently?

Victor J. Coleman

Chairman & Chief Executive Officer

So, Alex, as I mentioned in my prepared remarks, I mean, it's – so far, what we found between the bigger streaming entities to date, they are on budget, at least as we know through 2024 to spend at or more than their run rate has been in the past. And that's been Netflix's and Apple's and Amazon's and Disney's and Comcast's tone to date. I think it's approximately a 2% increase year-over-year.

So that, I believe, will probably be greater given the fact that they're not spending the money currently today because they're on strike. So you're going to have a massive ramp-up. After that, I believe we feel from what the industry is looking at that we've always mentioned that there will be some form of consolidation. Whatever that consolidation looks like, we don't know. I don't think it's going to impact the stage use and the production use because there is still a very limited number of stages and the demand in peak times are much higher than the stages that are available.

Jeff, do you have any comment to that?

Jeff Stotland

Executive Vice President-Global Studios

No. The only thing I would add, Alex, is that what's clear with all the streamers is that original production drives a lot of subscriber growth and it also mitigates their churn. So it's a key economic ingredient into their playbooks. Even if consolidation happens, they all know that they have to invest in original content production. And hopefully, obviously, we'll benefit from them.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Okay. Thank you.

Operator: The next question comes from Blaine Heck with Wells Fargo. Blaine, please go ahead. Your line is open.

Blaine Heck

Analyst, Wells Fargo Securities LLC

Great. Thanks. Just a follow-up on the sales, Victor. You guys have talked openly about evaluating dispositions recently, in that there are no sacred cows within the portfolio. I mean Harout's commentary was helpful, but just more generally, can you talk about what you've learned about the investment sales market throughout this process, whether there's more interest in certain segments of the market? And just as you've gone through the process, whether the composition in the bucket of assets up for disposition has changed based on what you've learned?

Victor J. Coleman

Chairman & Chief Executive Officer

Yeah. I think, listen, we've – the three assets that we have under contract right now are, as we mentioned, two individual assets and one parcel of land. The demand for those were relatively high on smaller user or owner user or family office-type investors. The other couple of assets that we're working on right now, I think, have a makeup of more of a institutional play, change of use play. And I think that's the drive that we're looking at right now.

Listen, as Harout said, we're not going to get into identifying the assets in the open marketplace. I believe that we have not explored true institutional ownership sales for large assets at this time, not to say that that won't be something that we'll look at in the future, but that's not part of the game plan and the assets that we're talking about right now.

And so I think the bottom line is the activity is relatively good. Clearly, financing around those assets is the hurdle. And so the size of the assets from our standpoint and the type of buyer is going to be identified based on the access to liquidity and capital.

Blaine Heck

Analyst, Wells Fargo Securities LLC

All right. Great. That's helpful color. And then just taking a little bit of a step back on the studios, Victor, can you just talk a little bit more about any insight you have into the negotiations going on related to the writers' and actors' strikes? And just what your best guess is or maybe even what you're hearing from any insiders you're talking to on how long these strikes could last kind of based on the current state of negotiation?

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Victor J. Coleman

Chairman & Chief Executive Officer

Well, listen, I'll take the first part initially. I mean, listen, what we're hearing is there's – as I mentioned in my prepared remarks, there are a few issues on the table that are hurdles that they're going to have to try to figure out, writers' rooms, the issue obviously in AI, which is an undeterminable issue and a new issue for all parties, and then the residual issue are the big issues. I think the dollar issues and the issues around health care and all the perks around that are pretty much agreed to.

A couple of things. The fact that SAG is at the table, I believe, helps the process because you've got now another constituent with thousands of people now involved that are more than the 3,000 writers that were involved in the past. So hopefully, that will set a precedent on some of this. Real time, we just heard last night, they're going back to the table, Friday. The writers are – they have not been at the table, I believe, for a month-and-a-half or so. So that's a good sign.

In terms of what we're hearing on the ground, we are – as I had mentioned in the past, we don't have a seat at the table. We obviously have a lot of constituents around, so they are giving us information. It could start in a heated conversation to hopefully settle something out as early as September and maybe as late as year-end.

