Hudson Pacific Properties, Inc.
Q1 2025 Earnings Conference 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:
Thomas Catherwood *Analyst, BTIG*

John Kim *Analyst, BMO*

Seth Eugene Bergey *Analyst, Citigroup*

Peter Abramowitz *Analyst, Jefferies*

Connor Mitchell *Analyst, Piper Sandler*

Young Ku *Analyst, Wells Fargo*

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 industry and market trends. Mark will provide an update 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 welcome to our first quarter call. Our team continues to execute across the business, staying cognizant of the state of our markets, working to maximize flexibility, respace and grow occupancy. We are also closely monitoring the potential effects of tariffs on our core industries and we continue to see signs of improving or stabilization of our fundamentals.

We remain optimistic that the tariff negotiations will start to settle in the coming months and that pro-growth policies will phase in. Additionally, we're encouraged that the federal government is actively facilitating billions of additional investment into AI and implementing policies to redirect content production back to the United States, which could be a positive for Hudson Pacific.

One of the other catalysts we continue to monitor is venture investing, which in the first quarter set a new high watermark with deal value more than doubling year-over-year to $92 billion, which is also 92% above the 10-year average. The Bay Area squarely remains the epicenter of US innovation, receiving nearly 70% of the funding or $59 billion, the most in a decade and more than fourfold year-over-year increase.

AI alone received 70% of the funding, including the five largest investments, with all but one of those companies headquartered in the Bay Area. The Stargate Project, a US-based multinational artificial intelligence joint venture created by Oracle, SoftBank and OpenAI will invest $500 billion in AI infrastructure and jobs over the next five years, with $100 billion deployed immediately.

AI should remain a bright spot for tech and by extension for AI office leasing, which totaled over a 0.5 million square feet in San Francisco alone in the first quarter, up significantly year-over-year. Clearly, San Francisco is leading the West Coast recovery, both in terms of tech leasing and the benefits of a more moderate, pro-business, tough on crime leadership. First quarter marked the second straight quarter of positive net absorption and gross leasing was just under 3 million square feet.

Beyond continued AI investment, the election of Mayor Lurie has been a game changer for the city, with his focus on public safety, encampment cleanup, drug enforcement, an array of other initiatives to promote economic activity. Case in point, we welcomed 2.5 million visitors to our Ferry Building in the first quarter alone, our best first quarter on record and 23% year-over-year increase. Another positive with the city's new financial and zoning incentives for residential conversions, we're reevaluating and underwriting adaptive reuse of some of our office assets and expect to have one or more good candidates in the future.

Downtown Seattle too, is benefiting from political tailwinds. While direct vacancy increased 90 basis points in the quarter, gross leasing increased 15% to the highest level in a year. The election of Mayor Harrell and a more moderate city council significantly reducing crime and drug use and accelerated return to office for both public and private sector employees alike.

Nowhere has this been more evident than in Pioneer Square, where year-over-year our leasing activity, pipeline and tours have notably increased. We have successfully grown occupancy to 93% at 411 First from 78% in the first quarter last year. And we have another 225,000 square feet in the late-stage deals in our pipeline. For the other assets in that market. We're also working closely with city officials to expedite the lease-up of Washington 1000, including a potential code amendment to allow building type signage and a partnership with the adjacent convention center to activate our retail spaces.

The devastating fires and increasing budget woes made it more of a challenging quarter for Los Angeles. Fortunately, our Los Angeles portfolio is currently 97% leased, largely under long-term leases. On the studio side, average shows in production remained in the mid-80s. This year, California has seen new production starts accelerate more so than other North American and UK markets. But the recovery has favored feature films as opposed to episodic TV shows, which is critical to Los Angeles production.

That said, starting last quarter, we noted a higher percentage of increase coming from quality productions, looking for a multi-stage and multi-month or year leases with second and third quarters start dates. Importantly, this trend continues: our leasing pipeline is as strong as it has been in the last two years, and thus far, as Mark will discuss, our sales team has been very successful at capturing an outsized share of those leads.

The reality is that the gravity of Los Angeles challenges finally seems to have created some urgency for local officials to figure out what needs to happen for the city to thrive again. A new district attorney has been the bright spot for public safety, and despite significant budget cuts elsewhere, both the police and fire departments received funding increases.

