



# Hudson Pacific Properties, Inc. (HPP) Q4 2023 Earnings Call

February 13, 2024

## Corporate Participants:

**Laura Campbell** *Executive Vice President-Investor Relations & Marketing*

**Victor Coleman** *Chairman & Chief Executive Officer*

**Harout Diramerian** *Chief Financial Officer*

**Mark Lammas** *President*

**Arthur Suazo** *Executive Vice President-Leasing*

## Other Participants:

**Alexander Goldfarb** *Analyst, Piper Sandler*

**Michael Griffin** *Analyst, Citigroup*

**Blaine Heck** *Analyst, Wells Fargo*

**Julien Blouin** *Analyst, Wells Fargo*

**John Kim** *Analyst, Goldman Sachs*

**Rich Anderson** *Analyst, Wedbush*

**Thomas Catherwood** *Analyst, BTIG*

**Ronald Kamdem** *Analyst, Morgan Stanley*

**Vikram Malhotra** *Analyst, Mizuho*

**Dylan Burzinski** *Analyst, Green Street Advisors*

**Operator:** Hello, everyone and welcome to the Hudson Pacific Properties Fourth Quarter 2023 Earnings Conference Call. My name is Emily and I'll be coordinating your call today. [Operator Instructions]

I will now turn the call over to our host, Laura Campbell, Executive Vice President, Investor Relations and Marketing. Please go ahead.

**Laura Campbell:** 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 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 our 2023 accomplishments and 2024 priorities along with macro trends across our markets. Mark will provide detail on our office and studio operations and development, and Harout will review our financial results and 2024 outlook. Thereafter, we'll be happy to take your questions. Victor?

**Victor Coleman:** Thanks, Laura. Good morning, everyone, and thanks for joining us. 2023 proved to be a challenging year as higher interest rates fueled recession fears and slowed the pace of office leasing across the country. Many industries, including tech, focused on cost cutting, in part through layoffs and real estate downsizing. And while the nationwide office leasing activity improved incrementally in the fourth quarter, it remained about 10% below the five-year quarterly average. Furthermore, a once in a generation dual studio union strike effectively shut down the entertainment industry. In Los Angeles, 2023 film and TV production in aggregate fell approximately 40% compared to the prior year, led by scripted TV, which fell close to 70%.

Against that backdrop, and within our portfolio and many of the most impacted markets, our team has remained steadfast in our priorities to navigate these uncertain times, aggressive leasing, further strengthening our balance sheet in part through asset sales, executing our active development opportunities as well as maintaining a leadership position in ESG. Specifically, we signed 1.7 million square feet of office leases in 2023, averaging over 420,000 square feet per quarter. We executed on over \$1 billion of asset sales, which enhanced liquidity, allowing us to address our debt maturities until fourth quarter 2025 and improve our leverage metrics.

We're also on track to deliver our Sunset Glenoaks studios and Washington 1000 development projects this quarter, and we received multiple ESG accolades. All of this we accomplished while quickly pivoting to streamline studio operations and maximize non-production revenue during an historic strike. The Fed's January commentary did little to encourage a major shift in corporate sentiment around office leasing, but we continue to observe a variety of trends in our core industries and markets that are favorable. In the fourth quarter, tech leasing rebounded to approximately 15% of all activity, up from 10% in the fourth quarter last year, but still 5% to 10% below pre-pandemic levels.

In aggregate, tech layoffs appear to be slowing. Tech employment still exceeds pre-pandemic levels and is relatively strong compared to other industries. AI is in its early innings and has been an important driver of growth, comprising of around 40% of leasing activity in the San Francisco market in the fourth quarter. In the years to come, we expect to see second and third waves of AI growth as big tech builds out their own teams and non-tech companies implement AI services, both increasing the demand for office space. Venture funding levels for the full year 2023 were in line with 2020 and are still strong. Most of the funding that has disappeared versus peak years of 2021 and 2022 is for very large deals, say \$250 million-plus, whereas smaller deals are only 25% off peak.

And while tech has embraced the hybrid model, research indicates companies that are working on innovative, evolving technologies have a much stronger preference to be in the office. These are small to medium-sized companies requiring 30,000 square feet or less that are growing and looking for space to support that growth. This is our area of expertise in the Silicon Valley and a trend we should benefit from in our leasing tours and pipeline.



Turning to our studio segment, following SAG's contract ratification in December, production companies have been slow to greenlight new productions, and in January, production counts remained approximately 20% below 2021 and 2022. Based on the level of activity we're seeing real time, we now anticipate that production levels may not materially improve until the second half of the year. Media companies are still adjusting their business models through both revenue generating and cost saving measures, but original content remains integral to subscriber growth. And as an example, Netflix, one of our largest tenants, recently reaffirmed \$17 billion of content spend for the year, which is in line with our 2021 and 2022 pre-strike spend.

On the transactions front, we successfully executed on three asset sales in the quarter, generating almost \$890 million of gross proceeds. Most notable of these was our \$700 million sale at approximately a 6% cap rate for our One Westside and Westside Two office redevelopment to UCLA, which we owned 75%/25% with Macerich. The fact that in the five years plus since acquiring this asset, we found not one but two high quality innovation centric end-users for this asset is a testament to our ability to identify and execute on unique opportunities and ultimately realize significant value for our shareholders. We'll be working with UCLA on their build-out for certain elements of this project on a fee basis going forward.

