



Hudson Pacific Properties, Inc. (HPP) Q1 2024 Earnings Call

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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:

Michael Griffin *Analyst, Citigroup*

Blaine Heck *Analyst, Wells Fargo*

Peter Abramowitz *Analyst, Jefferies*

Alexander Goldfarb *Analyst, Piper Sandler*

Ronald Kamdem *Analyst, Morgan Stanley*

Caitlin Burrows *Analyst, Goldman Sachs*

Thomas Catherwood *Analyst, BTIG*

Vikram Malhotra *Analyst, Mizuho*

Nicholas Yulico *Analyst, Scotiabank*

Dylan Burzinski *Analyst, Green Street Advisors*

Camille Bonnel *Analyst, BofA*

Rich Anderson *Analyst, Wedbush*

John P. Kim *Analyst, BMO*



Operator: Hello, all, and welcome to Hudson Pacific Properties First Quarter 2024 Earnings Conference Call.

My name is Lydia and I'll be your operator today. [Operator Instruction]

I'll now hand you over to Laura Campbell, Executive Vice President, Investor Relations and Marketing to begin. 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. An audio webcast of this call will also be available for replay on our website. Some of the information we'll share on the call today is forward-looking in nature. Please reference our earnings release and supplemental for statements regarding forward-looking information as well as the reconciliation of non-GAAP financial measures used on this call. Today, Victor will discuss industry and market trends as well as other highlights from the quarter, Mark will provide an update 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: Thank you, Laura. Hello, everyone, and welcome to our first quarter call. Macroeconomic pressures have persisted in 2024 with the Fed contemplating keeping rates higher for longer. On the office side, speaking thematically across our markets, vacancy and negative net absorption remain stubbornly high as many existing tenants continue to downsize. And yet, demand in terms of new requirements is recovering. Sublease is stabilizing with backfills exceeding new additions and minimal construction starts have significantly curtailed new supply.

Remote-first companies are becoming rarities and more business-friendly public safety focused policies are taking hold, contributing to meaningful reductions in crime across our urban markets. In line with these more positive trends and backed by our team's persistence and creativity, our office leasing activity, along with the percentage of newly signed deals accelerated in the first and second quarters of the year. We have always been focused on ensuring our portfolio meets the needs of today's and tomorrow's workforce. And in addition to new construction, we have consistently adapted, renovated, or otherwise repositioned our older product, which will only pay further dividends as the pipeline of new supply wanes.

Today, over 70% of our in-service portfolio was either built or substantially renovated after 2010, such that our average billing age when factoring in substantial CapEx improvements is approximately 10 years. Over 95% of our properties have functional outdoor space; 90% have end-of-trip facilities with bike storage, showers, and lockers; 60% have fitness centers; 95% offer EV charging; 92% are LEED certified; and 100% are carbon neutral.

Further, our expertise in placemaking throughout our combination of strategic CapEx, retail tenanting, programming, and events as demonstrated by our successful stewardship of the Ferry Building in San Francisco and Bentall Centre in Vancouver is becoming more important than ever. We're now leveraging those learnings to the benefit of our entire portfolio, especially in our more urban markets.

In terms of the studios, upon the strikes resolution late last year, our team hit the ground running to market our stages and services. In the first quarter as filming resumed, revenue improved across



essentially every segment of our studio business. We also have promising activity on a majority of our vacant stages, inclusive of negotiating our first lease at Sunset Glenoaks. However, as has been well-documented by the media, post-strikes the film and television industry has recovered far more slowly than anticipated. Most of our studio business is in Los Angeles, where FilmLA recently reported shoot days in the first quarter were down 9% year-over-year. And while film production has largely recovered, television production, one of the primary demand drivers for our stages and services was off 16% in the first quarter compared to last year, even as the number of pilots increased nearly tenfold.

There are several reasons why the ramp-up is different than what occurred following the pandemic. Many believe studios are curtailing production due to the pending IATSE and Teamsters Local 399 union contract expirations in May and July, respectively. Broadly speaking, the industry seems eager to avoid another strike, and thus, IATSE negotiations are on track to be completed by late May with all 13 Hollywood locals reaching craft-specific agreements as of last week. Other factors include logistical and resource constraints as multiple productions attempt to restart simultaneously. Industry consolidation and shifting business models as networks pursue profitability.

Unfortunately, with the IATSE and Teamsters contract expirations imminent, it is challenging to more fully assess how these other factors will weigh on stage and services demand for the balance of the year. But there is no question that high-quality, original content will remain essential to the studios growing their subscriber bases and building valuable IP. Thus, while the industry is evolving, we will see long-term fundamentals as compelling.

Turning to dispositions, we continue to opportunistically pursue potential sales with the goal of further deleveraging and fortifying our balance sheet. While we cannot yet disclose which assets, we're actively exploring the sale of three office assets, collectively representing around 900,000 square feet. We are also looking at a potential recapitalization of a fourth office asset in the Bay Area. While we are most focused on dispositions, this quarter, we had a unique opportunity to purchase our partner's 45% interest in 1455 Market.

We then executed a 20-plus-year lease at 157,000 square feet at 1455 Market with the City of San Francisco, which has expressed interest to grow significantly in that building. This is the largest direct deal in downtown since 2021. The city's commitment to the mid-market neighborhood, both through its actions and its representative's commentary related to this lease, speaks volumes. We continue to believe in the long-term demand drivers for San Francisco office space and our ability to create further value at 1455 Market at very attractive all-in basis with no leverage.

Finally, during the first quarter, we were once again included in S&P's Sustainability Yearbook. And last month, we published our sixth Annual Corporate Responsibility Report. Key accomplishments for the year include reducing Scope 1 and 2 carbon emissions by 36% from our 2018 baseline, such that we are on track to meet our sciencebased 50% reduction target by 2030. We continue to operate our assets on a carbon-neutral basis with our LEED and ENERGY STAR certification among the best in the office sector.