The city is taking another look at Measure ULA which has significantly impaired multi-family development, and last week passed a motion to reduce onerous regulations and permitting, unnecessary fees and inconsistent safety requirements to make it easier and cheaper to film in Los Angeles. At the state level, the Governor's budget proposal is on track to nearly double California's film and tax credit to $750 million to be voted on and adapted prior to July 1.

Two companion bills have been introduced to enhance tax credits' appeal by raising the qualified expense cap, making credits transferable, and expanding eligible productions to include, among other things, episodic TV shows, which as I mentioned, are so beneficial to the Los Angeles production marketplace. And while it's too early to know precisely what federal incentives will look like, it's extremely positive to see Washington D.C., now fully engaged with Hollywood and well-positioned to receive the net benefits going forward.

Finally, we continue to make good progress on non-strategic asset sales to generate liquidity and reduce leverage. In the first quarter, we closed on the previously announced Foothill Research Center and Maxwell dispositions for a combined total of $69 million with the net proceeds used to pay down our revolver. Subsequent to the quarter, 625 Second in San Francisco under the contract to sell for $28 million, with closing expected in the second quarter of this year.

And collectively, these three transactions have generated an additional $97 million of liquidity and we continue to work on another approximately $125 million to $150 million of dispositions, on which we will provide additional updates in the coming quarters.

And now I'm going to turn the call over to Mark.

Mark Lammas, President

Thanks, Victor. We signed 630,000 square feet of new and renewal leases in the first quarter, our highest quarterly leasing activity since second quarter 2022. New leasing accounted for 66% of activity and included execution of our second lease with the city and county of San Francisco at 1455 market for 232,000 square feet in 20 years.

Our GAAP rents increased 4.8% and cash rents decreased 13.6%, excluding our large lease with the city and county at 1455 Market, a portion of which backfilled space previously leased at peak market rents, cash rents would have decreased 8.8%, roughly in line sequentially. Our first quarter trailing 12-month blended net effective rents were 4% higher year-over-year and only 7% lower than pre-pandemic.

Net effective rents on new deals alone were up 22% year-over-year and only 4% below pre-pandemic. On a trailing 12-month basis. Our trailing 12-month blended lease term was up 96% year-over-year and 54% versus pre-pandemic. Even after removing our two roughly 20-year leases with the city and county of San Francisco, our trailing 12-month lease term was still up 16% year-over-year.

Regarding TIs, we have seen no impact from tariffs to date. Our exposure to TI-related price increases should be minimal as most of our materials are US supplied or could be changed to a US supplier. Furthermore, we have been extremely active with our Vacant Suite Prep program in recent years, with most of the front and back of the House improvements behind us.

Our in-service office properties were 76.5% leased as of the end of the first quarter, compared to 78.9% at the end of the fourth quarter last year. 170 basis points of that change, after accounting for square footage backfilled with a portion of the city and county lease is attributable to a significant known vacate at 1455 Market that we have discussed for some time.

During the first quarter, unique tour activity at our assets meaningfully accelerated up 18% to 1.7 million square feet. The average requirement size also increased by 18% to 13,000 square feet, a new post-pandemic high. Even after signing over 600,000 square feet, our leasing pipeline increased 5% to 2.1 million square feet with an average requirement size of 19,000 square feet. This included 716,000 square feet of late-stage deals in leases or LOIs, a significant portion of which has subsequently been signed.

We have 50% coverage that is, deals and leases LOIs or proposals on our remaining 1 million square feet of 2025 expirations, 48% of which are in the second quarter alone. We have 76% coverage on our four remaining 2025 expirations, over 50,000 square feet, which collectively total 397,000 square feet.

While our elevated expirations in the first half of the year have impacted occupancy, starting the third quarter, we expect occupancy will begin to stabilize and grow thereafter. This is because from the third quarter 2025 through year-end 2026, we have only 225,000 square feet expiring on average each quarter, which favorably compares to our average trailing four quarter leasing activity of 530,000 square feet, 62% of which is comprised of new deals.

Turning to our studios. As Victor noted, our pipeline remains robust and our team continues to capture an outsized share of productions in the market. At present, 46 of our 53 film and TV stages, or 88% of the related square footage are either leased or in contract, compared to 35 stages or 69% of the related square footage last quarter.

Note, for comparison purposes, we have adjusted our fourth quarter film and TV stage portfolio and associated square footage and leasing activity to exclude leases we terminated as part of broader Quixote cost-cutting initiatives. As examples of this strong activity, we are in contract on two longer-term multi-stage leases. One, a long running soap opera and another a returning writer-producer with multiple successful shows.