We also sold certain tranches of a loan secured by our Hollywood Media Portfolio for \$146 million and a parcel of land in North San Jose for approximately \$44 million. All of these proceeds served to significantly enhance our leverage and liquidity position. We also received additional ESG recognition in the fourth quarter. We were named an Office, Americas Sector Leader by GRESB for the third year in a row and for a second year in a row Nareit's Leader in the Light for Office, and one of Newsweek's America's Most Responsible Companies. Our focus on ESG continues to further differentiate our platform and assets, while providing value for our tenants, our employees and our shareholders.

At Hudson Pacific, we remain committed to our long-term strategy of optimizing our unique portfolio and platform to take advantage of future growth opportunities as they arise. In 2024, our priorities are fourfold; aggressive leasing within our office and studio portfolios; executing on opportunistic dispositions; successfully progressing our New York studio development; and further deleveraging and fortifying our balance sheet. In so doing, as the next wave of growth takes hold, we will be well-positioned to leverage our portfolio, expertise and relationships to benefit our shareholders.

Now, I'm going to turn the call over to Mark.

**Mark Lammas:** Thanks, Victor. We signed 432,000 square feet of office leases in the fourth quarter. 75% of these were renewal leases and close to 65% of that activity was in the San Francisco Bay Area, including a 57,000 square foot renewal with GitHub at 275 Brannan. Our cash rents decreased just under 10%, while GAAP rents decreased 2%, largely driven by two mid-sized renewals in the San Francisco Bay Area, the expiring leases for which were signed at the top of the market. But for these two renewals, our cash rent spreads would have been flat. Our in-service office portfolio ended the year at 81.9% leased, with approximately 75 basis points of the 120-basis point decrease between the third and fourth quarter attributable to the sale of One Westside.

We are still seeing tour demand accelerate. During the quarter, we had over 145 tourers representing 1.4 million square feet of requirements, up 4% since last quarter and 50% higher than this time last year. Our leasing pipeline also remains active with deals and leases, LOIs or proposals totaling 1.9 million



square feet, slightly below last quarter, but still up almost 6% year-over-year. In 2022 and 2023 we had an atypically high number of office leases expiring, largely the result of short-term renewal leases signed during the pandemic. We also had several large 100,000 square foot-plus leases rolling. This year we have a more manageable 1.5 million square feet expiring, which is aligned with our long-term average. This includes only one tenant, a known vacate of just over 100,000 square feet expiring.

We currently have a variety of activity that is deals signed and leases LOIs, proposals or discussions on approximately 40% of that space, which is relatively on track for this time of year. Importantly, while we cannot control how and when demand will return, we remain confident in our portfolio, along with our team's ability to drive our activity and execute on leasing in an effort to expedite closing timelines. That said, we are not banking on any material improvements in the operating environment this year. Our occupancy will likely be under pressure, at least in the first three quarters of the year, with the potential to return to essentially flat occupancy by year-end. This is based on both our historical leasing trends and informed directly by our team's detailed space-by-space, lease-by-lease assessment of our portfolio and what we believe should be achievable.

Turning to our studios, on a trailing 12-month basis, our in-service studios were 80.4% leased and our stages were 84.7% leased, with the change largely attributable to a single tenant giving back six stages in support space in the second and third quarters due to the strike. Our Quixote Studios and stages were 29.3% and 30.1% leased respectively on a trailing 12-month basis. In terms of our service business, in the fourth quarter production resumed on certain of our long-term leased stages, which led to a 7% increase in combined lighting and grip and other services revenue. We also grew our transportation revenue by approximately 10% from live events. Even as it's taking time for shows to enter production, we have seen a pickup in demand.

From December to January, we saw a 45% increase in studio tours and more than a doubling in stage-related inquiries. Utilization across our transportation assets also picked up incrementally in January. Looking out over the next 90 days, 45% of our available stages are booked, which is a new high watermark since the strike, following a multi-cam reality show taking all three stages at Quixote, New Orleans. As for our in-process developments, Sunset Glenoaks is effectively complete and we are awaiting Department of Water and Power sign-off required for certificate of occupancy, which we expect to have next month. We pushed out our completion date to first quarter to reflect this updated timing. We are actively touring and engaging with an array of productions interested in either long-term or show-by-show leases.

Construction continues at Sunset Pier 94, which will deliver year-end 2025, and we are in discussions with multiple tenants interested in long-term multi-staged leases. As for our Washington 1000 development, we are finalizing FF&E and other marketing improvements as we await certificate of occupancy, which we also expect to receive next month. Large tenant demand in Seattle has yet to come back in a material way, but we are staying flexible and actively touring full floored users. The building is stunning and we expect interest to accelerate once tenants can fully experience its impeccable design and fantastic indoor, outdoor amenities, especially vis-à-vis competitive product.

And now, I'll turn the call over to Harout.

**Harout Diramerian:** Thanks, Mark. Our fourth quarter 2023 revenue was \$223.4 million, compared to \$269.9 million in the fourth quarter of last year, mostly attributable to the sales of Skyway Landing, 604



Arizona and 3401 Exposition, previously communicated tenant move-outs at 1455 Market and 10900-10950 Washington as well as a reduction in studio services and other revenue due to the related union strikes. Our fourth quarter FFO, excluding specified items, was \$19.6 million or \$0.14 per diluted share compared to \$70.2 million or \$0.49 per diluted share in the fourth quarter last year. Specified items for the fourth quarter 2023 consisted of deferred tax asset write-off expense of \$6.6 million or \$0.05 per diluted share, and transaction-related expenses of \$0.2 million or \$0.00 per diluted share.

