Hudson Pacific Properties, Inc.
Q4 2024 Earnings Conference Call
2:00 p.m. PT / 5:00 p.m. ET
Thursday, February 20, 2025

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:
Thomas Catherwood *Analyst, BTIG*

John Kim *Analyst, BMO*

Michael Griffin *Analyst, Citigroup*

Caitlin Burrows *Analyst, Goldman Sachs*

Dylan Burzinski *Analyst, Green Street Advisors*

Ronald Kamdem *Analyst, Morgan Stanley*

Connor Mitchell *Analyst, Piper Sandler*

Blaine Heck *Analyst, Wells Fargo*

Richard Anderson *Analyst, Wedbush*

Laura Campbell, EVP, Investor Relations & Marketing
Good afternoon, 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.

This afternoon 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 our 2024 accomplishments and priorities for 2025, along with industry and market trends. Mark will provide detail on our office and studio operations and development and Harout will review our financial results and 2025 outlook. Thereafter, we'll be happy to take your questions. Victor?

Victor Coleman, Chairman & CEO

Thank you, Laura. Good afternoon, everyone, and thanks for joining us. Throughout 2024, our team remained undeterred and laser focused on our strategic priorities, driving office and studio leasing, executing on property sales, continuing cost containment, and strengthening our balance sheet. We've had many successes in this regard and we remain committed to additional progress in 2025 on our multi-faceted plan to reinvigorate earnings growth.

Touching on some of the highlights in 2024, we ended the year with office leasing nearly 20% higher compared to the prior year as we delivered over 2 million square feet of signed leases. This included 1.2 million square feet of new leasing, or 60% of all activity, the highest level since 2019, and nearly double our post-pandemic average. We successfully completed two of our three under construction development projects, Washington 1000 in Seattle and Sunset Glenoaks in Los Angeles.

And through various cost cutting initiatives, we achieved approximately $4 million in G&A savings as compared to our initial outlook. And as Harout's going to discuss, we anticipate further savings this year. And even in a challenging transaction environment, we placed three non-core assets under contract to sell for a total of $94 million, one of which closed in December, the second closed in January. And the third is anticipated to close by the end of the first quarter.

West Coast Office fundamentals are showing resilience, with the Bay Area as a standout and bellwether for what should follow across our markets. In the fourth quarter, both San Francisco and Silicon Valley achieved positive net absorption, capping off post-pandemic record years for gross leasing. West Los Angeles too had a positive net absorption, while Vancouver remained relatively stable.

In downtown Seattle and San Francisco Peninsula where negative net absorption persisted the potential for favorable shift is starting to emerge as absorption continues to steadily march towards positive territory. And in summary, all of our markets gross leasing is reaching post pandemic highs. Sublease availability is improving with virtually no new construction. Therefore, supply for quality office space will become constrained.

Supporting growing demand, fourth quarter venture funding of $75 billion was the highest level since second quarter of 2022, driven by AI interest in our markets. In 2024, San Francisco received 53% and the broader Bay Area received 82% of venture funding for Global AI. In fact, the top five venture investment recipients in 2024, which totaled $0.5 trillion, were all AI companies headquartered in the Bay Area.

Given the propensity for AI companies to be office-first and the proximity to research and talent the Bay Area affords, we expect a considerable trickle-down effect on office leasing to begin to materialize. Last year alone, AI office leasing in the Bay Area reached about 2.4 million square feet, more than doubling in the existing footprints, with over 1.4 million square feet of requirements presently in those markets.

Another favorable trend is that even as the macro uncertainty persists amidst global conflicts and geopolitical tensions, businesses appear poised to benefit from the new administration's pro-growth, pro deregulation policies. In our markets, we continue to see later-stage startups turn their attention back to growth, and fundraising after years of cost cutting, and fourth quarter tech lay-offs were the lowest level since the first quarter of 2022, and down 90% from their peak in the first quarter of 2023.

And in addition, CEOs are realizing that with employees in the office four plus days a week they need more space. And while the East Coast has led in improving office fundamentals to-date, we fully anticipate similar trends will emerge on the West Coast.

Turning to our studios, 2025 is a pivotal year for film and television industry in Los Angeles, with all eyes on the governor's proposal to more than double the tax credit from $330 million to $750 million, which approved, will go into effect July 1. Particularly in the wake of the recent wildfires, which temporarily delayed productions and personally impacted many in

the industry, we're pleased to see a groundswell of support to increase filming in Los Angeles. The California Production Coalition, Film LA, the Entertainment Union Coalition, Film Liaisons in California Statewide or FLICS, and Stay in LA.

And now the President's special coalition comprised of Jon Voight, Mel Gibson and Sylvester Stallone are all pushing for additional state and local program enhancements, and commitments from media companies to increase local production. We are specifically part of the California Production Coalition, but active and in communication with all of these groups.

As Mark's going to expand upon, production in Los Angeles picked up modestly in the fourth quarter. In the first quarter, many productions paused or were delayed due to the wildfires. But we're now seeing an uptick in stage leasing inquiries, not just in number, but in quality. Several of these long-running first season episodic television shows, historically the bread and butter of Los Angeles production, that need multiple stages as well as robust lighting and grip packages.