And last year, we began manufacturing a 100% solar electric trailer as part of Quixote's Verde line, which is setting the standard for sustainable trailers in the industry and on average outperforms our non-solar product in terms of pricing and utilization. And most recently, GlobeSt once again named Hudson Pacific a Best Place to Work, which is a nod to our exceptional people and culture. With that, I'm going to turn it over to Mark



Mark Lammas: Thanks, Victor. As Victor noted, our office leasing momentum has accelerated since the start of the year. In the first quarter, we signed over 500,000 square feet of leases with 65% of that comprised of deals along the San Francisco Peninsula and in Silicon Valley. We signed nearly 300,000 square feet of new leases or 57% of all activity. Both total and new leasing were the highest level since fourth quarter of 2022, and our average transaction size for new leases was the largest since first quarter 2021.

Significant signings included 82,000 square feet of new and renewal leases, with an eight-year term with consumer electronics company, TDK InvenSense at Concourse, which backfilled approximately 30,000 square feet of former Nutanix space and approximately 11-year 54,000 square foot new lease with a software company at Bentall Centre, a five-year 36,000 square foot new lease with a biotech company at Metro Center, and an approximately six-year 24,000 square foot lease with a semiconductor company at Metro Plaza.

Quarter-over-quarter, we also had relative improvement in our other leasing metrics. Our GAAP rents grew 6.2%, while our cash rents were off by 5.4% from prior levels, which reflects in large part the competitive rent structure negotiated to retain InvenSense for eight years at Concourse. Similarly, net effective rents were modestly down in the quarter, with lower annual leasing costs and a 23-month increase in average term. Our in-service office portfolio was 80.5% leased as of the end of the quarter, down approximately 140 basis points compared to last quarter. This is in line with our expectations and mostly related to mid-sized tenant move-outs in Seattle and the Bay Area, the largest of which were Dell EMC with 43,000 square feet at 505 First and Nordstrom Rack with 45,000 square feet at 901 Market.

We had nearly 140 tours at our office assets, representing 1.4 million square feet of requirements, which includes year-over-year a 20% increase in number and a 30% increase in average size of requirements in Silicon Valley. Our current leasing pipeline of 1.9 million square feet includes an average requirement size around 20,000 square feet. Upon signature of the 150,000 square foot new lease with the City at 1455 Market subsequent to the quarter, we still have 290,000 square feet of deals either in leases or LOI. Our coverage on our remaining 2024 expirations, that is deals and leases, LOIs, proposals, or discussions is 45%.

Turning to the studios, our market intel points to approximately 100 productions currently filming in Los Angeles, up from around 30 during the strikes and about 80 at the end of last year, but still significantly below more typical levels of, say, 120 to 125. Most of these are returning productions, meaning they were already filming pre-strikes. That and the fact major studios directed most new films and shows back to their own facilities is further curtailing demand for independent studios like ours. As more productions are greenlit and the major still up, our capture rates start to improve. Even as tours at our studio slowed in February and March, active stage leads, that is films or shows in pre-production with which we have been in contact, increased about 30% quarter-over-quarter, a potential indicator of healthier future production levels.

On a trailing 12-month basis, our in-service studios were 76.9% leased and our stages were 79.4% leased in the first quarter, which reflects a single tenant vacating space at Sunset Las Palmas during the strikes. Trailing 12-month occupancy at Quixote studios and stages remained flat quarter-over-quarter at 27.1% and 29.8%, respectively. We have either in-place or uncommenced leases, are in negotiations or have expressions of interest on all but 10 of our 54 in-service and Quixote stages used primarily for film and TV production.



We have seven stages at Quixote that are leased primarily for commercial shoots. In the first quarter, those were 35% occupied, up approximately 800 basis points quarter-over-quarter. This activity points to the potential for near-term occupancy gains, even as those will take time to appear within our trailing 12-month leased percentage given the weightings of prior strike impacted quarters.

The resumption of production has led to improved performance in nearly every revenue segment of our studio business. Quarter-over-quarter, our studio revenue increased 36% with Quixote driving the bulk of that recovery. Most impactful, studio ancillary revenue grew by \$6.9 million and transportation revenue grew by \$2.7 million. Utilization across all our transportation assets was approximately 8% higher when compared to both third and fourth quarter last year. But operations have yet to fully recover, and revenue remains about 30% below pre-strike levels. That delta is most pronounced within our transportation segment, a major component of Quixote's business, where first quarter revenues were still roughly half of pre-strike levels.

Turning to development, subsequent to the quarter, we substantially completed our Washington 1000 office tower in Seattle. Professional services and legal remain most active in the downtown market, while large tech demand has been slower to return. One exception, Apple is expected to take approximately 200,000 square feet of sublease space across the street from their main building in South Lake Union. Bellevue's recent success story has been organic growth within that submarket rather than migration from the city and the 770,000 square feet of mid-to large-sized tech leasing in the first quarter alone is a huge positive for the region overall.

Our Washington 1000 Marketing Center will open in May, and we are taking an aggressive multi-pronged approach to getting the building leased. The quality of this asset will garner some of the highest rents in the market. That said, with our basis at just \$640 per square foot, we can be very competitive on pricing.

At the end of the first quarter, we also substantially completed Sunset Glenoaks, a key milestone in that we can now also pursue productions with nearer-term start dates. Our grand opening event will take place this month, and we are in negotiations with a pilot for one stage as we continue to field inquiries and tours. At Sunset Pier 94, which is under construction and will deliver end of 2025, we are in discussions with a tenant to lease the entire facility on a longer-term basis. This is a strong indicator of demand for Manhattan's first purpose-built studio.

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

Harout Diramerian: Thanks, Mark. Our first quarter 2024 revenue was \$214 million compared to \$252.3 million in the first quarter last year, primarily due to asset sales, a large tenant vacating space at 1455 Market in third quarter of last year, and lower occupancy and utilization of studio stages and services, respectively due to the strikes.

Our first quarter FFO excluding specified items was \$24.2 million or \$0.17 per diluted share, compared to \$49.7 million or \$0.35 per diluted share in the first quarter last year. Specified items consisted of transaction-related expenses of \$2.2 million or \$0.01 per diluted share, compared to prior-year transaction-related expenses of \$1.2 million or \$0.01 per diluted share. The year-over-year change in FFO is attributable to previously mentioned items affecting revenue, offset by reduced interest expense, following repayment of the construction loan secured by One Westside and Westside Two and less FFO



attributable to non-controlling interest resulting from the purchase of our partner's ownership in 1455 Market.