Prior specified items consisted of transaction-related expenses of \$3.6 million or \$0.03 per diluted share. Our fourth quarter AFFO was \$21.5 million or \$0.15 per diluted share compared to \$62.1 million or \$0.43 per diluted share in the fourth quarter last year. Our fourth quarter same-store cash NOI was \$116.1 million compared to \$127.4 million in the fourth quarter last year, with the change mostly attributable to the large vacate at 1455 Market and mid-size tenant move-outs in the San Francisco Peninsula and Silicon Valley, combined with a single tenant vacating six stages at Sunset Las Palmas during the strike.

Note, that our 2023 full year outlook assumed a 1.5% same-store cash NOI growth at the midpoint, including One Westside, which was sold five days prior to the end of the fourth quarter, and where we experienced the full benefit of cash rents in 2023, our full year office same-store cash NOI growth would have been 3.8%. This also includes 170 basis points of growth attributable to the WeWork letters of credit, which we drew down in the fourth quarter and were not accounted for in our 2023 full year guidance assumptions.

Turning to the balance sheet. Following our \$482.2 million mortgage loan refinancing at Bentall Centre with Blackstone and the full repayment of our construction loan from the sale of One Westside and Westside Two, we have no maturities until November 2025. Further, we use the net proceeds from One Westside and Westside Two as well as the sales of Cloud10 and the Hollywood Media Portfolio to repay outstanding amounts under our unsecured revolving credit facility. As a result, we improved our share of net debt to undepreciated book to 36.5% and our share of net debt to EBITDA at 8.9%.

We finished the year with approximately \$800 million in total liquidity comprised of approximately \$100 million of cash and cash equivalents, and \$700 million of undrawn capacity under our unsecured revolving credit facility. The undrawn capacity of our credit facility reflects reduction under commitments to \$900 million in association with favorable adjustments made to our related definitions and covenant calculations this quarter. We also have another approximately \$200 million of undrawn capacity under our Sunset Glenoaks and Sunset Pier 94 construction loans.

Now, I'll discuss our 2024 outlook. As always, this outlook excludes the impact of any potential dispositions, acquisitions, financings or capital markets activity or disruptions in studio operations related to an active strike. We're providing a first quarter and initial full year 2024 FFO outlook in the range of \$0.15 to \$0.19 and \$1 to \$1.10 per diluted share respectively. There are no specified items in connection with this guidance. We are introducing first quarter guidance to provide greater visibility around how our initial expectations for earnings in the early part of the year compare to our full year projections.

More specifically, while we are seeing steady improvement in production activity since SAG's contract ratification in December, most of the current activity relates to returning shows rather than new productions, the acceleration of which is an important driver of demand of our Quixote Studios &



Services. We expect new activity to continue to ramp up into the second half of the year, which should in turn contribute to steady improvement in our quarterly FFO outlook.

Now, we'll be happy to take your questions. Operator?

**Operator:** Thank you. [Operator Instructions] Our first question today comes from Alexander Goldfarb with Piper Sandler. Please go ahead.

**Alexander Goldfarb:** Hey. Good morning out there. Just two questions. First, a lot of us on the call clearly understand real estate, we don't understand the movie business. So as we look at the guidance and the first quarter guidance, can you just help us understand the media walkthrough and the ramp? And then, Victor, to your point about the studios just taking a bit longer, is there an assumption that that \$100 million of NOI that you guys lost because of the strikes that that will come back, meaning annualized this year, or is that something that could get pushed out, the recovery of that \$100 million could get pushed out to like 2026 or beyond?

**Victor Coleman:** So let me start with the generic, Alex. So thanks for the questions, and then I'll let Harout jump on the first part, we'll walk you up the ramp a little bit. So our prepared remarks sort of indicated in the last quarter that we assumed when the strike was ending in November, and then it wasn't ratified till December, the production was cease and desist until January. The current state of affairs right now is, any production that was in filming is back up and running now. Anything that was greenlit is now has to be greenlit again and the timeline has been delayed because writers had stopped writing, they couldn't write. And so we assumed that we would have a back-end year and that's been the assumption and how we've ramped you up to the second half of the year. It may be second quarter, late second quarter.

We're very comfortable it's going to be third and fourth quarter, and seasonality is not going to play as much of an issue going forward on that basis. In terms of the \$100 million, yes, we think we're going to get there this year, but it could trickle through the first quarter. It's clearly been, generally, the holds for the sound stages and the activity is there. The production is not been executed because the script writing and other aspects around that have not been completed. We do think there are multiple holds that are going to be executed for leasing, and I think pretty much comfortable that how we've looked at this analysis being this quarter is going to be low, relative to the fourth quarter which will be high, that step up is exactly where we believe that it's going to be. Harout, you're going to walk through?

**Harout Diramerian:** Sure. So Alex, this question on the impact on the media, on our guidance, so the media, specifically Quixote, and the timing around the activity there is contributing about \$0.15 of our AFFO. So meaning, had that normalized quicker, we'd have \$0.15 more of FFO, and you can kind of see that in our result of activity for the remainder of the year. We're going from roughly a midpoint of \$0.17 in Q1 to an average of, I think, almost \$0.30 for the rest of the year if you back into the number. And that basically is the biggest driver is Quixote, as a result of again, the slower ramp up of the studio business. I think, if you normalize for that, we'd be much more in line.