It is also worth highlighting that stages leased or in contract at Sunset Las Palmas, since our last call, are expected to bring occupancy at that asset to the highest level since early 2023. This strong activity is also reflected in the sequential improvement of our trailing 12-month studio lease percentages. In the first quarter, our in-service stages were 78.7% leased or 190 basis points higher on additional occupancy, again, at Sunset Las Palmas.

Quixote stages were 43.4% leased or 220 basis points higher after adjusting for the previously mentioned lease terminations due to increased occupancy at Quixote North Valley as well as on our commercial stages at Quixote Griffith Park and West Hollywood. First quarter, studio revenues were $33.2 million or $2.2 million lower, primarily due to lower Quixote Studio ancillary and transportation revenues related to production pauses during the fires. Studio expenses were up $3 million due to a $5.9 million termination fee and associated with certain cost reduction measures at Quixote. But for that one-time fee, our operating expenses would have decreased by $2.9 million, reflecting the benefit of completed cost reduction initiatives.

To that point, since our February call, we have proactively terminated certain leases and negotiated rent reductions that bring our total run rate savings to $14.2 million on an annualized basis, or $13.6 million at share. We remain committed to achieving cost efficiencies to accelerate Quixote's return to profitability and look forward to providing updates on these ongoing efforts.

Regarding development, Sunset Pier 94 Studios is on track for year-end delivery, with exterior components nearing completion and interior construction well underway. We expect no material impact from tariffs on cost for this project, given that the vast majority of materials are already on site or paid for and in offsite US locations.

We are in discussions with potential long-term tenants interested in one or more stages and are preparing to launch show-by-show leasing efforts this summer. Studio leasing has largely moved to a show-by-show model and typically occurs two to three months prior to lease commencement. Given we are targeting first quarter 2026 for certificate of occupancy and productions must have certainty around space availability prior to committing, primarily due to talent schedules, we would expect show-by-show leasing to begin in earnest in the fourth quarter of this year.

Finally, regarding lease-up of Washington 1000, we remain in discussions with multiple large tenants and during the first quarter we saw an increase in tour activity from multi-floor tenants looking to upgrade their locations. The competitive landscape continues to improve, with Class A direct and large block sublease space being cleared from the inventory.

Bellevue has only a few remaining Class A options over 100,000 square feet. Seattle's Class A sublease supply has been reduced from 2 million square feet to less than 300,000 square feet, none of which offer contiguous space of 100,000 square feet or greater. Washington 1000 is the only new construction alternative in Seattle and with no further supply coming online in the near to mid-term, the project remains well-positioned to capture large trophy class users.

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

Harout Diramerian, CFO

Thanks, Mark. Our first quarter 2025 revenue was $198.5 million compared to $214 million in the first quarter of last year. The change is due to both asset sales and lower occupancy within our office portfolio. Our first quarter FFO excluding specified items was $12.9 million or $0.09 per diluted share compared to $24.2 million or $0.17 per diluted share a year ago.

Specified items for the first quarter totaled $0.07 per diluted share, consisting of one-time Quixote cost-cutting expenses of $0.05 per diluted share. A loss on early extinguishment of our Element LA debt of $0.01 per diluted share and a non-cash derivative fair value adjustment of $0.00 per diluted share. By comparison, specified items for the first quarter of 2024 consists of transaction-related expenses of $0.01 per diluted share. Excluding these specified items, the year-over-year change in FFO was mostly attributable to factors affecting revenue. Our first quarter same-store cash NOI, was $93.2 million compared to $103.4 million in the first quarter last year, mostly due to lower office occupancy.

Turning to our balance sheet, in the first quarter, we completed a CMBS financing for a portfolio of six office properties for $475 million and used the net proceeds to fully repay our $168 million loan secured by Element LA with the remainder paying down amounts outstanding on our credit facility and for general corporate purposes. After successfully hedging the entire financing shortly following the transaction, the loan now bears an all-in rate of 7.14% or 50 basis points below corresponding rates at the time of closing. As one of the largest office-backed CMBS transactions completed this year, this was a significant win for our team.

As of the end of the first quarter, we had $838.5 million of liquidity comprised of $86.5 million of unrestricted cash and cash equivalents and $752 million of undrawn capacity under the unsecured revolving credit facility. We also had another $31.4 million at HPP's share of undrawn capacity under Sunset Pier 94 Studios construction loan.