Our first-quarter AFFO was \$28.5 million or \$0.19 per diluted share, compared to \$35 million or \$0.24 per diluted share in the first quarter last year, with a change largely attributable to previously mentioned items affecting FFO, offset by higher cash and lower GAAP revenue and approximately \$10 million less in recurring CapEx spend. Our same-store cash NOI was \$108.3 million compared to \$124.4 million, mostly driven by two tenant move-outs, one at 1455 Market and the other at Sunset Las Palmas Studios.

At the end of the first quarter, we had \$734 million of total liquidity comprised of \$114 million of unrestricted cash, cash equivalents and \$620 million of undrawn capacity on our unsecured revolving credit facility. There is additional capacity of approximately \$200 million under our Sunset Glenoaks and Sunset Pier 94 construction loans. Our share of net debt compared to our share of undepreciated book value was 37%, while 91.9% of our debt was fixed or capped and no material maturities until November 2025.

Turning to outlook, our in-service office and studio portfolios continue to perform materially in line with our full-year outlook that we provided in February of this year. For our same-store office assets, this reflects both gradual improving office, operating conditions combined with our positive leasing momentum. Regarding our same-store studio assets, this reflects the more predictable cash flow derived from multi-year leases and by extension, our ability to capture revenue generated by returning productions.

However, as Mark and Victor discussed, we currently have limited visibility as to how and when production will normalize, particularly given the expiration of the IATSE and Teamsters contracts in May and July of this year, respectively. This is especially true for our Quixote business, which the majority of our stages and services are currently leased show by show and thus, its performance more dependent on production levels. We are therefore only providing an FFO outlook for the second quarter of \$0.15 to \$0.19 per diluted share, alongside key assumptions related to our full-year 2024 outlook. There are no specified items in relation to the second quarter FFO outlook.

Regarding our full-year FFO assumptions, we are adjusting our range for same-store property cash NOI growth to negative 11.75% to negative 12.75% due to potential for delayed occupancy recovery at Sunset Las Palmas through the remainder of the year. A reminder that our same-store portfolio excludes our Quixote business. While we can more confidently project for our same-store studios, given the preponderance of long-term leases, the performance of our same-store office assets are the primary driver of this metric. These assumptions also include approximately \$2 million of increased interest expense based on our current expectation that interest rates will remain higher for the balance of the year, and we reduced our FFO attributable to non-controlling interest by \$9 million due to our purchase of our partner's 45% ownership in 1455 Market in the first quarter.

Our outlook assumes IATSE and Teamsters do not strike and production begins to pick up in early June following the successful resolution for IATSE contract negotiations, but in advance of Teamsters, which has notably smaller membership and hopefully streamlined negotiations. As always, our outlook excludes the impact of any potential dispositions, acquisitions, financings, and/or capital markets activity. We will continue to provide a full-year FFO outlook once we believe production levels have



normalized to the point where we can more accurately predict future cash flows related to our Quixote business.

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

Operator: Thank you. [Operator Instructions] Our first question comes from Michael Griffin of Citi. Please go ahead. Your line is open.

Michael Griffin: Great. Thanks. Just maybe starting with the guidance, I just wanted to clarify, are you formally withdrawing full-year guidance? And I guess maybe a broader question. How should we think about the cadence of earnings throughout the year, right, call it 20% of your business is studios, 80% is office? I got to think that \$0.17 on a run rate basis is close to 30% below what your previous guidance was. So, just trying to get some clarity, particularly around the office side of the business, which it seems like there's more visibility there.

Harout Diramerian: Hey, Michael. Thanks for the question. Good morning. So, just to be clear, we provided Q2 guidance, but we also provided all the metrics we normally provide, the grid that we provide at end of the year and those pieces that make up FFO. The only thing that we didn't provide effectively is our Quixote business results or operations or projections. That's what's driving this change and that's the area that we have a least amount of visibility on. Pausing there, because of the potential strikes that we mentioned a few times. Pausing there, the rest of the portfolio is consistent with what we believed back in February. Everything else is moving along, in fact, in some ways better now, the office side, really good leasing, and everything else. It's just the Quixote business right now, we have a lack of clarity.

To your point about the \$0.17 a quarter annualized, that is not our expectation. However, it's hard to have any pure conviction on what that's going to look like next quarter as in Q3 and Q4 until those items relate to Quixote are resolved. If they are resolved, we're going to get much closer to normalization in the Quixote business in the back half of the year, but there's uncertainty about that. And we expect things to continue to grow even regardless of – yeah, sorry, Mike?

Michael Griffin: No, no.

Harout Diramerian: Go ahead, Mike. I'm sorry.

Michael Griffin: Yeah. Sorry about that. I understand what you're saying Harout, but I'm just trying to hone in on does management not have the visibility to get back to that \$1.05 midpoint for this year and that's really – if there's kind of a lack of confidence in reaching that, maybe that's why the full-year guide from last quarter wasn't reiterated. I'm just trying to wrap my head around how we should think about it throughout this year and I get the volatility around the studio business. But it would seem like if you can get back to that \$1 to \$1.10 that you projected back in the fourth quarter, you probably would have reiterated it.

Mark Lammas: Yeah. No, Michael, you got it. We're not reiterating it because Quixote isn't performing quite to our expectations when we guided back in February. The rest of the business is, it's in line if not better, as Harout mentioned, but Quixote isn't. Show counts are lower, we're not quite getting the lift that we had hoped either from show counts or other metrics that weigh on the Quixote business. And so, it's showing up in second quarter results. It's unclear to us just yet what exactly it will look like in



third and fourth quarter because until show counts and production activity, shoot days, and so forth that drive the Quixote business until those get back to a place of normalcy, it's very difficult for us to tell you when we get back to a normal run rate. So, in short, the original guidance is no longer – we don't see that as achievable stemming from the Quixote business.