**Alexander Goldfarb:** Okay. And then the second question is, maybe Art can comment. One of the positives that we were hoping for this year, last year you guys were hit by Block, which was a big impact, WeWork big impact. This year, the granularity of the lease exposure was much smaller, I think the biggest one was like 90,000 square feet, and then 80,000 square feet and then it dropped off precipitously. So it's much more smaller impact. Based on your leasing comments that occupancy could decline through the third quarter, that leasing, tech leasing is still tepid, do we still have comfort, or do you guys still have comfort in the granularity of this year's lease exposure that we won't really see big impacts the way we did last year, or are you viewing that, the lease exposure this year, while smaller tenants, we could end up with sort of the same drudgery, if you will, this year that we saw last year?

**Mark Lammas:** Alex, this is actually Mark because those are my comments as it related to softness in the first part of the year. I'll just give you a little bit of color around that, and then Art can comment on status of some of the upcoming expirations. But yes, so our own expectations is that for the first half of the year we're likely to see a bit of softness on our occupancy levels relative to where we ended the year, with steady improvement in the back half of the year. Just to put a finer point in terms of what that boils down to in terms of numbers, if you take our 12/31/2023 expirations together with our scheduled 2024 expirations, about a 1.7 million square feet of total expirations. If you take, let's say, 40% retention on that, which would be a historically conservative amount, we typically retain better than that amount.

But if you took 40%, it's about 700,000 square feet of that, we've already executed 75,000 square feet of that. That leaves us about 1 million square feet of leasing to do on existing availability. We've already executed about 160,000 square feet of that. So that leaves you about 840,000 square feet to spec new leasing on existing availability to get back to where we ended the year on occupancy. So 840,000 square feet is fairly high level of activity. As we indicated in our prepared remarks, the team is, as we do every year, heading into year-end, we do a very, very detailed deep dive into every asset, every available space. And as we sit today, we think that number is achievable, which is why we commented in our prepared remarks that we think it's in sight to get back to year-end 12/31/2023 occupancy by end of this year.

**Arthur Suazo:** And Alex, we're 40% in active process right now, which we feel really good about, but you made a comment about small tenants, yeah, that's exactly right. That number is going to grow because our average tenant size is well under 10,000 square feet later year, and these tenants aren't engaging just yet. So this doesn't reflect that. Once they start engaging, the small tenants are going to – that number in the aggregate is going to help us a great deal.

**Alexander Goldfarb:** Thank you.

**Michael Griffin:** Sorry. I was on mute there. Question for Harout, just kind of on the cash balance and sources and uses. If we look, I guess, relative to last quarter, from this quarter, your cash balance went up about \$25 million. But then, I'm just trying to reconcile the \$700 million that came in from the One Westside proceeds, and then paying off the construction loans there gets me to about \$500 million or so maybe of net cash proceeds. So could you walk me through kind of where the remainder of that went? And any commentary around that would be helpful.



**Harout Diramerian:** Sure. Just as a reminder, the \$700 million is not all ours. We have a 25% partner. And so we take the \$700 million, there are some closing costs. There is a holdback of about \$16 million that we should get by the end of 2024, and the remainder was first used to pay down the construction loan, and then our net proceeds were used to pay down our line of credit. So every extra dollar we had, we used to pay down line of credit. So we have another, like I said, another \$16 million coming to us. Well, split between us and Macerich, that will come at the end of 2024.

**Michael Griffin:** Got you. That's helpful. And then maybe just a more broad question on your markets and distressed opportunities you're seeing out there, obviously, it seems like one of the priorities is to pay down debt and to get the balance sheet in better order. But if you do see distress out there, could you look to capitalize on any opportunities?

**Victor Coleman:** Yeah. Michael, listen, we're not seeing distress that is attracting us right now. We are evaluating price per pound and the cap rate movements in all of our markets. But there's not a tremendous amount of deals out there that are truly the forefront deals that I guess Hudson would want to partake in right now. We've got our finger on the pulse clearly as to what's in the marketplace. I would say, the activity that you're seeing that has been, obviously, given back to some of the lenders or certain sellers are looking to sell assets. There's more about like an owner user-type aspect versus a value-add aspect right now.

That being said, I think, we're going to see some opportunities that may be intriguing with existing partners on assets that we may have opportunities of taking out at some pretty good valuations for the company to move forward on if there's upside in those assets. So we're in the market, I would say, of course, everybody's focused on San Francisco because of its depressed aspect, but there's only been a few deals done there. There's going to be opportunities in Seattle, there's going to be opportunities in the Valley, and there's also going to be opportunities in Los Angeles.

**Michael Griffin:** Great. That's it from me. Thanks for the time.

**Operator:** The next question comes from Blaine Heck with Wells Fargo. Please go ahead.

**Operator:** The next question comes from Michael Griffin with Citi. Please go ahead. Hello, Michael. Your line is now open. Please proceed with your question.

**Blaine Heck:** Great. Thanks. Good morning. I was hoping you guys could give a little bit more color. I know you guys are done breaking out studio versus office same-store guidance, but I do think that coming into 2024 there was some optimism that the studio side could show some better results in the services business that could offset some headwinds on the office side. So any sort of general color you could give on the contribution of each of those to the overall same-store number would be really helpful.

**Harout Diramerian:** So we made a decision a while ago to only provide same-store for the company overall and stop breaking it out between the two. But you can see that the preponderance of our business is the office side, and that's been the driver of our projection. There are some growth obviously in the media side, but the driver for at least 2024 is office. But just as a reminder, the Quixote business, which is the operator, is not in our same-store numbers. So if you add that in and we change the definition of same-store, I think would be up 5% year-over-year. So just to give you some context there.