Some of the pressure from austerity measures may be alleviated as growing number of streamers including Disney, Warner Brothers, Discovery and Paramount reach profitability. Note, the increase in activity we see pertains to second or third quarter start dates and the incremental demand resulting from the expanded California tax incentives should be an upside.

Lastly, I'm going to provide an update on transactions. On the heels of selling 3176 Porter in the fourth quarter, we sold Maxwell in early first quarter and Foothill Research Center is also under contract with closing anticipated in March. So collectively, we generated $94 million of gross proceeds over the last two quarters, with all proceeds going to reduce leverage.

Beyond these three assets, we are pursuing approximately $100 million to $150 million of dispositions in various stages. And Harout's going to discuss additional balance sheet related enhancements, which are either completed or underway. And with that, I'm going to turn it over to Mark.

Mark Lammas, President

Thanks, Victor. We signed approximately 442,000 square feet of new and renewal leases in the quarter, with nearly 60% new deals. Our reported GAAP and cash rent spreads, which were 6% and 9.9% lower in the quarter, would have been 2.8% and 4.3% lower respectively. But for a new direct lease with an existing subtenant at Rincon Center, which fully backfills Salesforce's 83,000 square foot lease expiring in the first quarter of this year.

Our fourth quarter trailing 12-month net effective rents were 2% lower year-over-year and 8% lower than pre-pandemic. Net effective rents on new deals alone were up 18% year-over-year, and only 6% below pre-pandemic on a trailing 12-month basis. Our trailing 12-month lease term was up 2% quarter-over-quarter, 81% year-over-year, and 24% above pre-pandemic. Even after removing our 157,000 square foot 21-year lease with the city at 1455 market from these metrics, our trailing 12-month lease term was still up 41% year-over-year.

Our in-service office properties were approximately 79% leased as of the end of the fourth quarter, compared to 80% in the prior quarter. But for a single tenant terminating 140,000 square feet at Met Park North in December, our lease percentage would have been approximately 80% or essentially unchanged. During the fourth quarter, unique tour activity at our assets remain elevated, representing in-aggregate 1.4 million square feet of requirements.

This is up 6% from third quarter and on par with our all-time high in the fourth quarter a year ago with the average requirement size now at 10,000 square feet. Our current leasing pipeline remains strong at just over 2 million square feet, with an average requirement size of 16,000 square feet. This includes approximately 770,000 square feet of late-stage deals in process, comprised of 480,000 of deals and leases, and another 290,000 in LOI.

Excluding held-for-sale Foothill Research Center, we have under 1.6 million square feet expiring in 2025, with 52% coverage, that is deals and leases LOIs or proposals. Roughly 70% of those expirations are in the first half of this year, including our five 2025 expirations over 50,000 square feet, which collectively total close to 660,000 square feet, and for which we have 68% coverage.

Starting in the third quarter of 2025 through year-end 2026, we will average just 230,000 square feet expiring per quarter, well below our leasing activity, which has averaged 460,000 square feet over the last eight quarters. As Victor noted, last year, 60% of leases signed were for new requirements. And assuming this trend continues, starting in the second half of this year, new leasing should more than cover the quarterly expiring amounts. Thus, we fully expect our office portfolio occupancy to stabilize in the second half of this year and start to grow thereafter.

Turning to studios. As Victor noted, Los Angeles production levels in the fourth quarter incrementally improved, where on average there were 86 shows filming compared to 84 in the prior quarter. Coincident with this level of activity, our trailing 12-month lease percentage for the fourth quarter for our in-service stages was 77% leased or 90 basis points higher than the prior quarter, reflecting additional occupancy at Sunset Las Palmas.

Our Quixote stages were 33% leased, essentially in line with last quarter. Fourth quarter studio revenues increased by $2 million, compared to the prior quarter, driven by a $1.9 million increase in studio ancillary revenue, mostly from more production activity at Sunset Las Palmas and a $1.9 million increase in transportation and location service revenue attributable to higher utilization in both segments, partially offset by a $1.6 million decrease in stage rental revenue at Sunset Glenoaks and various Quixote stages.

Of our 56 film and TV stages, 43 stages representing 79% of the related square footage are either leased, in contract, or subject to holds, which are essentially a non-binding expression of interest. This is roughly in line with the snapshot we provided last quarter. But as Victor noted, we have seen an uptick in leasing activity for second and third quarter start dates, which, along with the proposed tax credits, points to the potential for improved occupancy the second half of the year.

Despite the indications of stronger future production demand for Los Angeles, we continue to look for ways to right-size the Quixote business. During the third and fourth quarters, we terminated certain leases and implemented other cost savings initiatives, which are expected to reduce fixed expenses by $7.5 million annually. As part of the cost containment, we elected to cease operations in New Orleans, which will ultimately allow us to focus more intently on our assets in Los Angeles, New York, and other core U.S. markets.

As for development, in regard to Washington 1000, we are in discussions with multiple tenants with requirements ranging from 45,000 to 250,000 square feet. There has been a notable increase in activity for this project from full floor or greater tenants entering the market focused on upgrading to Class A or trophy assets in alignment with return to office mandates.