Michael Griffin: Got you. Appreciate that extra color there, Mark. And then, just maybe broadly on the Quixote business, obviously, your prepared remarks kind of talking about the near-term headwinds. But if you look at issues like industry consolidation, maybe less content spend from legacy media companies, are you still confident that you can hit that \$75 million to \$80 million run rate of EBITDA I think you laid out when you acquired the platform?

Mark Lammas: I think it's still achievable. It's difficult to really commit to that because we haven't seen normalcy yet. So, it's hard to know what the new normal looks like. I mean, I think we just have to leave it there. I mean, it still seems possible. But we need the business to get back on its feet again.

Victor Coleman: Yeah. Michael, it's Victor. Just as we mentioned, I mean, the studio business is right now through mid-April, it's off minus 16% in terms of the show counts. But that being said, our facilities that are up and running are fully occupied and filming is completely going on in two of our full facilities 24/7. And so, this is not an indication of is the industry going to a different level. I think it's just a – right now until this uncertainty is sort of solved in May and in July, they're not going to start shows if they feel they have to stop. If they get a clear line of sight, which it seems like they're going to, we'll see that normalcy pick up in the second half of the year.

Michael Griffin: Great. Appreciate that color, Victor. That's it for me. Thanks.

Victor Coleman: Thanks, Michael

Operator: Our next question comes from Blaine Heck of Wells Fargo. Your line is open.

Blaine Heck: Great. Thanks. Just taking a step back here, Victor. I'm sure this isn't how you wanted the year to progress withdrawing full-year FFO guidance, again, given the slowness on the studio side. But kind of here we are and you've got some large known move-outs still to come on the office side. I guess, how should we think about what you guys have in your power to get the stock working again, whether that includes larger spin-off type options or highly impactful strategic moves? Should we just think about this as more blocking and tackling and trying to lease more on the office side, selling a few assets, and getting the studio back to where you think it should be on a normalized basis or are there bigger initiatives here?

Victor Coleman: Blaine, thanks. Listen, I think you are commenting on two specific areas, and I will comment on both. First of all, we are always going to be looking at the core business blocking and tackling. I believe that this past quarter's leasing results were indicative of that. And so far, the start of the second quarter, as we've mentioned, is aligned with that as well. We are acutely aware of a couple of our known move-outs. They're big. The large tenant activity is starting to evolve, but we're not there yet. I believe that our results on the office side are going to be very much in line with what our expectations are and what we can achieve given where the last quarter and half have been.

That being said, that's not a standstill process. We are evaluating all of our alternatives. You mentioned, too. Clearly, some of the asset sales will kick in. That should be evident for the second half of the year



for additional liquidity for us to look at alternatives on the existing portfolio. And then, yes, I mean, the end result is the media business has been a drag for the obvious reasons. The black swan event of last year that has just not recovered. But our conviction around that industry and the alternatives around that industry are basically evident for us to make some larger moves, whether it is a spin-off, whether it is a roll-up. We are evaluating all of that and we're in conversations on that, and I think that will be the strategy for us going forward.

The volatility of that business has obviously weighed on the stock, and I think inproportionately [sic] because when we see good movements on the office side, we seem to be hit relatively hard on the studio side being that it's only 20% of the business. When it was running great, we never got the full credit of it either. So, we think that the best move for us is to look at some external movement around that industry and around that portfolio of ours, and those are conversations that are ongoing right now.

Blaine Heck: Great. Really appreciate all that color, Victor. Just to follow up, you said you were kind of concurrently exploring some of those more strategic options. Anything you could say about timing and kind of what stage those conversations are in?

Victor Coleman: Listen, obviously, I'm not going to talk about timing and the stages. Clearly, the capital markets are a massive driver of this right now. And given the fact that there is still some volatility out there through these potential IATSE strikes and potential strikes, those conversations are fluid – that will be more fluid around the external factors that are out of our control.

Blaine Heck: All right, thanks. I'll leave it there. And then, just second question, just on guidance, you point out that the updated guidance assumes there's a successful resolution of the upcoming contract negotiations. I guess, to what extent do you think guidance could change again if we do run into another strike? And how much visibility do you think you have into the process at this point?

Victor Coleman: So, we can't go there on what kind of visibility we're going to have on if there's a strike or not a strike on that basis. It's that – that is just something that right now it will be a moment in time and then we'll see what the resolution is. As we said in our prepared remarks, we believe that the process is fluid. It's a lot better than it was last year with the writers and SAG. And as I said, I mean, 13 entities have already signed off. They're now working on the basic agreement, which will take us through the latter part of this month. And then, they're going to work on the last part of it, which will take us through hopefully end of June and this thing could be resolved. I mean, right now, we are optimistic and the people who are at the table are telling us that we should be optimistic. Nobody wants a strike. People are still reeling as to the effects of last year.

Blaine Heck: All right. Really appreciate the commentary, Victor.

Victor Coleman: Thanks, Blaine.

Operator: Our next question comes from Peter Abramowitz from Jefferies. Please go ahead.

Peter Abramowitz: Yes, thank you. So, I just want to follow up on Quixote here. So, you did about negative \$6 million in NOI in the first quarter. Just trying to kind of deduce here with the second quarter guide, \$0.17 basically unchanged quarter-over-quarter. Is the expectation that things are kind of going to stack up pretty similarly? Just trying to get a sense of kind of what you're expecting, what's embedded in that \$0.17 for the second quarter from Quixote?



Harout Diramerian: Hey, Peter, it's Harout. Just going to answer your question there. So, our expectation is that we're going to continue to improve on the Quixote business in the second quarter, just not as strong as we initially thought back when we provided guidance in February. And there'll be some offset on the office side near-term termination. That's the expectation, which is why you're not seeing a change from the \$0.17 midpoint.

Peter Abramowitz: Okay. Got it. And then, could you specifically talk about the pipeline at Washington 1000, what you're seeing there kind of the coverage on the space that you have available?