**Blaine Heck:** Okay. That's helpful, Harout. Just a follow up on that, to dig in on the office side. You do have a lot of vacancy at 1455 Market from the Block move out. Can you just give us an update on your thoughts around backfilling that space and what's included in guidance, if anything?

**Victor Coleman:** Yeah. Let me start and I'm going to have Art dig in. We have right now in negotiations about 155,000 feet of deals. I think that could grow substantially with some existing negotiations and interest levels over the next 12 to 24 months. The assets uniquely position because of the current build out with Block and Uber, that space is so unique and large floor plates, Blaine, that that seems to be where the interest level is. Clearly the deals that we did with Block and Uber were at different timelines. The market has shifted back to not necessarily where those levels were, but at least closer to where they were than where the rents would have been when they exited. So we still have some a little bit of headroom there, and I think we're comfortable with some of the aspects on those deals that we're looking at.

**Arthur Suazo:** Yeah. I mean, relative to our vacancy in San Francisco, I mean, the preponderance of it is in 1455 Market for the reasons Victor described. In addition to that, remember, it's really two buildings in one. It's not just the build out, the residual value in the build out, but it's 90,000 foot plate on the on the podium and 25,000 square foot plates in the tower, which is quite appealing to the users we're talking to. Yes, there's 150,000 square feet that we're actively in negotiations on right now. I just want to underscore that the growth behind it from within these tenants would happen fairly imminent.

**Blaine Heck:** Great. That's helpful. Last question from me. Can you talk about the impairment charge you guys took in the quarter and what that was driven by and just the situation around that?

**Arthur Suazo:** Yeah. Sure. We were required to evaluate our assets, it's a GAAP evaluation, not a market evaluation to be clear. It's not an indication of fair value, but just kind of an indication of where there might be some impairment in terms of the valuation compared to our book balance. And so it primarily – I mean, I don't want to get too specific on it, but primarily relates to a couple of assets that compared to the undiscounted cash flow don't seem to be long-term value adds. So I mean, I don't know what else to say about that, but that's it.

**Blaine Heck:** Okay. So just to be clear, this isn't to suggest that you guys aren't looking to kind of dispose of any assets, but this was a reevaluation that was triggered by something else.

**Arthur Suazo:** Correct.

**Blaine Heck:** Okay. Thank you, guys.

**Operator:** Our next question comes from Caitlin Burrows with Goldman Sachs. Please go ahead.

**Julien Blouin:** Hi, this is Julien Blouin on for Caitlin. Thanks for taking the question. I had a question on G&A. It looks like G&A is going to be a little bit higher year-over-year and certainly higher than we were expecting. I guess, last year, I think you mentioned you were looking to reduce costs and re-evaluating G&A, and the company has yet to reinstate the regular dividend to common shareholders. I guess, what is driving G&A higher and are there any opportunities to lower it?

**Harout Diramerian:** Let me answer the second one first. Yes, there's opportunities to lower it and we're going to constantly evaluate the G&A to make sure it's right-sized. The increase year-over-year is primarily driven by an incentive plan. So while the expense is high, it's really going to be driven by stock



price and return. So it aligns the management's interest with the investors' interests, meaning, the shares won't be issued unless we achieve certain hurdles. So for accounting purposes, the value add target and those numbers can seem high year-over-year, but that doesn't mean you actually incur those costs, because if you don't achieve those goals, none of those shares are issued but the expense is still in our underlying numbers. And also, thank you, Mark, just remind me, in the prior year, we removed that portion of the incentive plan in 2023, which it caused an increase year-over-year from 2023, 2024. If you compare our G&A from 2024 to 2022, the increase isn't as stagnant, it's a small increase, but that's what drove the year-over-year increase, there's a lack of the same plan in 2023 compared to 2024.

**Julien Blouin:** Got it. Okay. That's helpful. And then maybe one quick one on the covenants. I guess, the debt service coverage and adjusted EBITDA covenants tightened again in the fourth quarter. I know some of the others got sort of amendments and were helped by the flexibility received. I guess, how do you expect those specific covenants to trend in the coming quarters, and will an improvement in the studio NOI eventually start to help these metrics?

**Harout Diramerian:** Yeah. For sure. Let me just, I don't want to gloss over the improvement. Remember, last quarter the one covenant that everyone was concerned about was the unsecured indebtedness to unencumbered asset value, which was at 57.7% and this quarter's at 41.8%. I don't want to gloss over the improvements there. Yes, some of it relates to the adjusted definition, but the rest of it is driven by the management's reduction of debt, pay-off of debt from asset sales. So that is important, it's not just the definitional changes associated with the line of credit. But to address your specific points around the EBITDA and fixed charges, so that's a trailing number. So right now we're trailing a lot of the higher interest expense before the pay down that once that burns off will start changing directions. And yes, the studio business will help that number as it starts improving. So we expect that to start improving. I'm not saying it's going to be immediately up to back to 2.6%, but our projections assume, it's going to improve over the year.

**Julien Blouin:** Okay. Great. That's really helpful. Thank you.

**Operator:** The next question comes from John Kim with BMO Capital Markets. Please go ahead.

**John Kim:** Thank you. On the studio and service ramp in the second half of the year, getting you to about \$0.30 FFO per quarter, does it improve in 2025 as you realize some of those synergies in Quixote and the FFO benefit of Glenoaks or is \$0.30 maximum?