As for Pier 94 Studios, the project is on time and on budget. Structural components are complete, exterior skin and roofing are nearly finished, and the work is shifting to interior mechanical systems and build-out. Leasing discussions are ongoing with a leading studio and other productions for multi-year agreements on one or more stages. With delivery anticipated by the end of this year, we expect to begin substantive discussions with tenants on a show by show basis this summer. And now I'll turn the call over to Harout.

Harout Diramerian, CFO

Thanks, Mark. Our fourth quarter 2024 revenue was $209.7 million compared to $223.4 million in the fourth quarter of last year, mostly due to the sale of one West Side and a single tenant moving out of Maxwell, partially offset by improved studio service and other revenue at Quixote and Sunset Las Palmas, following the strikes. Our fourth quarter FFO, excluding specified items, was $15.5 million or $0.11 per diluted share, compared to $19.6 million or $0.14 per diluted share a year ago.

Specified items for the fourth quarter totaled $0.74 per diluted share, compared to $0.05 per diluted share a year ago. Apart from the specified items, the year-over-year change in FFO was mostly due to items affecting revenue and reduced interest expense. Specified items in the fourth quarter included a goodwill impairment and write-off of assets related to Quixote of $109.9 million or $0.75 per diluted share and a non-cash deferred tax adjustment of $2.1 million or $0.01 per

diluted share, and a one-time income tax expense at Bentall, stemming from a legislation change of $0.8 million or $0.01 per diluted share.

Note, the Quixote goodwill impairment is the result of running our GAAP accounting impairment analysis of NOI in connection with our annual reporting to reflect the slower than anticipated recovery post-strike. Our fourth quarter same-store cash NOI was $94.2 million compared to $106.3 million in the fourth quarter last year, primarily due to lower office occupancy.

Turning to our balance sheet. In January, we amended our credit facility to adjust certain definitions and ratios to favorably conform to market precedent, and as a long term planning measure, as we anticipate keeping the credit facility in place indefinitely. Specifically, we lowered the minimum required under key ratios, including adjusted EBITDA to fixed charges from 1.5 times to 1.4 times, and unencumbered NOI to unsecured interest expense from 2 times to 1.75 times. We also modified certain definitions to improve how assets are factored into total asset value and unencumbered asset value calculations, again, to be more consistent with market terms.

With the amendment effective as of the fourth quarter of last year, our fourth quarter results show improved credit facility covenant performance across all metrics. In exchange for these modifications, lender commitments are now $775 million versus $900 million, with a maturity date unchanged at December 2026 with extensions.

Factoring in the recent amendment, we have $518.3 million of total liquidity comprised of $63.3 million of unrestricted cash and cash equivalents and $455 million of undrawn capacity on our unsecured revolving credit facility. We also have $154 million of construction loan capacity, of which, our share is $40 million. Our share of net debt relative to our share of undepreciated book value is 38.7%, and our percentage of debt fixed or capped at 90.7%.

We have no debt maturities until November 2025 and we are making good progress on asset sales and secured financings, the proceeds from which we intend to use to fully address both our 2025 and 2026 maturities, we expect to have additional updates in the near-term. To underscore, the credit facility amendment, along with asset sales and upcoming secured financings, are part of multiple concurrent efforts we are pursuing to enhance our balance sheet, regarding our performance under our covenants related to our private placement unsecured notes, based on our strategy and projections, we expect to remain compliant.

Turning to outlook. For the first quarter, we expect FFO per diluted share to range from $0.07 to $0.11 per diluted share. There are no specified items in connection with this guidance. Comparing to fourth quarter FFO, excluding specified items, $0.11 per diluted share, we expect studio NOI to be approximately $0.02 lower at the midpoint, mostly due to the Los Angeles wildfires, which hampered incremental improvements to demand this quarter, especially at Quixote.

We anticipate office NOI of approximately $0.01 lower at the midpoint due to first quarter lease expirations, and to a lesser extent, recent and pending asset sales. These changes to studio and office NOI should be partially offset by further favorable improvements to G&A expense as well as other miscellaneous items equating to approximately $0.01 higher at the midpoint.

Regarding our full-year assumptions, we anticipate same-store property cash NOI growth of negative 12.5% to 13.5%, reflecting both recent asset sales and lower office occupancy through the first half of the year, followed by occupancy gains in the second half of the year. We anticipate additional non-cash revenue between $10 million to $15 million this year due to both upfront free rent and beneficial occupancy from several large to mid-sized landlord build lease deals presently in negotiation.

Lastly, we have assumed lower G&A expense of $70 million to $76 million. In 2025, not only will we receive the full benefit of cost containment measures undertaken last year, but we also expect to achieve additional savings this year, ranging from $3 million to $9 million. Apart from Foothill Research Center and Maxwell, which were held for sale in the fourth

quarter, our outlook excludes the impact of any potential dispositions, acquisitions, financings and/or capital market activity.

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

Q&A Section

Operator

Thank you. Your first question comes from the line of Tom Catherwood with BTIG. You may proceed.