Arthur Suazo: Sure, Peter. This is Art. Right now, we continue to be in discussions. There's actually three users that are multiple floor users. We are not in negotiations yet. As you know, the larger deals that have transacted in the market have been gravitating towards some of the premier sublease space that's out there that offers tremendous views. They're at a deep discount, call it in the low 30s, high 20s net outsized concession packages on top of premier space that's been built out. And so, the good news is that the sublease continues to tick down in Seattle, in particular those spaces that I've just referenced.

So, we just delivered. We are currently building out our state-of-the-art marketing center, which will be finished within the next couple of weeks, activating all the common areas of the building in the exterior spaces and we're poised to capture the demand that's coming down – coming at us. Now, I will say that the team is out there uncovering all deals, be it in the market and outside the market, but more importantly, the kind of the late 2025, 2026 expirations that are coming are going to offer probably another five to six deals over 100,000 square feet into the market, where there's been a dearth of large tenants out in the market currently. So, we feel that that's very promising to the lease up of that asset.

Peter Abramowitz: Got it. That's all for me. Thank you.

Operator: The next question comes from Alexander Goldfarb of Piper Sandler. Please go ahead.

Alexander Goldfarb: So, hey, good morning and thank you. Good morning out there. Victor, just going back to your comments on the Hollywood negotiations this year, last year there was lot of focus on AI, residuals, I think with the crew, there's work hours. Do you get a sense that this year it's more sort of copacetic between the sides and they really seem to want to work towards a resolution or is the sense out there that it's as tense as it was last year? From your comments, it sounds like people are working closer this year, trying to avoid what happened last year, but just trying to get a sense of the real sticking issues. How close do you think the sides are to really appreciating what both want to achieve?

Victor Coleman: I mean, it's a different set of constituents, right, Alex, at the end of the day, I mean, the writers and actors were much more focused on the content, the creativity side. This is back of the house. This is more of the service side. This is obviously driven on their cost of living issues and medical and other aspects by which are directly resolvable and seem to be on track to be resolvable. Yeah, there is an AI component to it. I'm not that close to that. So, I can't really comment on what level by which it's impactful or not impactful and where they're going to settle out. But I think overall your comment is accurate. They are all striving for a resolution here and it's less of an issue of a strong arming each other. I think it's more of an issue of coming to the table and trying to get this done.

That being said, like anything else, people on either side are trying to maintain their position of strength. And so, I would not be surprised if there was a vote for strike by all constituents, even though they



won't strike. So, I don't want people to overreact. That's part and parcel of negotiations. So, there could be an overall vote, but that may not be included as to the eventuality of a strike occurring.

Alexander Goldfarb: Okay. And then, the second question is, on 1455 the buyout, obviously, this seems to be a lucrative area that some of the office REITs have been able to do to buyout partners at discounted prices. So, one, if you can give any color around sort of valuation or and then two, the earnings benefit of buying that out? And then, I guess the follow-up is, are there other JVs that we could see you guys buying out your partners in?

Victor Coleman: Well, I'll just talk on general and I'll Harout give you the detail. Listen, on the 1455 transaction, this is a very unique opportunity that was availed by our partner. Obviously, our partner has done this, as you all know, in some other office REITs. And as a result, they've just decided that they don't want to be investing in office. We didn't have what I would say was an ability to work through this given the fact that we had rights on leasing on both sides and they weren't willing to put any more capital in. So, this was the best resolution for both parties.

I think we obviously believe this asset has massive upside. We proved it with our most recent deal, which we just announced a couple of days ago, which has a follow-on on several hundred thousand square feet that is being looked at both by the existing entity and an AI entity as well. And so, as a result, this is a great deal for Hudson. And our basis is – what our basis is on that asset, which is below what we paid for it in 2010 and it's been a great investment for us throughout. And yes, we have vacancy that has occurred and will continue to occur with the two large tenants, one moved out and one moving out next year. But it gives us an opportunity to lease this up.

Harout Diramerian: And then, to address the earnings impact. So, as I said in my prepared remarks, the two areas that did change between year-end and now are interest expense and FFO attributable to non-controlling interests and those are directly as a result of buying out our partner. So, we're going to incur about \$2 million more of interest expense, but we're also going to generate \$9 million more of FFO as a result of that transaction, which is fantastic in the short term and then our leasing will continue to improve that number on a go-forward basis.

Alexander Goldfarb: Thank you, Harout. Thank you, Victor.

Victor Coleman: Thanks, Alex.

Operator: Thank you. Our next question comes from Ronald Kamdem of Morgan Stanley. Please go ahead.

Ronald Kamdem: Hey, just two quick ones. So, one, starting with the leasing pipeline, you had 1.9 million I think at the end of 4Q, just trying to get an update where that is. And if you could just provide commentary where are you sort of – where is occupancy you see that trending at the end of the year. And if the lease with 1455 was included in the previous expectations or is that an upside surprise?

Arthur Suazo: Yeah. So, I'll address the pipeline first. It's in the 1.9 million, as you said. It ebbs and flows anywhere from 1.7 million back over 2 million square feet, usually around 2 million actually. But as deals occur, so if you think about the last two quarters, it's remained at that number and we've leased just under 1 million square feet, right? So, that is the piece that is the most promising is that the pipeline continues to remain robust as we start to negotiate all of new deals and so forth. And where it sits now,



we're still at about 1.9 million having leased 500,000 square feet. And as Victor had mentioned, obviously, we've got a big deal that we've inked subsequent to the quarter.

So, we feel really good at where it is. Why do we feel good about where it is? We've been saying for a couple of quarters now that the leading indicator for our active deals in negotiation is tracking our tours. And it spiked in Q4, right? It spiked. There was about 1.4 million worth of tours in Q4 and it's sustained itself as the numbers were really right on top of each other. So, what we're seeing and we continue to see is that tour activity, which at some point becomes deals in negotiation has sustained itself, which is why the acceleration in lease velocity that we experienced in the first quarter, we're comfortable saying that it's going to continue into the next quarter.

Mark Lammas: Hey, this is Mark. On the occupancy, last call we gave you the building blocks to outline for you how we could potentially get back to end of 2023 occupancy, which just as a reminder was 80.9%. I'm not going to walk you back through those building blocks. But we did also indicate that our own model suggested that we would see a bit of a dip in occupancy in the first and second quarter with improvement in third and fourth quarter. Our first quarter results are materially in line with what our expectations were. So, in terms of just our expectations regarding occupancy for the year, our first quarter outcome seems to be essentially right on top of our original expectations.