But I think as every day goes by, Blaine, we're all hugely aware of the shrapnel around just the industry in general and all the residual businesses that are getting affected. And it will start to feel fairly painful for these residual companies and employees and individuals that work in the industry, and it will be damaging. And I think everybody is very cognizant of that. And hopefully, we'll try to get to some resolutions quicker than we all anticipate.

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Blaine Heck

Analyst, Wells Fargo Securities LLC

Great. Thanks, Victor.

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Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Blaine.

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Operator: The next question comes from Nick Yulico with Scotiabank. Nick, please go ahead. Your line is now open.

Nicholas Yulico

Analyst, Scotiabank

Thanks. I guess just going back to the asset sales, is there anything you can provide us in terms of a view of if you get a certain level of asset sales done this year, what that's going to do to improve your debt-to-EBITDA metric which went up again this quarter?

Mark T. Lammas

President

So addressing that is a little bit too outside the range of what we want to talk about right now. But ultimately, it will improve it over the long term, which is kind of our main point, which is we're going to de-lever. And that's kind of the focus that we have, and we'll use different tools to do so. So not only debt-to-EBITDA, but also the covenant calculations, all those things, we have a very strong eye on and we're projecting out. In fact, this quarter was in line with our projections, and we're not in a risk of breaking any of them. But like we said earlier, the de-levering is a high priority for the company.

Victor J. Coleman

Chairman & Chief Executive Officer

Yeah. And Nick, just to add to that, the assets that we're in escrow or under contract with and the other two we're talking about and then the next sort of tiers that we're looking at, none of those assets currently have debt. So effectively, all the cash flow – I'm sorry, all the proceeds from the sale will go to pay down current debt. So we're not replacing – we're not getting rid of existing encumbered debt on assets in any asset at this stage. So it's all going to be very helpful.

Harout Diramerian

Chief Financial Officer

And just to touch upon the net debt to EBITDA.

Nicholas Yulico

Analyst, Scotiabank

Okay.

Harout Diramerian

Chief Financial Officer

I mean, it is – real quick, sorry, to address your EBITDA comment. It's being artificially reduced by the strike. And so it doesn't really reflect a normalized net debt to EBITDA as a result of the strike. And so it is being – like I said, artificially being reduced or increased, I guess.

Nicholas Yulico

Analyst, Scotiabank

Well, and I guess I wasn't sure if there was any specific target you're trying to get to on that metric, realizing that the EBITDA for the studio business, there's uncertainty about how long that could be under pressure. You also have some move-outs still in the back half of the year that haven't been re-leased. So I wasn't sure if you just – there was a sort of plan in place where you have a target and you think that the dispositions can get you to that target.

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Mark T. Lammas

President

Yeah. There's a plan in place. The plan is get it lower. And we're doing that through these announced disposition goals. I'll add to the comments that Harout and Victor have already shared. One of the asset sales is land. So, that's 100% accretive to debt to EBITDA because there's no EBITDA associated with it and it goes all to debt reduction.

So the plan is to get it lower. We have always said that we want to be below 7 times debt-to-EBITDA. We understand that there are tenants rolling. There's other areas impacted like the studio and the strike things we don't control. But everything we can control, we are laser-focused on following through with, with the goal of getting that metric, improving that metric.

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Nicholas Yulico

Analyst, Scotiabank

Okay. Thanks. And then just one other question, if I could, on Silicon Valley and thinking about your portfolio there. And I think, historically, there was talk that the portfolio would benefit at times from the ancillary services supporting the large tech community there. And I guess I'm just trying to understand better the dynamic right now where we all hear that large tech is more on hold with leasing. And I'm not sure if that's also impacting some of the kind of ancillary companies that support tech. Is that also sort of affecting that tenant base as well? Or is it more that just large tech is slowing in Silicon Valley?