Thomas Catherwood, BTIG

Thank you. And good afternoon, everybody

Maybe Art, starting with you, since kind of the earnings growth flows through office leasing, the last quarter, you talked about tenant requirements increasing, obviously increased tour activity and your ability to start pushing for longer lease terms. As you look out through the start of what you've done in 2025 and kind of what's in that pipeline, how are the fundamentals firming up? And are you still able to, whether it's start to push rents or continue to push on term? What is your kind of negotiating position looking like?

Arthur Suazo, EVP, Leasing

Sure, Tom. You know, I think your premise at the beginning was correct. You know, the tours are up quarter-over-quarter. The pipeline is up slightly quarter-over-quarter. But the most -- most important part of that is, that the average deal in negotiation has gone up 15% to 16,000 square feet. And that tells us the downstream, you know, you know, we're going to get more volume.

It also tells us that there's more kind of larger deals in the pipeline, and that's exciting. As far as lease term, the deals that we have in negotiation are trending in the right direction. You know, our trailing 12 quarter-over-quarter is up 2% slightly. But more telling is our trailing 12 year-over-year is up almost 80%. So, that's very encouraging. And everything -- everything we have in our pipeline tells us that we're heading in that direction.

Thomas Catherwood, BTIG

Appreciate that, Art.

And then, second one from me, Victor, on the third quarter call, you mentioned pursuing secured financing on a portfolio of six assets. What's your current view on when that gets done? And kind of what's the backup plan to address maturities if that transaction doesn't come to fruition?

Victor Coleman, Chairman & CEO

Thanks, Tom.

Listen, we -- we're not going to comment on the timeline, but suffice to say that we're in process right now on a multiple of events that will accommodate our right-sizing the balance sheet. And we feel confident that one or more of these are going to come through and it should be fairly imminent.

Thomas Catherwood, BTIG

Got it. Appreciate the answers. Thanks, everyone.

Victor Coleman, Chairman & CEO

Thanks, Tom.

Operator

Your next question comes from the line of Nick Joseph with Citi. You may proceed.

Michael Griffin, Citigroup
Hey, there. It's Michael Griffin on with Nick.

Art, maybe just going back to the leasing pipeline, I mean, it seems like it's pretty positive for the year ahead. Obviously, the news we've heard about both AI and tech company and office requirements seems to be helping your market somewhat. But, can you give us a sense of, you know, the type of tenants that are looking, you know, how likely they are to commit? Is it more, you know, firms that are testing the water or do you feel pretty confident that a lot of these deals are going to get over the finish line?

Arthur Suazo, EVP, Leasing
Yeah, I'm supremely confident that a lot of these deals get over the finish line, if I can go backwards. The pipeline, you know, as I mentioned to Tom, the deal, the deal size has grown, which is encouraging to us. But more importantly, right now, we're seeing more deals in late-stage -- late-stage LOI and leases, about 800,000 square feet, which we mentioned in our prepared remarks that are really, you know, inside the five yard line, right.

And so, it's more than -- more than ever. And so, we're seeing a little bit more urgency. And I think we're seeing a little bit more urgency because we're seeing a little bit more urgency because, you know, some of these tenants that are realizing they need to get back to the office, return to office, or as I'd like to call work from work, they're running out of time. And so, that's also -- that's also going to be a good impetus to move deals along.

Additionally, our coverage, you know, those deals in the pipeline, and we mentioned part of it in the prepared remarks, we have high coverage on, on some of the expirations going forward. Some of the large expirations, for example, you know, at 1455 Uber and the BofA expiration, which is, in total, like 390,000 square feet, we have -- we have over 50% coverage on those right now, and those are deals inside the five yard line. And so again, everything is moving in the right direction and it's not just, again, it's not just a handful of deals and a handful of markets, it's across the portfolio.

Michael Griffin, Citigroup
Great. That's very helpful. Appreciate that, Art.

And then, maybe just turning to the studios, and obviously, the space has been through the wringer the past couple of years, you know, it feels like even in the best of times, I mean, Quixote is a pretty limited visibility business. So, you took the impairment this quarter, you know, and as you think about maybe disposition opportunities, I mean, does it make sense to stick with this platform longerterm? I mean, do you think you're getting credit for it versus just the underlying studio real estate? I know, it fits into the whole broader media ecosystem, but is there any updated thoughts there, that'd be interesting?

Mark Lammas, President
Yeah, this is Mark. Thanks, Mike.

We are -- we remain, you know, believers, obviously in studios in general. You know, we've been in it from the beginning through the ups and downs, various changes, and you know, continue to believe that Los Angeles is going to wage a comeback here. Victor touched on things like the tax credit increase, all of the various industry groups that are getting involved, local changes, all designed to pull production back to Los Angeles, where it belongs.

I would just say, absolutely for Quixote specifically, we're not sitting in our hands just waiting for show counts to go up. We have already undertaken various cost savings initiatives to-date starting in the third quarter, largely completed in the fourth quarter, we've cut about $7.5 million of expenses. The resulting impact pro forma to 2024 is like $4.2 million of NOI improvement annualized. We're in process on another wave of cost cutting initiatives on the order of, call it, $6 million of savings, generating $5 million of NOI improvement, again, pro forma to 2024 operating results.