Ronald Kamdem: Really helpful. And then, my second one was just sort of back to the studio NOI. I mean, I think you sort of talked about a long-term potential just taking a step back here, right, of 131 million. So, if sort of Quixote was doing 75 million to 80 million, the balance 50 million to 55 million was just sort of the in place, presumably. I guess, I'm trying to figure out what sort of all this uncertainty with the strike. Is it thinking that that long-term target is still sort of realistic or what sort of production environment you need to get back into in LA for those targets to sort of make sense?

Mark Lammas: Yeah. No, it remains realistic. I mean, I think it's important, by the way, to remember that also includes Glenoaks, which we're in negotiations on a pilot for a stage there, and we have a good, healthy leasing interest there. We just got to get it leased up now. And also, ultimately, Pier 94. So, are the ingredients there? The ingredients are definitely there. The business has been a bit slower to get back on its feet as we indicated. That's reflected in the show counts, which, as Victor indicated, are high-teens below say that same period 2022, which is a good normalized kind of level to look to. Shoot days are down. One other indicator of that is if you look at shoot days in the first four months of the year compared to shoot days in the first four months of 2022 for TV drama and comedy, they're down almost 40%. So, the business is slower to get back to normal than I think everyone in the industry expected. But once it gets back there, our Quixote business will rebound. Once it rebounds, we get the stages at Las Palmas leased up. And as we sit today, of the 10 available stages that we have there, we have either – we're in contracts or we have holds on six of those 10. We need to get those over line, get those stages leased up. We need to get Glenoaks leased up. And then, ultimately, when Pier 94 delivers and then the number that you just outlined, it's still within sight.

Ronald Kamdem: Thanks so much.

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

Caitlin Burrows: Hi. Good morning, everyone. I guess similar or tied into that occupancy question that somebody asked before, could you talk about your expectations for retention for the year or the rest of



the year kind of how informed is that view at this point? And where do you think mark-to-markets on expirations for the rest of the year are?

Arthur Suazo: Hi, it's Art. Yeah. So, our retention right now as we reported, we're about 45% for remaining expirations. That number – just remember, that number includes – there's probably – 40% of that number is late stage, smaller tenants under 6,000 square feet. So, the answer is, yes, we're in discussions with most of them, most of those small tenants. As the year progresses, we'll get better line of sight on what they're doing. They usually engage 90 days out. So, that number can definitely go up and so we feel comfortable about the 45% maybe moving beyond that.

Caitlin Burrows: So, you're saying – sorry, the 45% is like what you know is going to renew, but additional might on top of it?

Arthur Suazo: That's correct.

Caitlin Burrows: Okay. Got it. And then, just back to the studio side, I think you commented that in the release that industry consolidation and shifting business models focused on profitability are also having an impact. So, I'm just wondering how big of an impact do you think this could ultimately have, how it could impact Quixote, and does it suggest that returning to pre-strike levels of income might not be possible or not?

Victor Coleman: I would not read into it that way, Caitlin. I think, listen, we don't know what the impact is. But what the impact has clearly suggested that a series of development or predevelopment opportunities that were planned are no longer to be executed. Therefore, the pipeline of new development is going to be a lot smaller. And as a result, the existing stages and availabilities that are out there are going to lease up, I think, a lot quicker than people had presumed. So, I would not read into a consolidation. I mean, right now, we're looking obviously at the paramount situation, but they own their own lot. And they are in – on the CBS side, they're in lots of ours and others' stages and they're going to continue to do so with their – whoever their new parent potentially could be.

Caitlin Burrows: Okay. Thanks.

Operator: Our next question comes from Tom Catherwood of BTIG. Please go ahead.

Thomas Catherwood: Thank you. Maybe going back to 1455 Market, the large lease that you signed there last month has options to take substantially more space. What are you expecting in terms of the likelihood and timing of those options being executed? And would any expansion need to go back before the board of supervisors for approval?

Arthur Suazo: Hi, Tom. This is Art. Yeah. So, they're not hard options to take or must take spaces. This is really the beginning of what was 12 months, 14 months of negotiation to amalgamate a number of spaces as they become available for the city. And so, we feel that we're going to very soon probably third, fourth quarter, we will have good news about another larger block of space and then, there's more behind that. There's no hard timing behind what it is. We just feel very confident that very soon we're going to look back and see that we've signed several hundred thousand feet of space.

Thomas Catherwood: Got it. Appreciate that, Art. And then last one for me. In the prepared remarks, Victor, you mentioned three office assets that you're looking to sell and another one to possibly recapitalize in the Bay Area. What are the timing expectations for those sales recapitalizations? And



given that sales weren't included in the initial guidance, did the timing have any part in the decision to withdraw guidance this quarter?

Victor Coleman: No. I mean, we don't include dispositions or acquisitions in our guidance and the timeline as to what we're talking about it. As we reiterated before, the only conversation around guidance is referred to around Quixote. Everything else is a stable business that we've currently put in place and that we've discussed.

In terms of the dispositions, I can say of three, one of them is being marketed. The other two are off-market transactions and one of those is in contract right now. And in terms of the recap, that is in discussions as well, but we're not going to give guidance and timelines as to what our expectations are in terms of timing and execution.

Thomas Catherwood: Understood. That's it for me. Thank you, everybody.

Arthur Suazo: Thank you.

Victori Coleman: Thanks.

Operator: The next question comes from Vikram Malhotra of Mizuho. Please go ahead. Your line is open.

Vikram Malhotra: Thanks for taking the questions. Victor, I just wanted to clarify first, you talked about just the volatility in the business in studios and maybe considering something external, I'm not talking about timing or anything. But I just want to be clear, were you referring to the studio business in its entirety, Quixote? Just maybe give us some clarity on when you meant considering something external, what does that mean?

Victor Coleman: Yes. I was referring to the studio business inclusive of Sunset and Quixote.