We have routinely discussed various paths to enhance our balance sheet and maturity schedules, including the repayment of our unsecured notes. Subsequent to the quarter, we tendered to repay all $465 million outstanding under our Series B, C, and D private placement notes. To date, we have repaid $254 million of the Series B notes and $50 million of the Series C notes with the balance to be repaid on or before May 9. We're also now in the process of refinancing our only other 2025 maturity, a loan secured by 1918 Eighth, which is fully leased to a leading investment grade tech tenant through 2030. Those conversations have been constructive as expected and we look forward to providing additional updates.

Turning to outlook for the second quarter, we expect FFO per diluted share to range from $0.03 to $0.07 per diluted share. Compared to the first quarter FFO of $0.09 per diluted share based on the midpoint of our second quarter guidance, we anticipate office NOI approximately of$0.05 lower due to the full impact of first quarter leasing expirations and to a lesser extent recent and pending asset sales.

We expect full quarter impact of higher interest expense from the six asset CMBS transaction of approximately $0.04. A lower office NOI and the higher interest expense will be partially offset by $0.03 of higher combined studio NOI and $0.02 of lower G&A expense. Regarding our full-year guidance metrics, most amounts remain unchanged from those provided

last quarter, with the only exceptions being an increase to our full-year interest expense of $12 million stemming from the recent CMBS financing and decrease to our full-year G&A expense of $3 million.

Our full-year weighted average shares outstanding is also expected to be approximately 500,000 higher. Lastly, compared to our initial 2024 G&A guidance, our previously announced 2025 G&A guidance reflected a projected savings of approximately $10 million. We continue to implement further cost cutting measures, resulting in the $3 million additional G&A reduction noted earlier.

Apart from 625 Second, which was held for sale in the first quarter and the early repayment of the private placement notes, our outlook excludes the impact of any potential dispositions, acquisitions, financings and/or capital markets activity.

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

Q&A Section

Operator

Our first question for today comes from Seth Bergey of Citigroup. Your line is now open. Please go ahead.

Seth Bergey, Citi

Hi. Thanks for taking my question. I just wondered if you could comment a little bit on the cash rent spreads that you achieved in the quarter. Were those in line with expectations and then any color you can provide on concessions and how those are trending. Thanks.

Mark Lammas, President

Yeah. No, it's Mark. In line for sure. You heard on our prepared remarks. The impact of the city deal is, at 1455, adjusted for that, we would have been negative 8.8% as opposed to the 13.6% you see in our supplemental. So, it had a fairly sizable impact. That's really the mark against 90-plus thousand square feet of expiring Uber and some square footage with BofA which were, the Uber space, especially with peak market rents from last cycle.

So yeah, in-line with our expectations, I would say maybe the easiest way to appreciate how overall lease economics are holding up. Our net effectives are holding up quite well. We mentioned in the prepared remarks that year-over-year on a trailing 12-month basis, net effectives are higher year-over-year 4% and only 7% lower than trailing 12-month pre-pandemic net effectives. And I would, we could dissect that a number of different ways. I would just say the overall picture as it relates to rents and lease economics is that they have continued to hold up extremely well, especially by comparison to pre-pandemic amounts.

Arthur Suazo, Executive Vice President - Leasing

Yeah, if I can put a final point on that, Seth, on a per square foot per year basis, we're down, Tis and commissions were down about almost a dollar, call it $.97

Mark Lammas, President

Per annum.

Arthur Suazo, Executive Vice President - Leasing

Yeah.

Seth Bergey, Citi

Thanks. That's helpful. And I guess just, on the recent news with tariffs, are you seeing that impact the studio business or any change in behaviors from tenants if there are tariffs implemented on foreign films?

Victor Coleman, Chairman & Chief Executive Officer

Well, first of all, I think on a global basis, it's still early to tell what's the impact on tariffs. And as they keep moving around, as a company, we're acutely aware of the downside, which, obviously, could be a recession or even maybe worse, a stagflation. And as a result, we're preparing ourselves for the negative or the positive flipside on that and watching to see what tenants are signing versus not. And on a global basis, we really have seen no impact of loss of tenants or interest level in any of our assets up on the West Coast.

In terms of the tariff news on the federal level, from the studio side, for good or for bad, it's an awareness that I think we're very happy that it's got to the federal level. As you well know, the state has proposed their $750 million tax credit that is implemented hopefully by July 1. And it's on track to being approved. So that now enhanced with either a tariff or some form of federal support for the studio industry only makes it, I think, a more heighten aware aspect of the need for additional support. And we feel that it will be a positive at the end of the day and it may come in the form of a federal relief fund on tax overall to benefit production in the United States, which we would welcome greatly.