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Victor J. Coleman

Chairman & Chief Executive Officer

I think it's not affecting as much as I think we would have thought it would, Nick, to be candid with you because as you could see by our numbers, the majority of leases that we're doing in the Peninsula and the Valley are smaller tenants. I mean, we've got a handful of tenants in the 50,000-square-foot range, but the majority of those tenants are 5 to 20.

And so, as you can see by our numbers this quarter and the number of deals we've done, there's a lot of activity in the Peninsula and the Valley. Also the physical occupancies in the Valley and the Peninsula has increased dramatically, and that's converted to more people looking at space and touring and the likes of that.

Art, do you want to comment on that?

Arthur Suazo

Executive Vice President-Leasing

Yeah. Nick, the answer is we are – as tenants are starting to discover how they're going to utilize space, right. So, return to office is really kind of on the forefront and they're enforcing these return-to-office mandates. They're discovering how much space they're going to need to rightsize. We're seeing those rightsizes go both ways, but we are seeing tenants coming back and looking for more space. That's going to affect both the large and the smaller users. So it's going to play all the way through.

Nicholas Yulico

Analyst, Scotiabank

Okay. Thanks. That's helpful, everyone.

Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Nick.

Operator: The next question comes from Michael Griffin with Citi. Michael, please go ahead. Your line is now open.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great, thanks. I wondered if you could expand on what you mentioned in the release about extended times for decisions to be made on leases. Is this just a function of space takers more hesitant to take space? Is it supply? Any incremental commentary you could give there would be helpful.

Victor J. Coleman

Chairman & Chief Executive Officer

Yeah. I mean, listen, it's so hard to pinpoint. Every case is a case-by-case. We've seen tenants come negotiate feverishly and have leases out for signature and we've waited. I mean we've got two fairly substantial leases that have been on the depths of the legal counsel, fully negotiated for a matter of months, one overseas and one domestic. So, Michael, I just think that it's just taking time.

And maybe if you want to read into it a little deeper, I don't think it's about looking at the footprint or the competitive landscape. I just think it's a need currently versus a need in the future. And maybe that's where the decision tree is right now.

Obviously, things have changed expeditiously in terms of back to work, and the number of tenants that have come out and companies have come out with policies. The next phase of policy is enforcement. And I think that level of enforcement goes to execution of leases. And I think that's exactly where we are right now. We're on that precipice of everybody's

policies are in place. Now they're going to be enforced, as the example we gave with Amazon, which is a great example. Now the enforcement comes into place. So now they recognize the need and then the executions are the next stage.

Art?

Arthur Suazo

Executive Vice President-Leasing

Yeah. But we've seen forward thinking on this relative to all the tenant base across our portfolio. Why? Because over the first half of the year, we've seen a spike in tours, early activity. And that early activity is going to translate into actual transactions downstream. And so they've already been thinking about this and the return to work, I think, which has caused the spike in early interest.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. Thanks. And then just coming back to the writers' strike, I mean, obviously, I think it's anybody's guess as to when this thing ends. But is there a worry if it gets protracted kind of into the latter part of this year that given you have a seasonal aspect of this business that production could be slower to ramp up into 2024?

Victor J. Coleman

Chairman & Chief Executive Officer

Yeah, it's a great question. Listen, I think we're very confident that when this ends, the ramp-up will be non-seasonal and it will just go. And as I said, we just had an example of this with COVID two years ago, and we saw the results and they were pretty spectacular. I think seasonality is out of the window.

I do caution, and I know Harout has made it evident to everybody who he speaks with, we're not saying that next day things jump. I mean this is a business and an industry that you're going to have scripts written, you're going to have sets designed, you're going to have actors hired and then you're going to have production in play, and that does take time. I think they're getting prepared for it behind the scenes, but there will be some form of a ramp-up. I don't know when that's going to be. But when it's up and running, we're going to benefit from it, and we think it's going to be fairly expeditious and furious.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

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

Operator: Our next question comes from John Kim with BMO Capital Markets. John, please go ahead. Your line is open.

John P. Kim

Analyst, BMO Capital Markets Corp.