Vikram Malhotra: Okay. And that would be – that you would consider a spin in its entirety or some sort of JV or something, I'm presuming?

Victor Coleman: We are looking at all different options right now and exploring...

Vikram Malhotra: Okay.

Victor Coleman: ...exploring alternatives. Yeah.

Vikram Malhotra: Got it. That makes sense. And then, just in terms of the pipeline, so leasing pipeline for office, I was just wondering, I know we had lot of talk about last year a few big AI leases. Now, we've talked about – maybe it pinned out a little bit, now there's talk of perhaps more. I'm just wondering, perhaps, Art, if you could just talk about in the pipeline today, the rest of the 45% or the 55% where you're still looking for new leases or renewals, what does the AI contribution look like in your markets?

Arthur Suazo: That is a very interesting question. Let me just start by saying, as we've talked about the AI deals that are out in the market in San Francisco, there was once upon a time 1.4 million, then we saw 800,000 feet get leased up. Now, we're back over slightly over 1 million square feet of AI expansion in the city, okay? In the Valley, it really started showing up end of last quarter. As a matter of fact, we leased – in the Valley alone, we leased 80,000 square feet of new AI tenancy, 50,000 of which was net new and then the others were renewal kind of expansion kind of space. So, yeah, we are starting to see



a lot more in the Valley and we feel very comfortable. It's going to continue to grow in the coming quarters.

Vikram Malhotra: Thank you.

Operator: And our next question comes from Nick Yulico of Scotiabank. Your line is open.

Nicholas Yulico: Thanks. I just wanted to turn back to 1455 Market and I guess first question was, should we assume that the package you gave the city in terms of like it was one year free rent, \$40 starting rent, \$100 TI. Is that the type of package you would give for leasing for the rest of the building?

Arthur Suazo: Yeah. I mean, I think the market is going to dictate what it is, but I think that's the basis. Remember, the concession package is based on 21 years, right? So, yeah, depending on where the lease term comes in, it would be commensurate with it, but wait and see. And by the way, in addition to – it's a good question, why? Because it's not just the city that we're engaging right now. There's probably another 125,000 square feet of interest and we're negotiating on one full floor with a AI tenant. So, obviously, it's just not government use as it wasn't before, and we're starting to see kind of beginnings of tech tenants coming down Market Street.

Victor Coleman: Nick, it's Victor. I just want to clarify. I mean, obviously this comp is out there for the city. Sure, the city is going to come back. If the term is the same, they're going to come back for similar terms. Obviously, the AI tenant that Art is referring to and the other tenants that they're talking to are much different terms and will be probably different economics as well.

Nicholas Yulico: Okay. Got it. Yeah. Thanks. Just to follow up on that, maybe Victor is, clearly, this is an asset that, as you mentioned, that you're essentially buying back at the original basis, but there is a fair amount of leasing capital that needs to go into the building. So, I mean, if we think about – I don't know if the \$100 TI is the right number for all the vacancy, but once Uber leaves, you're going to have something like 700,000 square feet of vacancy there. And so, you paid \$45 million for the partner interest, you're going to ultimately put in, who knows, if it's \$60 million of leasing capital depending, I guess, on the package. But how – maybe just hearing a little bit more about why you think it makes sense to reinvest that level in the asset.

Victor Coleman: So, good question on that. Listen, I think the asset has proved itself to be successful. We originally bought that asset, and it was going to be a BofA occupied asset. Obviously, we shifted and brought tech tenants in. Now, we've shifted out and we're looking at obviously the City of San Francisco and other entities that are affiliated with the City of San Francisco that are looking at it right now to the tune of 300,000 or 400,000 square feet. Plus, we're looking at, as Art said, another 100,000 to 200,000 square feet of AI or business-related tenants.

The floorplates and the footprint and the improvements of the asset are very high. I would not read into this deal being the deal that is going to be throughout the entire lease-up. We're confident that this makes a lot of sense on a price per pound. I think our IRRs and the yield hurdles, at the end of the day when we disclose them, are going to prove out that this was an excellent acquisition for Hudson in a unique opportunity that you're not seeing anywhere else in the city, even given where some of the other depressed real estate is and selling at or trying to be sold at, it's nowhere near at these levels.



Nicholas Yulico: Okay. Thanks. I guess just one quick follow-up. I mean, you guys are confident in getting other users into the building besides the city. I mean, clearly, the city had a reason to support the asset and try and revitalize that part of the city. But in terms of other tenant activity, you do think that there is reason to be in that submarket within the city?

Arthur Suazo: Yeah, Nick. If you recall, if you can think back 10 years, that this is exactly where we were. The city, we did – we had – the first tenant in the building besides BofA was 125,000 square feet with the city. There were three different departments, right? And then, we started attracting tech tenancy. So, there was beyond the city, there was GSA in the building and so forth. And so, if you think about it, we're kind of back to where we were. We are starting with the low-hanging fruit, which is governmental users that are in the neighborhood.

And because I think we're in a better spot. Why? Because if you think about the square and the Uber space, there's \$300 a foot into that space and so the residual value was very high. And TI dollars and dollars out of their pocket are going to go a lot further. And if you also remember, we didn't have windows on the podium, right? We installed windows on the podium that changed the game there.

Nicholas Yulico: Great. Thanks. Appreciate all the commentary.

Arthur Suazo: Welcome.

Operator: Our next question comes from Dylan Burzinski of Green Street. Please go ahead. Your line is open.

Dylan Burzinski: Good morning, guys. Just sort of wanted to touch on outlook for leasing. As we look at your quarterly leasing activity over call it the last 18 months or so, it seems like 500,000 square feet is sort of the upper bound on the amount of leasing you can get done in any given quarter. I guess, do you feel that's sort of a good indicator or the max amount of leasing you can get done in any quarter absent any big tech or larger tenant leasing? And sort of a parallel to that, I mean, what is your expectation for when a lot of these large tenants come back to leasing markets?