Seth Bergey, Citi
Great. Thanks.

Operator
Thank you. Our next question comes from John Kim of BMO. Your line is now open. Please go ahead.

John Kim, BMO
Thank you. Can you just discuss the paydown of the private placement notes? Only the Series B is due this year. And presumably you're using the revolver to prepay this and the remaining $211 million, that's outstanding. If that's the case, how do you plan to address the revolver going forward?

Harout Diramerian, Chief Financial Officer
Hey, John, it's Harout, thank you for asking the question. So, you're right, we are using the revolver. I think we stated earlier, when we did the CMBS, it was to address maturities in 2025. This was just a two-step process. And once you pay down the Series B notes, you only have a little bit of private placements left, which have more restrictive covenants and it clears the path of our unsecured through essentially 2027 without the revolver.

And we are in constant discussions. I think we've stated in the past that we have very good relationship with our lead line bankers and we see that instrument as a evergreen instrument. We're going to continue to have it beyond 2026. And once we are close to that maturity, we will extend that one in due course.

John Kim, BMO
Okay. And then your guidance of $125 million to $150 million of asset sales for the remainder of the year seems a little light. I realize you're not selling your best assets. And 625 Second sold for a pretty big discount to book value as a result of that. But is this realistically what are you going to sell and how many assets does that contemplate?

Victor Coleman, Chairman & Chief Executive Officer
John, as you know, we don't -- we don't identify the assets until they're under contract. So, I can just say we're going to be consistent in that process. The range that was quoted on the prepared remarks is three assets. They are assets that are non-core to the portfolio and similar to what we've sold in the past, I would say that's a conservative number. We've been approached on and looking at evaluating potentially other assets but those are the three that we're working on right now.

John Kim, BMO
Okay. But so, something like Sunset Waltham Cross, I know that's already being repositioned. Is that part of this guidance or is that something that maybe sold this year or in a subsequent year?

Victor Coleman, Chairman & Chief Executive Officer
As I said, we're not going to talk about assets until they're under contract.

John Kim, BMO
Okay. Understood. Thank you.

Victor Coleman, Chairman & Chief Executive Officer
Thanks, John.

Operator
Thank you. Our next question comes from Connor Mitchell of Piper Sandler. Your line is now open. Please go ahead.

Connor Mitchell, Piper Sandler
Hey, thanks for taking my question. I guess just following along that line of thinking, I'm just curious how your thought process and how the team has discussed maybe adding some additional asset sales or think you have different properties that might kind of fall into that bucket, or on a different path, maybe you've removed some potential sales and just wondering how the team has thought about the whole process, since you put this plan into motion and how the environment has changed throughout?

Victor Coleman, Chairman & Chief Executive Officer
Well, I think we've been very consistent as to the number. I mean, last quarter, I think it was, we said it was $150 million to $200 million of dispositions. We're saying it's roughly around $100 million to $150 million now because we've already sold $95 million of dispositions. So, it's consistent with what our plan has been. As I said, in prior comments, we're not looking to sell four assets in the portfolio.

We're looking to sell assets that are non-core and we think that they're executionable and they don't have any type of material impact on FFO. And so that's the direction we're going in. In terms of the market change, the assets that we're looking at selling right now is pretty much consistent with what we've sold in the past. I mean, its users, it's high net worth, it's small investment funds. And the demand for these type of assets for those type of buyers has been pretty constant.

There's not a tremendous amount of product in the marketplace, in our markets of any quality assets. And so, these fit into the marketplace and the demand ratios at where people are looking right now

Connor Mitchell, Piper Sandler
Okay. Appreciate that color. And then, Mark, you gave a lot of pretty good information on some of the expirations coming due with 2025 and then the coverage associated with that, I think it was 50% coverage for the remaining expirations there in the year. I'm just wondering if you could give us any more color on maybe how we should think about occupancy and the cadence throughout the remainder of the year, along with some of the information on the coverage expirations and then the leasing pipeline and the lease stages of some of those deals you discussed.

Mark Lammas, President
Yeah, I'll give a little bit of response to that and then Art can unpack some of the further details on it. Our occupancy expectations remain on track for what our expectations were in the last phone call. At the end of the fourth quarter, heading into the new year, we knew we had a considerable amount of square footage expiring in the first quarter, still a significant amount in the second, less than in the first, but still a relatively high amount.