So, we're -- we're looking for ways to right-size that business from a cost point of view, and, you know, improve margins, enhance NOI. You know, as show counts improve that obviously will further improve the results. But we are going to -- we're going to improve those results one way or the other.

Victor Coleman, Chairman & CEO
Yeah. I just want to jump in. You know, beyond Netflix, obviously, the other streamers like Disney, Warner Brothers and Paramount, you know, now they're reaching a levels of profitability. And with this Paramount merger collectively, you know, this is going to alleviate a lot of the negativity that has come to fruition in the last couple of years around the studio business. I mean, Los Angeles is still the lead marketplace for film and TV production globally.

And we are seeing, unfortunately, with the circumstances of the fires, we're seeing a massive production turnaround and a support for the community around that, that the entertainment business and industry in general is leading. And so that, that is what's changed. I mean, at the beginning of the year, obviously, the devastating event occurred, and then, the backside of that event is the conglomeration of all these entities that are out there that we are all affiliated with that I mentioned in my prepared remarks that have come now to the table to say, let's rebuild LA.

So, whatever acronyms you want, LA Rises or Steadfast LA, or Rebuild LA, they're all coming to the table. And that is what we're seeing is transferring to more than just interest, but holds on stages and production being greenlit going forward.

Michael Griffin, Citigroup
Great. That's it from me. Thanks for the time.

Victor Coleman, Chairman & CEO
Thank you.

Operator
The next question is from the line of Blaine Heck with Wells Fargo. You may proceed.

Blaine Heck, Wells Fargo
Great. Thanks. Good afternoon.

Just starting on the sales, Victor, a couple of questions there. It sounds like you're close to finished on the first three that were under contract, but just with respect to the three additional sales, can you give some more color on where you think you stand in the negotiations? And do you think we can expect those to go under contract soon? And then, it sounds like the target for total proceeds is up slightly from your commentary last quarter at the midpoint. So, is that a change in mix, better proceeds on the sale so far or better expected proceeds on those that you still expect to sell?

Victor Coleman, Chairman & CEO
So well, Blaine, I'll start with the first part of the question. Yes, I mean, the three are done. I mean, one is gone non-refundable as well, because we mentioned that last quarter, it's just been a timing close. And so, that deal is in process. We have two other deals right now at, one in contract stage and another in LOI negotiation. The reason, and we're confident that both those deals are going to -- are going to make. The reason that, you know, the sort of the range is a little higher is, we are realizing good pricing.

You know, these deals, the deals that we're talking about, have been marketed deals. And I think it's a testament to our ability to generate this liquidity and maximize value. And some of the comps have been very good comps and some of the ones we're looking at are going to be equally as good. But we've also had some reverse inquiry on some assets that are slightly larger, and that's what we've looked at potentially considering that beyond the two that we're working on right now, which would make that number a little higher, that's still in flux. And that, that asset that I'm referring to is not a marketed asset. So, we're keeping that a little more closer to the vest at this time. And as, you know, as we -- as we get closer, we'll provide you guys with more updates on it.

Blaine Heck, Wells Fargo
Okay, great. That's really helpful. And then, thanks for all the commentary on the studio set side. I guess, in the press release, you talk about high caliber shows returning. Can you just expand on what that means? Are these large shows that need a lot of studio space? Is that what makes them high caliber? And then, with respect to returning, are these shows that were on hiatus or have they may be moved to other markets and are coming back to LA?

Victor Coleman, Chairman & CEO
Well, yeah, by returning, we don't necessarily mean literally a returning show. What we mean is, coming back to LA, looking for stages in LA as opposed to other competing markets. And by high quality, we mean television episodics, the kind of bread and butter that makes LA thrive, and that come to studios, high-quality studios, like we have in Hollywood or Sunset Glenoaks.

Just to give you a point of reference, we were seeing, on average, one long term TV episodic type show come through our available stages, about one on average for October, November, December. As of last month, six of those shows came through in January. So, good early indicator that we're starting to see that recovery coming from the -- the -- you know, these bigger shows that use more stages, use heavier lighting and grip packages, all the things that we rely on to make the stages work.

Harout Diramerian, CFO
And, you know, Blaine they're -- they're name showrunners who've either worked in LA in the past or worked in our facilities, they're coming back with shows that are, you know, multiple year running shows. And we haven't seen that momentum in some time. And we're looking at a couple of shows right now that have been in the marketplace, you know, 10-plus years that are coming back and looking at our studios. So, it's much stickier than the -- than the ones that we've sort of seen in the last 24 months that have been pilots that may or may not have got picked up.

Blaine Heck, Wells Fargo
Got it. Very helpful. Thank you, guys.

Operator
Your next question comes from the line of Connor Mitchell with Piper Sandler. You may proceed.

Connor Mitchell, Piper Sandler
Hey, thanks for taking my question. I just have a couple.

So, first, going back to some of the guidance you provided, the cash NOI of negative 13, Harout gave some information on it regarding occupancy pre-rents. But, just to make sure I'm understanding correctly, do you see the negative 13 cash NOI guidance primarily due to the occupancy impact in the first quarter, the dip and then regaining some strength or is it the free rent or some combination or something else that I might be missing?