Good morning. With the repayments of the Quixote note, you now have \$528 million outstanding on the line. And I was wondering how you plan to pay that down. Whether it's disposition proceeds, I'm not sure if the five assets are enough to fully pay that down, free cash flow or long-term debt refinancing?

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Mark T. Lammas

President

Yeah. I mean I think the first two are the sources, along with the dividend cut. So, expect to see cash flow and our coverage on dividend continue to improve, especially when studio operations return to normal. That net cash flow, net of debt service and dividends, will go towards either the payment of capital requirements that otherwise would have required the use of the line or reduction of the line. It will just depend on the period of time that we're talking about. So that will do it. The asset sales also go to reduce that, the line balance.

The use of – it's possible if the capital markets are more available and the cost of secured debt is attractive, potentially, we would access the secured markets to reduce it. But I think the excess cash flow and asset sales are really where we're going to get the debt reduction.

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John P. Kim

Analyst, BMO Capital Markets Corp.

Okay. Some of the multifamily companies this quarter talked about property tax relief in Seattle. I don't think we've heard you or other office companies talk about this. But I'm wondering if you see a similar trend either in Seattle or just property taxes, in general, being alleviated.

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Victor J. Coleman

Chairman & Chief Executive Officer

Yeah. Listen, I think we are all over it in all of our markets. We are seeing a very good resetting of valuations and property tax benefits to the company in all of our assets in California and in Washington at the same time. I think our team is way ahead of the curve on that, and you'll see some impacts in the quarters to come. We have already gotten wins. I think the wins will then impact the bottom-line expense reduction on taxes and potentially some rebates as well across the board.

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John P. Kim

Analyst, BMO Capital Markets Corp.

Okay. And Victor, you talked about AI demand and the potential opportunity. I was wondering if you had seen or talking to any tenants currently in your portfolio, either direct or sublease, and if there's any way to quantify how much demand there is out there?

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Victor J. Coleman

Chairman & Chief Executive Officer

Well, I can tell you, like in my prepared remarks, as I said, San Francisco seems to be leading the pack on where the AI demand is. It's currently today at about almost 900,000 square feet. We've seen a couple of deals done. Hayden is an AI company that did 42,000 square feet in the city. I also think that another – Hive, which is another AI company, did I think about 60,000 square feet. There's another 800,000-plus square feet of activity right now. Some of it has been for sublease space and some of it is direct deals.

So I think the numbers that we're quantifying at least that are real, it's about 600,000 square feet of net absorption. And then just like what was asked about the residual, then you're going to see the follow-on on ancillary companies that are servicing these AI companies hopefully growing. And we're optimistic that it's going to make some kind of an impact. But it's real, it's now, and we'll see where it goes in the next couple of quarters. But we're looking at a couple of tenants that are very active in the marketplace and trading paper back and forth. So we're hopeful that we can execute on that.

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John P. Kim

Analyst, BMO Capital Markets Corp.

That's great color. Thank you.

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Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, John.

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Operator: Our next question comes from Julien Blouin with Goldman Sachs. Julien, please go ahead. Your line is open.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Yeah. Thank you for taking my question. Harout, maybe for you, what is causing the increase in the interest expense guidance? Is it just the forward curve going up and the impact on floating rate debt and I guess also the interest rate cap expirations you have coming up this quarter?

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Harout Diramerian

Chief Financial Officer

It's a few things, but you hit upon a couple of them. One is the forward curve increase. Also while this doesn't help interest expense, it does – accretive to us, which is we pay off the Quixote loan and generate a \$10 million savings. However, the cost of that loan versus the current curve is increasing interest expense.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Got it. Okay. That makes sense. And we were – I was encouraged to hear that the covenants came in line with your projections. Sounds like you don't really expect any issues there. I guess, just could you sort of walk us through what the deterioration in the unsecured indebtedness to unencumbered asset value was? And I guess also when you say you don't expect any issues, does that sort of assume sort of any length of strike? Or is there maybe a minimum level of leasing or tenant retention through the end of 2024 that needs to happen?