**Harout Diramerian:** No. We expect – sorry John. So just to be clear, it's not – I just want to make sure I'm not, didn't misconstrue it. It's not \$0.30 for the media business, \$0.30 overall based on the math. But the media business we expect it to continue to improve year-over-year. So we definitely think there'll be improvement not only from the synergies of the business, but also just the overall business itself as it continues to get back to normalization. So 2024, again, because the Q1 is a much lower year, just that alone is going to increase in 2025 without everything else that we just mentioned.

**John Kim:** Okay. So getting to \$0.30 in third and fourth quarter would imply \$0.28 of FFO in the second quarter. What are the chances that that disappoints just given the slower ramp up of production?

**Harout Diramerian:** It's really hard to know. We still haven't even finished first quarter for us to go out and comment on second quarter and thinking you might disappoint is a bit early. I don't think we would



have provided the guidance numbers we did if we thought it was going to disappoint. So I think we feel pretty comfortable with them, and yeah, that's all I can say.

**John Kim:** Okay. My next question is on leasing activity. I think Mark mentioned two-thirds of that was in the Bay Area this past quarter, but then also tour demand has accelerated. I was wondering if you could breakdown that tour activity among your major markets, LA, Seattle, San Francisco and Silicon Valley?

**Arthur Suazo:** Sure. This is Art. Tour activity really kind of goes hand-in-hand with what we have in our active pipeline, and I would say that, 65% of the \$1.9 million is included, spread out throughout the Bay Area pretty evenly. So if we're talking about \$1.2 million, \$1.2 million of the \$1.9 million is across the Bay Area. And so the team is working ferociously to try to get all of those through the pipeline. It's going to come down to deal velocity, how long it's going to take to do some of these deals. And going back to the first part of that question, which is tour activity, that's the precursor to all of this. And so the fact that we're up call it 6% quarter-over-quarter, both in number and square footage, bodes well for the coming quarters. And of that percentage, both Seattle and – Seattle is close to 25% and the rest rounds out LA, where we don't have a lot of vacancy or expirations, and Vancouver.

**John Kim:** I may have missed this, but what was the 6%? I thought the activity was 50% higher.

**Arthur Suazo:** The tour activity.

**John Kim:** The tour activity was 6% higher?

**Arthur Suazo:** Yeah. Year-over-year it's 50% higher. 6% sequentially.

**John Kim:** Sequentially. Okay. Got it. Great. Thank you.

**Operator:** The next question comes from Rich Anderson with Wedbush. Please go ahead.

**Richard Anderson:** Hey, good morning. On the topic of sort of greenlighting new production and understanding, it's going to take some time because the writers were on strike as well. To what degree did that take you off guard like it did the Street apparently in terms of how the cadence of your quarterly guidance, or your quarterly results that we're envisioning for 2024? But a bigger question is, does this suggest that there could be like this pent-up option or activity, I should say, the back half of the year? You don't want to guide to that, but maybe there's a real chance to have a 2x type of catch up in your studio business on the other side of all of this. Is that something that's at least possible?

**Victor Coleman:** Well, let me sort of make a sort of a general comment. I mean, once the stage is re-leased, they're re-leased. So you're going to have the revenue stream on the stages whenever they're fully leased. In terms of the ancillary revenue in the Quixote business, yes, I mean, still on the market share for our transport business, we still have 70% of the market share. So when that industry is fully up and running, we're going to benefit from it. Rich, I don't know if it took us off guard. I mean, listen, what took us off guard was the fact is the industry stopped and it never started even when the strike was over. It didn't start until January because it wasn't ratified till December, and they didn't work in December. So there is a ramp up period.

We've always said that that ramp up period should be fairly aggressive and we're going to benefit from it. I guess, what surprised us was really the greenlighting of shows was truly the writers didn't write. I mean, as opposed to if you look back at COVID, there was communication, writing and when they got to



the point that they were going to produce content, it started right away. This is just taking time. As we mentioned in our prepared remarks, the majority of our tenants in the industry has still maintained a budget of production content that is going to be for this year. It will be back-ended, but they're not coming off of their numbers, and we don't think it's going to be the case for 2025 or going forward. So I think we're pleasantly looking for production to start, and once that ramp up starts, it should continue.

**Richard Anderson:** Okay. And then second question is on 2025. Mark, you said, we're back to 1.5 million square feet for 2024 in terms of office expirations, but it pops back up a little bit in 2025, and approaching 2 million square feet and 18% of the portfolio. Do you guys see anything there that is sort of on your radar screen, sort of like a watchlist further out, or things still feeling a little bit more stable with a longer term view?

**Mark Lammas:** Well, I mean, I will tag team this with Art. I mean, as you know, we've got Uber in 2025, early 2025 at 325,000 square feet. Victor mentioned activities we have at 1455 Market, which helps address the Square expiration and could even get us a head start on inroads there. After that, the expirations in 2025 at least taper off, we've got Google for 180 at Foothill, we're keeping an eye on that. And we, I don't want to get too far into Art's commentary here, but as we go throughout the rest of the year, the expiration size at least comes down from there and there is some activity on that. Art, do you want to?

**Arthur Suazo:** Yeah. To put a finer point on what Mark said about 1455, yeah, some of the space we have actively in negotiation and the deals behind that or the square footage behind that is both on the Uber and the Squarespace. So looking at both of them concurrently. And then beyond that, there's some mid-sized deals that we're in negotiations on that or perhaps rightsizing, but nothing that's alarming beyond the first kind of couple of deals that Mark mentioned.