Victor Coleman, Chairman & CEO
No, you hit on that. It is a combination. So, you know, there's a lot of deals that are in the works that Arts working on that have upfront free rent. So, the GAAP NOI will definitely reflect that, but the cash NOI will be picked up in the later half of the year. So, it's some of the timing occupancy. The rest is the structure of the deal that we are anticipating.

Connor Mitchell, Piper Sandler
Okay, that's helpful.

And then, thinking about the impairments you took on Quixote, since it's not a JV, and I understand there's just a GAAP accounting involved, but just wondering how you guys kind of think about the actual value of it now versus the purchase -- the purchase price that you guys took on in 2022?

Victor Coleman, Chairman & CEO
So the impairment, it's really an annual GAAP requirement. And unlike real estate, you don't -- it doesn't work the same way. So, you have a different metrics and you've got to factor in all the NOI and projections. Ultimately, this just stems from the slower start of the recovery post the strike. That's all it really impacted and it doesn't really impact the future of the business or how we look at it. And it's all goodwill, by the way, to be clear, it's not the assets themselves.

Connor Mitchell, Piper Sandler
Yeah. So, essentially, you could maybe look at the value being slightly higher than the book value currently after the impairment. But, you guys still have -- you're still confident in the Quixote business, like you mentioned earlier in the remarks, correct?

Victor Coleman, Chairman & CEO
That's correct.

Connor Mitchell, Piper Sandler
Okay. Thank You.

Operator
Your next question comes from the line of Ronald Kamdem with Morgan Stanley. You may proceed.

Ronald Kamdem, Morgan Stanley
Hey, just two quick ones from me.

I think, one, just looking at the guidance, I think I remember last year, you talked about sort of stress testing the covenants and so forth. Just -- could you just remind us when you do that exercise for this year, how should we think about the covenants trending this year? Thanks.

Harout Diramerian, CFO
Hey, Ron.

The reality is, like we said, we feel like we'll be covenant compliant. We look at the projections granularly. And, you know, just to, put another way, almost, for the last six or eight quarters, every quarter, we've exceeded our internal expectations of the covenants. And so, we feel confident we'll remain covenant compliant.

Ronald Kamdem, Morgan Stanley
Okay. Got it.

And then, just staying on the sort of the same guidance topics just from a high level from this 78% sort of occupancy, maybe talk through how we should expect occupancy to trend through the year. I know it's going to get better in the second half, but just maybe any numbers would be helpful. Thanks.

Victor Coleman, Chairman & CEO
Yeah. You know, we don't provide specific occupancy guidance, but I think, you know, you can discern what will happen in terms of the cadence over the quarter by simply looking at quarterly lease expirations in the supplemental, Art outlined, kind of what the pipeline looks like, somewhat elevated expirations first quarter, tapering off a little bit, second quarter, so 70% of all expirations in 2025 are weighted to the first half of the year. That's where we're going to feel the most pressure on occupancy.

So, we'll -- we expect to see a dip in the first quarter. We actually believe there's an opportunity to even see recovery thereafter even by second quarter relative to that where we end the first quarter. So that -- and then, it should just steadily

improve thereafter. And I would add, we believe it will steadily improve beyond 2025 given where expirations and activity is pointing.

Ronald Kamdem, Morgan Stanley
Great. Thanks. That's it from me.

Operator
Your next question comes from the line of Caitlin Burrows with Goldman Sachs. You may proceed.

Caitlin Burrows, Goldman Sachs
Hi, everyone.

I guess, we've talked a lot about volume and interest of leasing, but on the pricing side, leasing spreads were down in 2024. So, do you expect the leasing spread of like down call it double digits on a cash basis to continue in 2025 or like as you think about stabilizing occupancy, how much is it like a rate versus occupancy decision these days or is rate kind of secondary at this point?

Victor Coleman, Chairman & CEO
Okay. Yeah. So, on leasing spreads, you know, of course, you know, they're not necessarily indicative of what we're seeing holistically in terms of net effective rents, right. You're just seeing a comparison on face rates relative to expiring rents. But, a couple of things about that. Right now, 2025 and even 2026, mark to market on rents is somewhere like call it 6%-ish, 7% above market. So that gives you an idea of kind of where expiring rents are relative to market.

Now, those don't necessarily translate into what you see on cash spreads that get reported in activity because they don't -- the timing of that doesn't always work out identically, but that gives you an idea where a spot mark to market is for each of those two years. As for like the actual lease economics to kind of answer your initial question, those have held up incredibly well.

I mean, we outlined it in the prepared remarks in terms of net effective rents, but I would just, you know, emphasize that whether you look at the latest set of results and compare trailing 12-month to almost any period of time, year-over-year, pre-COVID rents, we continue to be in the low single digits off of even pre-pandemic net effective rents.

And I would add, you know, there's been a couple of quarters in there when we were essentially back to prepandemic net effective. And the underlying reasons for that is essentially we've lost little to no ground on straight line rents again on almost any point of -- period of comparison. And we've been able to stretch term out while maintaining TIs and LCs per annum. So, we're, you know, net effectives have held up incredibly well, and I would say, you know, some of the more recent quarters are an indicator. There's a real possibility we'll start to see net effective is higher than pre-pandemic soon.