And then it was going to significantly taper off in terms of the expirations in the back half and beyond. And on account of that, even though the pipeline was quite significant and Art and team managed to get 630 over the line, which is, obviously, a monster quarter. We still had a lot of expirations more than even that 630 and so, the occupancy you're seeing or the leased percentage you're seeing at the end of the first quarter is right on in track, actually slightly better than what our own modeled expectations were.

We believe that could be the bottom. There's a very good chance it could be the bottom in terms of leased and occupied percentage, and that starting as early at the end of the second quarter, certainly by the time we get to the end of the third quarter, we expect to see sequential improvements on leased and occupied percentage and we expect that trend given how low expirations are all the way into 2026 and beyond, we expect that general trend should continue for some time.

Arthur Suazo, Executive Vice President - Leasing
Hey, Connor it's Art. As Mark talked about in his prepared remarks, our pipeline, obviously grew 5% to almost 2.2 million square feet this is after the 630,000 square feet that we transacted. What gives us confidence going forward isn't just that this number appears out of nowhere. It's the leading indicator, which is tours. And the tours grew by 18% to 1.7 million square feet. Not only did the number increase, but the average tour size increased, which tells us that single floor, multi-floor deals are out in the market in a bigger way, in a larger way than they had been in the past. So that gives us the confidence with the pipeline.

Of the 2.2 million square feet that we have currently, we also mentioned that just over 700,000 square feet are late stage LOI or in leases that we feel very – we feel extremely confident about closing certainly in the next couple of quarters, in addition to, just the deals and proposals that have really come out since the quarter ended. So, all of those things said, we continue to refill the pipeline and continue to transact at a high level going forward.

Connor Mitchell, Piper Sandler
Okay. Thanks, everyone.

Operator
Thank you. Our next question comes from Tom Catherwood of BTIG. Your line is now open. Please go ahead.

Thomas Catherwood, BTIG
Thank you. And, Art, I want to go back to the comment you just made on large block leasing. And obviously, you got the big deal done with the city of San Francisco at 1455 Market. But can you walk us through activity on other large block vacancies, maybe specifically Hill7, Met Park North, 11601 Wilshire and any other real material ones?

Arthur Suazo, Executive Vice President – Leasing
Yeah. I mean, I'll start with your leadoff hitter, which was Hill7, HBO vacating. They're actually downsizing into Discovery space in Bellevue. But we have, that's 112,000 square feet, we have 58,000 square feet in negotiations right now. So, we have great coverage on that. At 505, as you know, our floor plates are about 45,000 square feet non-divisible. We are in negotiations for about 145,000 square feet on that. And we're very close.

And in 11601, we have we currently have about 60,000 square feet in negotiations, 40,000 square feet of which are in leases about ready to sign. So, in, close to 95% leased in 11601. Sorry, my math got – I got tongue tied with my math. I was so excited.

Thomas Catherwood, BTIG
No, I'm sorry. What was that number on 11601?

Arthur Suazo, Executive Vice President – Leasing
11601, we're very close to getting to about 95% leased very shortly.

Thomas Catherwood, BTIG
Okay. Got it. Got it. Got it. Thank you for that, Art. And then maybe for the debt on the Hollywood media portfolio, I get that it doesn't come due till next August, but given uncertainty, the market is likely assuming the worst. What in your view, is the actual downside risk for the studio refinancing and with higher California tax credits and, Victor, which you mentioned, potential federal relief, is selling your stake one of the options under active consideration?

Victor Coleman, Chairman & Chief Executive Officer
Well, listen, I don't know what the potential risk is given the fact that it's fully leased and in terms of the office side, 775,000 square feet till 2031 or 2032. And the occupancy and the soundstages, with the exception of two, are also master leased for a long period of time. The option of selling is not on the table at this time from our standpoint, it really hasn't come across for consideration.

I do think that we've mentioned this before. We and our JV partner own the bottom tranche and a piece of the next tranche of the debt, that can be converted to equity and that takes care of any downside potential of a – if there was some form of additional capital needed to get financing done on that asset, it's already in place in the form of debt that we can convert to equity.

So, I think we're very comfortable that the market will adhere to us refinancing that. And, make no mistake. I mean, we are in the market having conversations as we speak. We're not waiting until the end for us to look at our options. We're evaluating them now. And to date, we've had some very good interest via our existing lenders and new lenders are coming to the table.