**Richard Anderson:** Okay. Fair enough. Thanks.

**Operator:** The next question comes from Tom Catherwood with BTIG. Please go ahead.

**Thomas Catherwood:** Thank you. And good afternoon, everybody. Victor, in the press release and your prepared remarks, you noted your commitment to de-levering. Can you provide your thoughts on near-term levers to progress towards that? And maybe, what parts of the portfolio you consider untouchable when it comes to raising capital to repay debt?

**Victor Coleman:** Great question. First of all, we have a few deals right now that we've got some reverse inquiries on. We're currently not marketing any asset to de-lever the portfolio, but we have at least three transactions that have come to us and two are which are by users. I think, we maintain that we want to look at our B assets in the portfolio and eventually rid of them at the right price and the right terms in the right conditions. There is no fire sale going on because we did a phenomenal job in the \$1 billion last year that sort of righted the ship from the capital market standpoint. But we do have a couple of assets that I think will fall into the category of disposition for the first half of this year. And potentially, the ones that are – as you look at it like off the table, there really is only one asset that we currently have in the portfolio that would be considered a Class A asset that we've got a reverse inquiry on that we would consider. The rest of them are not things that we can't live without, I guess, I would put it that way.



**Thomas Catherwood:** I appreciate the thoughts. Thanks, Victor. And then maybe moving over to San Francisco, the GitHub renewal was a welcome surprise, especially given CEO's prior plans to go fully remote. Can you share any insights you may have into their change in real estate strategy and maybe whether there's any read through for other tech tenants in your portfolio?

**Victor Coleman:** I mean, in the general basis, there is a lot of these tenants have come back and revisited the work-from-home status. As we said in the prepared remarks, we feel very comfortable, we're at the tail end of this. Candidly, we're a little surprised that it's taken this long and the West Coast is a slower mover, as we're all feeling and unfortunately living with every single day. I guess, you guys all know what my thoughts are around that. But that being said, I think there's a generic push for interaction, for onboarding and culture, and GitHub is a great example of that. They realized that they needed space, albeit they didn't need all of it, but they needed space, and hopefully that follows suit with some of the other ones we're talking to right now that we thought we're also going to take a different direction and then come back and ask for renewals. So that's the general tenor. It seems as if the majority of the tech tenants have made their decision as to what direction they're going in and how they're executing on it.

**Arthur Suazo:** That's right, Tom. It was a win all around for the reasons Victor mentioned, and we are seeing that with the other tenants there. This idea about rightsizing and it's really a discovery period to figure out, they figured out now people are coming back. They figured out we need space. Now, they're just trying to figure out how much space and this is a great example of that.

**Thomas Catherwood:** And just quick follow up on that, is this – and again, I know each lease is different, each tenant is different, but is this a trend you're seeing more of in the specific markets, or is the kind of rethinking and setting of the real estate strategy pretty consistent across portfolio?

**Mark Lammas:** Yeah. I think the decision-making is consistent across the board. It starts with cost savings, getting your employees back, which by the way has been no small task, and we're getting through that hurdle, but we're seeing it everywhere.

**Thomas Catherwood:** Got it. Appreciate the insights. Thanks, everyone.

**Operator:** The next question comes from Ronald Kamdem with Morgan Stanley. Please go ahead.

**Ronald Kamdem:** Hey. Just my first one is, just starting with the, I guess, both the studio and the same-store NOI guidance. So number one, can you just contextualize sort of what did the studio do in 2023 and how much is baked into the guidance and in 2024 versus the ultimate amount which I think was 120 basis points plus, just what's the context on that? And then, so tying it to the same-store NOI, trying to get a better understanding of this down 12, what are the pieces? How much of that is – again, I know you're not breaking out studio versus office, but maybe what are the big lease expirations doing to it? What other pieces can we think about this down 12, which is a pretty large number?

**Harout Diramerian:** Sure. I just want to make sure I understand 120 basis points, I'm guessing that's the media number that kind of we disclosed, that's a consolidated number. That also includes the Quixote activity, not just the same-store. So that Quixote activity that is safer, is not in the same-store number. So the number that we disclosed for the same store is without Quixote. So if you factor that in, I think, I'd mentioned earlier, would be a roughly at a 5% year-over-year increase, which is part of the whole activity for the company. In terms of the drivers year-over-year on the office side, I mean, the big one



obviously is Square, bringing that number down and then, WeWork giving back some space at a couple of our buildings. And we also, as I mentioned in my prepared remarks, we received some security deposit impact in 2023, that's not reoccurring in 2024. So it's impacting the numbers year-over-year.

**Ronald Kamdem:** Got it. Okay. And then, so I guess my last one would just be on the, I think you touched on it earlier, but just on the disposition activity, how are you guys thinking about that, any other assets in the market? What sort of is the right way for us to think about that? Thanks.

**Harout Diramerian:** Well, as usual, I mean, listen, we're not going to tell you what we're disposing off. So we're not going to do it until we make the announcement of those assets, but I think I just covered that in the last question, the ones we're looking at right now are all reverse increase, and there's at least three of them and there may be more

**Ronald Kamdem:** Thanks so much.

**Harout Diramerian:** You got it.

**Operator:** The next question comes from Vikram Malhotra with Mizuho. Please go ahead.

**Vikram Malhotra:** Morning. Thanks for taking the question. I just want to go back to the studio side, and again, we're all trying to just ramp up and understand the kind of the variable and non-variable piece of it. But is the tour activity that you mentioned being up 40%, 45%, is that a good leading indicator? Like what are other indicators you are monitoring to kind of realize that, hey, the ramp is real or likely, and especially the new production, as opposed to stuff that has just stopped?