Caitlin Burrows, Goldman Sachs
Got it.

And then, maybe just back to Washington 1000, wondering if you could give some more detail on the tour activity type of tenants coming through and whether they would be relocating or expanding into the space. And then, also like if you were to sign a lease today, how quickly would you realize that NOI?

Arthur Suazo, EVP, Leasing
Yeah, this is Art, Caitlin.

You know, first of all, it's unquestionably the Washington 1000 is the premier newly constructed asset in the market, the only one in our downtown core. And the team continues to doggedly pursue all prospects across the Puget Sound. We

mentioned that we're in discussions with tenants from 45,000 square feet to 250,000 square feet, and actually in negotiations with two of those prospects that have 2026 lease commencement dates.

So, you know, we anticipate transacting in the coming quarters. If I can share really at a macro level, the tech demand is increasing and growing stability with the city of Seattle. And what I mean by growing stability, meaning, you know, enhanced security, cleaner, safer streetscapes, stricter return to office, revitalized retail and certainly elevated foot traffic, you know, we're encouraged that this is going to generate more activity for Washington 1000.

Caitlin Burrows, Goldman Sachs
Thanks.

Operator
Your next question is from the line of Dylan Burzinski with Green Street. You may proceed.

Dylan Burzinski, Green Street Advisors
Good afternoon, guys. Thanks for taking the question.

Just wanting to, to touch on -- on the leasing pipeline, you guys commented in the press release that it's, call it, a little over 2 million square feet, which is generally in line with where it's been really throughout 2024. So, just trying to sort of square, you know, the leasing pipeline comments with some of your remarks around a recovery in sort of leasing demand from tech, is there something we're sort of missing? Because it doesn't seem like, according to, you know, the leasing done during the quarter, combining that with your comments on the leasing pipeline that things are improving all too much. So, just want to hear your thoughts on that, and then, sort of anything we might be missing.

Victor Coleman, Chairman & CEO
Well, Dylan, let me start from a macro basis, I mean, they're clearly improving. I mean, we leased more space by new and renewed tenants in the last year than we had since, you know, effectively 2019. So, we're seeing the numbers pan out and, you know, 2 million feet is in line with what did last year. And that's -- that's what's in the pipeline right now. But, that 2 million feet is going to be offset by what's expiring. And you have to look at 2025, 2026 and 2027, and we sort of set the table and you, if everybody knows this, you know, we're going to have the least amount of expirations in 2026 and 2027 than we've had in, you know, five plus years.

And so, it does magnify what's available and what's coming available given where the pipeline is. And it is supportive of the deals that we did in the last 12 months. And what's, you know, the ones that are on the table right now, which are some good sized leases that are going to come to fruition in the portfolio.

Arthur Suazo, EVP, Leasing Right. As I mentioned earlier, you know, the average deal size of the pipeline is growing, which points to what Victor just talked about. I think most importantly, the pace of the deals is picking up. We're starting to see a little bit more urgency out there with these deals. And more importantly is, are the tours right? The tours spiked kind of early last year. We've maintained that level of tour activity. The team has done an amazing job of pulling those forward. So, it's about reloading the pipeline. Yes, it looks like it's static at 2.1, 2 million feet, but we're also transacting 2 million feet, which is a big difference.

Dylan Burzinski, Green Street Advisors
That's helpful. I appreciate the comment.

I guess just one sort of, you know, double clicking into Seattle, I mean, do you guys envision, it seems like Proposition 1A is going to get passed? And do you guys sort of envision that further separating out the recovery in Bellevue versus sort of the city of Seattle? If you can kind of just provide your thoughts on that would be helpful.

Victor Coleman, Chairman & CEO

Yeah. I mean, listen, I read your piece the other day I may not agree with all of it, but that's okay, it's not the first time you and I have not agreed on things in the past. But given that, I think, the two things that maybe -- maybe you guys missed over on that was, one, the lack of space that is available in Bellevue right now. I mean, it's not -- there's -- there's very few Class A space that are comparable to the Class A space between Bellevue and Seattle.

Economically, though, I think that's the big difference, right? I mean, Seattle's average price of Class A space is $50 a foot and Bellevue's average space is about $65 a foot. So, the economic difference is, its a big momentum shift for companies to want to make a move versus the $1 million that employees are going to pay for a 5%, you know, head tax that the -- that the employers, sorry, not employees, the employers are going to pay for.

So, I think that, that clearly is going to stand out. Also, I think the number of people that are getting paid, those dollars for relative terms, given the valuation shift in the Class A real estate, I think that's a -- that's indicative of Seattle being very supportive. I mean, I concur with your analysis, South Lake Union, but Denny, South Lake Union, has been very much attracted and the activity that we're seeing in Pioneer Square right now, we've seen two large tenants that were earmarked to go to Bellevue recently change direction, even with Prop 1A. And now, they're -- now they're looking specifically in Seattle at Pioneer Square to move. And their objectives are really because of rental differences in the quality of the real estate thats available.