Mark T. Lammas

President

So, yeah, the deterioration is really a combination of the increase in the unsecured debt balance stemming from the repayment of the Quixote note, which was a secured debt that became unsecured upon repayment. And then there's almost 40 assets running through the unencumbered asset calculation, and some of them increased in the quarter, some of them decreased. The net decrease was about \$112 million.

We stressed test the metric, including a protracted strike all the way through the end of 2024. And even in the most impacted quarter, we still, on that metric, remain more than 300 basis points above the threshold. So the studios, neither of the studios, I should mention, run through the unencumbered asset base or 1455 Market, which I think some people may focus on due to the Block expiration, doesn't affect those valuations at all.

There's an indirect effect due to the cash flow, right, because to the extent that we are generating more cash flow from the studios, it would be available to repay the debt, which will eventually take hold. So that metric improves as we see the studios normalize. And yeah – and we've factored in or sensitized that for, like I said, the protracted strike, all the known move-outs, everything we can project all the way through the end of 2024.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Got it. That's very helpful. Thank you.

Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Julien.

Operator: The next question comes from Camille Bonnel with Bank of America. Camille, please go ahead. Your line is open.

Camille Bonnel

Analyst, BofA Securities, Inc.

Hello. I wanted to pick up on the comment about how mark-to-market opportunities are around 5% for 2023 expirations. If we think about the negative cash rent spreads on the leases you've signed to-date, has this been in line with your expectations given you're still seeing positive rent growth, net effective rent growth?

Mark T. Lammas

President

Yes. And our mark on the remaining 2023 expirations remains a positive 5%. A couple of deals really account for that 8% drag on the mark-to-market. It's the Rivian 60,000 feet extension through 2028 within – we had hit that Rivian deal at literally peak market rents in Palo Alto. And we're obviously glad we were able to get that significant extension, but it reflects current market, so it was a negative 18% mark. We also did a three-month extension with Luminar. It also dragged that number down a bit.

If you account for those two deals, you're essentially flat mark-to-market. So, yeah, our numbers still show that the remaining expirations are – one, that was our expectation for the quarter; two, we expect to see something like 5% mark

Arthur Suazo

Executive Vice President-Leasing

Yeah, more color. Both of those deals happen to be in the exact same market where we hit peak rents and now when we're adding market rent, which is also a very healthy rent, happen to be well below the mark.

Camille Bonnel

Analyst, BofA Securities, Inc.

So just specifically within that market and just given demand still remains below, I guess, where you need to be to support stronger pricing power there, do you expect that these negative rent growth trends will continue over the next 18 months? Or any thoughts if we're close to a bottom here?

Mark T. Lammas

President

Well, I mean, our numbers, which reflect refreshed MLA assumptions to get done every – I mean, we're constantly refreshing our MLAs show a positive for the balance of 2023, and we're essentially flat on our expirations in 2024. And in 2025, there's a slight positive. So, looking through the lens of our assets and assumptions associated with our assets, it suggests sort of a bottoming out.

Camille Bonnel

Analyst, BofA Securities, Inc.

Thank you.

Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Camille.

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Operator: Our next question comes from Dylan Burzinski with Green Street. Dylan, please go ahead. Your line is open.

Dylan Robert Burzinski

Analyst, Green Street Advisors LLC

Thanks for taking the question. I guess just going back to big tech leasing, and I appreciate your comments so far, but one of your peers recently mentioned that they don't expect big tech leasing to materialize or recover even through next year. So just curious, is that how you guys are sort of viewing this tenant cohort? And if so, what do you think ultimately brings them back to wanting to lease more space?

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Victor J. Coleman

Chairman & Chief Executive Officer

Hey, listen, I don't know what other landlords are saying. What we're seeing is we're seeing activity in big tech in certain markets. We're seeing already a decision tree that's made as to how space is going to look, and now they're looking to find out where they're going to accommodate in the space. Obviously, we're seeing a flight to quality just, Dylan, like everybody else is. Our higher-quality assets – the highest-quality assets have the most activity and there's tech activity around that.