**Victor Coleman:** So Vikram, I'll start with that. Listen, the activity is holds. I mean, holds on space is the first [Technical Difficulty] (00:54:43-00:54:48) and as a result, they're reaching out for vacant spaces on the soundstage side. Once they get picked up, then the equipment starts going out the door from that point on. And as I mentioned earlier, anything that was in production is now back in production. So it's all sort of happening at the same time. And Mark?

**Mark Lammas:** Yeah. I'll just add a little bit more color that we are – that's exactly what we're watching, as Victor has now, I think responded to, three or four times at this point. Everything that was... [Technical Difficulty] (00:55:19-00:56:45)

**Victor Coleman:** We're here. Hello, operator, we're here.

**Vikram Malhotra:** Yeah. This is Vikram. Sorry, I don't know where you got cut-off, but I don't think anyone could hear you.

**Mark Lammas:** Yeah. Sorry, Vikram. We were just adding a little bit of color in response to your question. We are watching where TV, television and film show counts are, and I don't know if you heard this, but the good news is, we are back above where we were at this time last year. But we are still behind or below 2021 and 2022 levels under 2021 by say, 18% or by 25% under 2022 by 18%, 2021 was an exceptionally high year because of making up for the pandemic in any event. As we project out by show count for LA which is where the lion's share of our Quixote business is and our stages are, we do anticipate show count to be at a normalized level at or close to 2021 or 2022 levels, sometimes towards the end-ish of second quarter, early third quarter, and that's the sort of the one of the key barometers that we're keeping an eye on as we think about the recovery in the studio business.



**Vikram Malhotra:** Got it. Okay. That's helpful context. Just on the office side, you mentioned the occupancy is under pressure, the first, I think three quarters and you expect to ramp back up. I'm just wondering, I think, you said 40% coverage on the expiration, but in the pipeline or perhaps these are like leases in LOI or just stuff that signed but not commenced, like what gives you the insight into sort of the down three and then up in the fourth quarter? That seems very specific.

**Mark Lammas:** Well, it is very specific because that's the way we model our activity. It's as granular, Vikram, as you could imagine. I mean, this is inputs from every person on our leasing team assigned to their respective assets, and it goes suite-by-suite on renewal, likelihood of renewal or not renewal, on activity, on available space. And so when we look at a output on say at the end of any particular quarter, it is a very – it's not some high level input and output, it's a very specific result based on very specific inputs and outputs. And I don't know how else to explain it, other than to say the result of all of those inputs is that, we see a bit of softening in the first half on occupancy with a steady recovery in the third and into the fourth quarter. I don't know what else...

**Vikram Malhotra:** Okay. I can follow up. I was just wondering whether it's the lease rate or the occupancy, because if it is occupancy, it must have been you are close to signing a bunch of deals which would hit occupancy in second half.

**Mark Lammas:** Yes. It is, I was being very specific about occupancy just because that's what's informing guidance.

**Vikram Malhotra:** Got it. Okay. And then just last one, Harout, could you clarify, I was just confused on what changed in the stock comp plan that was not there last year and is there this year. I'm wondering like have the metrics on which you award stock has that changed or something else. I was just confused like you said, something was not there last year, but it is this year?

**Harout Diramerian:** Yeah. So last year we didn't have our part of the stock comp plan that is driven by like share metrics, if you will, like stock price metrics, that did not exist last year.

**Mark Lammas:** Can I just say this just a second, we forfeited, that senior management team forfeited a portion of our long-term incentive program, we voluntarily did that. So that's one of the year-over-year differences.

**Vikram Malhotra:** Okay. That's helpful. Thanks so much.

**Operator:** Our final question today...

**Victor Coleman:** Operator, we're going to take one more question because – yeah, sorry. This would be our last question because I'm sorry we went over, but we had a technical problem. Go ahead, Dylan.

**Operator:** Our final question today comes from Dylan Burzinski with Green Street. Dylan, please go ahead.

**Dylan Burzinski:** Yeah. Thanks. Thanks for taking the question, guys. Just one quick one. Sort of given everything that's going on across your markets in terms of just vacancies and sub-lease availability continuing to move higher here, I guess, do you guys expect to be able to maintain base rents in this environment, or can we finally start to see pressure on this front?



**Victor Coleman:** Yeah. I think that's a really good point. Right now, we did have a slight mark-to-market last year and the year before on an upward mobility. I think we're looking at it being flat right now to slightly down. The interesting thing is, Dylan, we're not seeing the concessions add in the same way from a free rent change and or increase in any CapEx or TIs. That being said, I think, we are comfortable at our rent matrixes that we're going out with, and we're not getting pushed around a ton on that, at least with the deals that are in negotiations right now. We're going to continue to monitor that, but it's not something that's surprising us to say, oh! we're coming off some big numbers, or we're coming off current rent numbers. It's obviously going to be, based upon availability and the quality of the space. And we still maintain that our quality is high enough to sort of absorb the kind of rental rate structure that we're currently at.

**Dylan Burzinski:** Perfect. Thanks for that color. Have a good day.

**Victor Coleman:** Thank you, Dylan. Sorry that we went over and apologize for those who we couldn't get to the questions, too, but I know lots of you will be reaching out to the team. Thanks so much, operator. Have a good day.

**Operator:** Good-bye. Thank you, everyone, for participating.