Lastly, I would be remiss to say because -- because I think you sort of just pointed out, it is -- it is, to us, surprising that given the momentum shift in Seattle and given the opposition between the council, the mayor, virtually every CEO and every company like ours, supporting 1B and not supporting 1A that the unions did prevail at such a high percentage, so that the momentum around the progressiveness in Seattle that we've been all talking about, and really praising the city for, did take a step back. And I think, you know, we would concur with your analysis on that.

Dylan Burzinski, Green Street Advisors
Great. Well, really appreciate that detail. It's very helpful. So, thanks.

Victor Coleman, Chairman & CEO
Thanks, Dylan.

Operator
Your next question comes from the line of Rich Anderson with Wedbush. You may proceed.

Richard Anderson, Wedbush
Hey, thanks. Good afternoon.

So, Harout, on the revolver covenant adjustments, I believe, this is the second time that you guys have made adjustments there. Correct me if I'm wrong. And I'm curious, like, you know where you're at now in terms of additional flexibility should you need it. You know, you lost $125 million of commitments as a result. I mean, you know, what is the -- is this where we should expect things to stand for forever or, you know, for the foreseeable future or is there additional flexibility that you can take advantage of if needed, you know, a year or two from now?

Harout Diamerian, CFO
Hey, Rich.

So, I think we feel very comfortable with where the revolver is right now. Obviously, things can change, but it sets us up very nicely to execute on all the different capital needs we need for the next, you know, at least 2025 and into 2026. And once we do that, we will then address the recap, which will extend the revolver for even longer time. And maybe expand it depending on market conditions.

Richard Anderson, Wedbush

Okay. But is this just a balancing act between the commitments you lose and the reduction of the covenants? Is that right way to think about? I apologize for the amateur sounding question, but I just want to make sure I understand how exactly.

Harout Diramerian, CFO
Yeah, for sure, it's just creating more flexibility and putting our revolver on market terms? You know, that's really what we're doing, just trying to set up a good future for our coverage of the financing that we have coming up.

Richard Anderson, Wedbush
Okay.

Second question is on the rightsizing of Quixote. It was mentioned you stopped the operations in New Orleans. I'm curious, is this kind of a first in a series of steps or could there or what's your flexibility to do the same in other markets within the Quixote platform? I'm curious, you know, how you're thinking about, you know, future adjustments to Quixote on a go-forward basis. Thanks.

Victor Coleman, Chairman & CEO
Yeah. I mean, this is the first. We are looking at some other stage locations and warehouses, and you know, there would be obviously payroll associated with some of that downsizing. So, I kind of mentioned that, Rich, that there's about $6 million more of cost saving initiatives that we're looking at, that pro forma to 2024 would improve NOI on an annualized basis another $5 million.

So, that's kind of Phase 2. You know, we'll continue to monitor the market and we're always looking to be more efficient, cut expenses where necessary. But, you know, we'll let you know where we, you know, come out in the next phase of this thing when they're done, and continue to be flexible depending on how the market improves.

Richard Anderson, Wedbush
So, those savings, it, may involve exits like in the case of New Orleans?

Victor Coleman, Chairman & CEO
Not really, because New Orleans was, if you recall, it's a small location that came with a much larger acquisition.

Richard Anderson, Wedbush
Okay.

Victor Coleman, Chairman & CEO
It was the only stage location in that was outside of the state of California. So at this point, we're just looking at isolated opportunities to eliminate a stage here or there. It doesn't exit a market at this point.

Richard Anderson, Wedbush
Okay. No, I said that wrong, I apologize. But -- and then, in terms of, I think, the rental, the lease payments, and correct me if I'm wrong, $25 million-ish a quarter, is that right? And how could that adjust down as time passes?

Victor Coleman, Chairman & CEO
Well, in that $7.5 million I mentioned of completed deals, about $4.5 million is directly related to lease -- eliminating leases. And I would say roughly half the three—the $6 million I mentioned about deals in process is also eliminating studio related leases.

Richard Anderson, Wedbush
Okay. All right. Thanks very much.

Operator

Your next question is from the line of John Kim with BMO Capital Markets. You may proceed.

John Kim, BMO
Thank you.

On that topic on cost reduction, some of your peers were more aggressive as far as stating a G&A reduction goal of and executing that as sort of the first step in terms of getting their stock rerated, is that something that you have considered?

Harout Diramerian, CFO
Hey, John.

Yes. In fact, if you look at where we guided G&A last year at this time compared to where we guided this year, I believe, that's about a $7 million -- sorry, $10 million decrease year-over-year. So, we're definitely addressing that. And, you know, that's reflected in the numbers you see. So, we recognized some of it in 2024, and we'll have more in 2025 and we're going to continue to look ways to do that.

John Kim, BMO
And how much of that is corporate overhead versus Quixote and other divisions?

Harout Diramerian, CFO
All of that is corporate overhead. All the Quixote savings that Mark outlined relate to Quixote business and the Quixote NOI.

John Kim, BMO
Okay. Got it. Thank you.

Operator
There are no further questions at this time. I'd like to turn the call back to Victor Coleman, CEO and Chairman, for closing remarks.

Victor Coleman, Chairman & CEO
Thanks so much for participating in our call and we look forward to providing you more input as the quarter evolves.

Operator
This concludes today’s conference call. You may now disconnect.