Victor Coleman: Let me sort of start with – Dylan, I would be cautious to sort of look at saying like we've maxed out at a 500,000 square foot number. I think there is going to be ebbs and flows of larger tenants coming into the marketplace and going out. But at the end of the day, I think what's consistent is, as Art has said, quarter after quarter is the pipeline is consistent. I mean, we did more leasing this quarter than we anticipated and looks like the quarter we're in right now looks very good with the start of some renewals that we're working on and existing deals that we're working on and the stuff that we signed.

So, I wouldn't sort of lump it into say, 0.5 million square feet, therefore, it's close to 2 million a year. That's what it is. I think it's going to ebb and flow. And in terms of the larger tenants, it's starting to open up in the city, clearly, as we've talked about with us and some of our peers and with AI and it's starting to open up in Seattle. Clearly, Seattle has had a very strong run in Bellevue. Those markets go back and forth and they have for decades, right? Bellevue gets hot, then the city gets hot, then Bellevue gets hot. And so, we feel that with the amount of product that's being leased in Bellevue, it will rebound back now to the city because the alternatives are equally as good from quality real estate for some of the new stuff that's in the marketplace. But the availability is there that you're not going to have as much in Bellevue. So, I wouldn't make a blanket statement on that. I do feel comfortable that larger tenants are coming back. It is taking time, but they are coming back.



Art?

Arthur Suazo: You nailed it, Victor.

Operator: Our next question comes from Camille Bonnel of Bank of America. Please go ahead.

Camille Bonnel: Hi, I have two questions on the office side. I saw the team signed a lease to a biotech tenant. Just curious if you're seeing any benefits from these life science companies trade down for certain functions from higher-priced spaces in the Bay Area?

Arthur Suazo: Yeah. I think over the last two quarters we've seen – by the way, this is the largest, right, 36,000 square feet. We've seen an uptick in biotech. I wouldn't say that there's a – more than two or three biotech tenants out there, again, of which this is the largest. I would suppose the benefit of it is it was almost a 50% mark. So, they're certainly willing to pay up.

Camille Bonnel: And are you seeing a pickup of those tenants in your pipeline?

Arthur Suazo: In the current pipeline, no. In our tours – in our tour activity, which I've also mentioned is at elevated numbers, yes, we have seen it in the early-stage tour activity and mostly on the Peninsula.

Camille Bonnel: Okay. Thank you. And on my second question, so not accounting for your ownership, but looking at the occupancy detail you provided in the supplemental, about a quarter of the portfolio's vacancy is about below 70%. So, could you comment on the touring activity you're seeing for these buildings specifically? And are any of these in your disposal bucket or what are your business plans for these buildings? Just trying to get a sense of the strategy there.

Arthur Suazo: Yeah. I'll answer the first part of that question, which is the tour activity that I've mentioned is really it applies to all markets and all buildings. I mean, it's really consistent. That's the good news, right? It's not just heavily weighted in the Valley or Vancouver. It's literally – the numbers are consistent throughout our entire portfolio, again, which is a leading indicator of what we'll be negotiating on.

Victor Coleman: Yeah, Camille, it's Victor. I think looking at the list, I think only one asset is in the disposition of that vacancy that you're referring to.

Camille Bonnel: Thank you.

Operator: Our next question comes from Rich Anderson of Wedbush Securities. Your line is open. Please go ahead.

Richard Anderson: Thanks for hanging with me. Stating the obvious full ownership of 1455 creates optionality for you. Is it at least a possibility the ultimate goal here is to get it leased up and sold or do you have a long-term view of ownership for sure?

Victor Coleman: I think, Rich, we've got lots of options and yes and yes.

Richard Anderson: Okay. Fair enough. That's all I need. And then, second question, I don't claim to know the inner workings of how the studio business works behind the scenes. But you've had a series of domino effects of things that have happened here. And I'm wondering if there's any sort of other groups, back office groups that maybe are watching from behind the scenes and potentially could be another shoe to drop or do you think that what we've seen to this point, there's not really anything else



that can happen out of nowhere, like what has happened over the past year or two sort of a copycat risk, I guess.

Victor Coleman: Yeah. There is no external risk after what's been put in place. But, obviously, the volatility of this industry, I mean, we've been doing it since 2007, is the reoccurrence of negotiations. And you hadn't had a strike since 2008 and then you had one in 2023 and now you've got this comes up in 2024. We're hopeful that as they continue to renew that we'll go back to sort of the norm of no strikes for 15 years.

Richard Anderson: Yeah. Okay. Fair enough. Thanks very much.

Operator: And our final question comes from John Kim of BMO Capital Markets. Please go ahead.

John Kim: Thank you. I just wanted to follow up on the potential strategic alternatives on the studio business and just really questioning the timing. I mean, do you believe you're going to get peak multiple on depressed earnings? Obviously, the best scenario would be peak multiple and peak earnings. But I just wanted to question the timing and the use of proceeds.

Victor Coleman: Listen, John, I think it's suffice to say that, as I said, we are evaluating alternatives. We are not even going to intimate a timeline by which those alternatives will take place. The interest level, I could say, is very high from a multiple of entities and options. And so, we're going to look at it. And clearly, we're not at the position of talking about use of proceeds when we haven't even got a transaction in place.

John Kim: Okay. I mean, for all the volatility of the studio business, there was a growth story behind it the near-term growth drivers. So, we thought maybe some of that is delayed. I'm just wondering if you see similar upside in office.

Mark Lammas: Well, this is Mark speaking. I mean, given our current level of occupancy, the pipeline, the tour activity, we clearly see upside. I mean, that isn't to say that there is – that we obviously have ongoing lease expirations. We have to get our – the retention, hit the retention levels that we've historically hit with respect to that, get net new absorption. And we indicated in response to one of the questions that we are tracking with respect to our original projections on occupancy that we think there's – we can get back to year-end 2023 occupancy levels. And so, yes is the short answer. Do we see potential upside? Of course, we do.

John Kim: Okay. Thank you

Operator: This concludes the Q&A session. So, I'll turn the call back over to Victor Coleman for any closing remarks.

Victor Coleman: Thank you. Sorry, we ran over time and appreciate everybody's support. Talk to you next quarter.

Operator: Goodbye. This concludes today's call. Thank you for joining. You may now disconnect your line.