Harout Diramerian, Chief Financial Officer
Yeah, I mean, that's right. I think the other thing just to add is that, maybe in the last year or so we had some vacancy on Sunset Las Palmas as Victor and Mark indicated we've shored up that occupancy, which helps the NOI on that asset and therefore, makes it even more refinanceable, at least making the refinancing easier.

Thomas Catherwood, BTIG
Okay. Okay. But let me just clarify, Victor, it sounds like your comment is if there is a paydown required, you don't expect it to be more than the B-piece that is held by you and your partner. Is that what you were saying?

Victor Coleman, Chairman & Chief Executive Officer
What we're saying is that we have, we're expecting no paydown. That's what we're going to the market with. Who knows what happens at the end of the day? But we have that as a fallback already in place as opposed to bringing new equity into the deal.

Mark Lammas, President
Yeah, just to put a final point on it, the debt that Blackstone and Hudson own collectively would in and of itself constitute a 15% remargin. So, even if some remargins in store, we're way, we've already addressed what would be the lion's share of that.

Harout Diramerian, Chief Financial Officer
Yeah. And maybe to give an example, we're in the market from 1918 and as of right now, that requires no remargin. So, obviously, the Hollywood Media debt is further away and, obviously, a different setup. But the point being is that we have a long time to go and either there could be a larger remargining or no remargining, it's too early to know right now.

Thomas Catherwood, BTIG
Got it. Appreciate the answers. Thanks, everyone.

Operator
Thank you. Our next question comes from Young Ku of Wells Fargo. Your line is now open. Please go ahead.

Young Ku, Wells Fargo
Great. Thank you. I just want to touch upon your debt covenants a little bit. It looks like your NOI to interest expense coverage fell a little bit quarter-over-quarter. I was just wondering if you could provide some color on what we should be expecting for the rest of the year, given that there are so many moving parts.

Harout Diramerian, Chief Financial Officer
What's the last part?

Mark Lammas, President
What the expectations for the rest of the year?

Harout Diramerian, Chief Financial Officer
Okay. No, I think we—I feel like I'm a broken record at this point. We continue to be covenant-compliant. We expect to be covenant-compliant. We project out every quarter and just like this quarter, our expectations were exceeded in terms of our coverage, meaning we came in better than our underlying expectations. So, I think we expect to do the same in the future quarters.

Young Ku, Wells Fargo
And are you able to a renegotiate some of the covenant minimums, by any chance, with the lenders?

Mark Lammas, President
We just did. I mean, we recently completed a Second Amendment at the end of last year that improved both the ratios themselves, but also underlying definitions that, worked through those ratios.—

Harout Diramerian, Chief Financial Officer
Those are for the credit facility, the bonds, we have not attempted to and I think those have more room in them.

Young Ku, Wells Fargo
Got it. Okay. Thank you. Thank you for that. And then just start turning to 2026, you guys talked about just a light lease expiration for the whole year, about 800,000 square feet. Can you provide some color on, how whether you have, there are some potential move outs that you're, potentially you have to look at or, how do you feel about the retention for 2026 I know it's kind of early.

Arthur Suazo, Executive Vice President – Leasing
Yeah. I mean, you hit the nail on the head with the low expiration year, but there's really three large, the three large tenants that we're tracking in that market, while there's the three floor tenant in the towers by the shore. Three-floor tenant, we're renewing them in two floors. So, 50,000 square feet, call it 53,000 square feet of the 75,000. At Met Park North, we have 24-hour fitness, which is 45,000 square feet. We're working on a renewal to keep them there as well. And then the last one is at 875 Howard. Pivotal Software, they're in 80,000 square feet and they're already out of the market. So, we're currently marketing the space. So those are the large three but and the rest of those are smaller tenants that we'll be discussing over the next 6 months to 9 months.

Young Ku, Wells Fargo
Got it. Great. Thank you. And then just one last. I think you guys talked about a couple of production leads that you guys are looking at on the studio side. Can you comment on the size of those leads by any chance?

Victor Coleman, Chairman & Chief Executive Officer
Well, the two we were talking about are executed or and we'll make formal announcements once they start filming. But both are two stages with support space and mill space. And one is, as Mark mentioned, is a three-plus year term with options and the other is an existing production company that we've done multiple deals with. So, it just shows the stickiness that we're seeing some of the support coming back from—yes, it's majority, show by show, but we've, I think, beaten the market in terms of these outsized longer-term leases.

Young Ku, Wells Fargo
Okay. But you can't really comment on the size yet?