I'm not going to venture into saying big tech is not coming back or they are not coming back anytime soon. I just know that what Art's team has seen is that, I believe, that our tours are higher than most that we've seen in the past, and we're seeing that activity. I do think that in reference to – specific to big tech, I mean, just look at Amazon. I think their return to the hub messaging last week was dramatic and absolute. And when there was pushback, they said, you know what, if you aren't going to be within an hour's time line of where your current office is, you can apply to another job. And if you don't, you're expected to be considered as unemployed going forward.

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Arthur Suazo

Executive Vice President-Leasing

Right. And it's not just big tech, right? We're seeing it from – these comments from AT&T, Farmers, et cetera. It's starting to – you're starting to see kind of the trickle down.

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Victor J. Coleman

Chairman & Chief Executive Officer

Yeah.

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Dylan Robert Burzinski

Analyst, Green Street Advisors LLC

Appreciate those comments. And I guess just in those discussions, any noticeable trends with regards to changing space layouts?

Victor J. Coleman

Chairman & Chief Executive Officer

Yeah. I mean, listen, Dylan, we're getting a handle on this real time, and we're seeing the same thing. As I mentioned in my prepared remarks, you're seeing a lot more conference room facilities, a lot more space per head. We've seen that number go up to like 165 or more, maybe even close to 200 feet per person when it was as low as like 120. And so those numbers are consistent throughout, more space for less people. And I think that seems to be the trend, obviously, amenity-driven, that's the trend, and location and quality, which we've talked about since the beginning of this downturn.

Dylan Robert Burzinski

Analyst, Green Street Advisors LLC

Great. Appreciate those comments, guys. Have a good one.

Victor J. Coleman

Chairman & Chief Executive Officer

You too, Dylan.

Operator: Our next question comes from Ronald Kamdem with Morgan Stanley. Ronald, please go ahead. Your line is open.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Hey. Just going back on the leasing, really helpful color on the 2023, two large expirations and the Amazon deal. But any sort of updates on the – remind us on the Nutanix space as well as the Towers at Shores Centers coming due in 2024. Any sort of color or context there, how are conversations going?

Arthur Suazo

Executive Vice President-Leasing

Sure. This is Art. Nutanix is – remember, it's a contractual giveback. We extended them for 215,000 square feet for an additional seven years. And so this was part of their contractual giveback. The piece that came back in the quarter, it was about 51,000 square feet. We're in leases for half of that currently. Going forward, the next large piece in 2023, which is up in May, we're just currently marketing the space. We don't have a backfill user inside, but we are touring currently.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Got it. And then Poshmark? Sorry.

Arthur Suazo

Executive Vice President-Leasing

Yeah. Poshmark, we're in negotiations. They're – if you think about it, they're a three-floor tenant. We're in negotiations for two floors at the current time, right? So we'll see as they assume what kind of footprint they're looking for. It might be all three, but right now we're focused on two.

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Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Got it. And then zooming out to the – you talked about the 2 million square feet in the pipeline. Is there a way to thematically break that down a little bit? Like, is there like AI, financial services, tech? Is there a way to sort of dive into that number a little bit more?

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Arthur Suazo

Executive Vice President-Leasing

Yeah, I don't – right now, I mean, I don't dissect it in that fashion. But I will tell you the sense that I'm getting on that 2 million square feet. By the way, that 2 million square feet is up 100,000 square feet quarter-over-quarter after having leased 400,000 square feet. So that's that early interest that I had been talking about. Repeat is real and it's starting to work its way into our pipeline, which again bodes well. I would say that because of the markets that we're in, I would say probably 60% of that is – 60%, 65% of that is tech. Now I can't break it down to AI versus hardware, software, but it's 65% squarely is tech.

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Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Got it. Helpful. Thank you so much.

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Victor J. Coleman

Chairman & Chief Executive Officer

Thanks, Ron.

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Operator: This concludes our 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

Thank you so much for participating in this quarter's call, and we'll speak to you all in the next quarter.