Victor Coleman, Chairman & Chief Executive Officer
Well, I said, they're both two stages with support staff. We don't talk about square footage and the likes of that.

Young Ku, Wells Fargo
Oh, got you.

Victor Coleman, Chairman & Chief Executive Officer
Yeah. Each show two stages.

Young Ku, Wells Fargo
Got you. Okay, great. Okay. Perfect. Thank you.

Operator
Thank you. Our next question comes from Pete Abramowitz from Jefferies. Your line is now open. Please go ahead.

Peter Abramowitz, Jefferies
Yes, thanks for taking the questions. It looks like in the FFO reconciliation, here, you added back some of the expenses related to cost-cutting initiatives at Quixote, I guess, could you just dig into what those expenses were, the efforts that you're making to cut expenses in Quixote and then what you incurred in the quarter as the cost of doing that?

Mark Lammas, President
Yeah, the costs are largely early lease termination costs. In some instances, they're stages. So, last year, we actually they had three stages in New Orleans, for example, we've since exited some stages that were underutilized here in Los Angeles. So that's a fairly healthy amount of the overall cost-cutting initiatives. I'll get to the aggregate number in a minute.

We've also, we were able to eliminate some obsolete parts of our transportation fleet that enabled us to exit out of parking areas for that part of the transportation fleet. And then there's head count and other things correlating to that downsizing that also contributes to the overall cost savings. So, in aggregate, to date, we've been able to cut about $14 million in costs, we think pro forma to last year's results that should improve NOI on the order of about $9-ish million on a run rate basis.

And so, in terms of just looking ahead relative to those cost-cutting initiatives, we think at current show count levels say 90-ish, we were at 92 last year, we think that negative $19 million of NOI, cash NOI would pro forma have been more like a negative $10 million. But I think the maybe the best takeaway is – our view was to get back to breakeven in Quixote, we thought show counts needed to be somewhere close to 100. We still show positive NOI somewhere on the order of $8 million to $9 million of positive NOI in 100. But based on those cuts, we think now we can get to breakeven at closer to 95 shows. So, we've by doing the cuts, we've been able to lower the bar, if you will, to getting that business back to breakeven.

Peter Abramowitz, Jefferies
Okay. That's helpful. Thank you for the clarification there. So, I guess, then just one other question to follow-up on that. So, you had, it looks like, non-same store studio expenses were about $29.5 million in the quarter. Presumably, that's almost entirely Quixote, I guess. What is the run rate going forward, either quarterly or annually, after those expense reductions?

Harout Diramerian, Chief Financial Officer
I think if you just take out the $5.9 million that we highlighted, I think you can see that on page. Sorry. Real quick.

Mark Lammas, President
The Studio page.

Harout Diramerian, Chief Financial Officer

Yeah, the Studio page on, sorry, I'll get there quickly.

Mark Lammas, President
Page 20 of the supplemental.

Harout Diramerian, Chief Financial Officer
Yeah. Page 20. We have it laid out there, you cut down the five, you're back to like 3.5 million, I think roughly, right, sorry $29.1 million less, $5.9 million roughly. So that gets you to a projected normalized. We still have some other work that we're working on. So from the perspective of what we've disclosed, that's the number to use.

Mark Lammas, President
Yeah, well, maybe I mean, I would just, once you adjust for those one-time expenses, your NOI for the Quixote business goes to $7.5 million. Average show count for the first quarter were in the low-80s. So again, getting back to the commentary about show counts, if we think, we get to 90, that number should be annualized, more like a negative $10-ish million. If we get to 95, we should be at breakeven. And if we get to 100, we should be at somewhere approaching $10 million, maybe a touch shy of $10 million of positive NOI.

Peter Abramowitz, Jefferies
Got it. Thank you. And then I guess just one more while we're on the topic of expenses. Looks like you lowered the G&A guide. I'm just wondering if you can comment on what you're doing there and what drove that.

Harout Diramerian, Chief Financial Officer
So, in the theme of cost cutting and – we're continuing to cost cut. I think we've commented last quarter and last year and we're just cost-cut initiatives and just lower payroll-related costs is what we're doing.

Peter Abramowitz, Jefferies
All right. That's all from me. Thanks.

Operator
Thank you. 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 & Chief Executive Officer
Thanks to everybody for participating in this quarter's call. We look forward to speaking to you all soon again. Goodbye.

Operator
Thank you all for joining today's call. You may disconnect your lines.