Hudson Pacific Properties, Inc.
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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:
Jana Galan *Analyst, BofA*

Thomas Catherwood *Analyst, BTIG*

John Kim *Analyst, BMO*

Richard Anderson *Analyst, Cantor Fitzgerald*

Seth Bergey *Analyst, Citigroup*

Dylan Burzinski *Analyst, Green Street*

Vikram Malhotra *Analyst, Mizuho*

Ronald Kamdem *Analyst, Morgan Stanley*

Alexander Goldfarb *Analyst, Piper Sandler*

Blaine Heck *Analyst, Wells Fargo*

Laura Campbell, EVP, Investor Relations & Marketing
Good morning, everyone and 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 morning, we filed our earnings release and supplemental on an 8-K with the SEC and both are now available on our website along with an audio webcast of this call for replay. 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

Thanks, Laura. Good morning, everyone, and thank you for joining us today. I'm pleased to report another solid quarter of execution for Hudson Pacific in regards to our strategic priorities. We're on track for our strongest office leasing year since 2019, having locked in another quarter of signed leases north of 500,000 square feet, bringing year-to-date leasing to 1.7 million square feet. With significantly lower expirations in 2026, our office occupancy is squarely at an inflection point as we achieved positive absorption in the third quarter. We're seeing clear evidence of a recovery taking hold in the West Coast office, particularly as we benefit from the continued expansion of AI and technology companies in our markets. And on the studio side, even as the broader production environments remain challenging, demand for well-located, best-in-class assets such as our Hollywood Studios enabled us to drive sequential occupancy improvement in the third quarter.

From a capital structure perspective, we have significantly strengthened our financial foundation. On the heels of our office portfolio, CMBS financing and significant equity raise in the first-half of the year, we successfully refinanced our 1918 Eighth Street Seattle office asset, an amended and extended our credit facility, bringing total capital markets activity year-to-date to well in excess of $2 billion. With $1 billion of liquidity, 100% of debt fixed or capped, and no maturities until the third quarter next year, we are now in a position of strength to capitalize on ample, embedded growth opportunities. Or said otherwise, leasing, leasing and then more leasing.

Looking at broader market dynamics. Ongoing transformation across our West Coast markets reinforces our strategic positioning. US venture capital investment remains strong in the third quarter, with year-to-date deal value already tracking about 15% above full-year 2024 levels. This marks one of the strongest funding environments since the 2021 peak, with AI accounting for nearly two-thirds of the US deal value year-to-date and the San Francisco Bay Area capturing more than half, reaffirming the region's leadership in innovation and capital formation. These trends underscore growing optimism, which in turn sets a constructive backdrop for the industries driving markets, as well as the need for West Coast office space heading into 2026.

In San Francisco and the Peninsula, leasing accelerated sharply in the third quarter, led by tech and AI tenants such as Roblox while Silicon Valley recorded its fourth consecutive quarter of declining vacancy as demand from AI, software and hardware firms expanded. In Seattle, AI investments surpassed $1.5 billion to-date, contributing to the first decline in availability in nearly four years. These are encouraging indicators that venture-backed tenants are once again growing, hiring and leasing space in the very markets where Hudson Pacific is most deeply embedded. Over 80% of the third quarter leasing activity occurred at our Bay Area assets, including 100,000-plus square foot AI tenant at Page Mill Center in Palo Alto, exactly the type of growth-oriented tenant that validates our market thesis. Our portfolio stands poised to capture the resurgence in demand as AI companies scale operations and require more substantial teams.

Turning to our studios, while Los Angeles shoot days declined 13% in the third quarter relative to last year, we remain confident in our long-term prospects with California's recently expanded and extended Film & Television Tax Credit already creating strong momentum. Since July, the program has allocated to 74 new productions, compared to only 18 the same period last year. These include 18 television series and 10 feature films expected to shoot in Los Angeles with Tax Credits recipients required to begin filming within 180 days of allocation. While it's difficult to predict future show counts, this represents a sizable pipeline especially when compared to the 80 to 85 production filming in Los Angeles on average over the last several quarters. We feel our Los Angeles studios and services are well-positioned to capture our share of future demand.

Regarding acquisitions, in the third quarter, we acquired our partner's 45% interest in our Hill7 office property in Seattle, in consideration for which we assumed the partner's $45.5 million share of the joint venture's debt and received $1.4 million of cash on hand. This acquisition gives us multiple paths to unlock value at a Class A well-located property like Hill7 by proactively restructuring the existing loan and ultimately growing occupancy and cash flow as the Seattle market recovers. We have seen a notable increase in inquiries, tours and proposals for available space at Hill7 and we remain committed to offering a best-in-class portfolio in Seattle over the long-term. Our approach to asset sales remains disciplined and strategic. We're under no pressure to transact and we'll move only when it clearly enhances shareholder value. When we see compelling pricing, particularly for non-core properties or those requiring significant reinvestment,

we'll look to recycle that capital into our highest conviction assets and markets. It's a selective, purposeful approach that positions Hudson Pacific to capitalize on the recovery, gaining momentum across our West Coast footprint.

And with that, I'm going to turn the call over to Mark to discuss our office and studio operations and updates for our development pipeline.

Mark Lammas, President

Thank you, Victor. I'll walk through our third quarter office leasing performance, which demonstrates the strong execution and market momentum Victor highlighted. We executed 75 office leases totaling 515,000 square feet during the quarter, 67% of which were new deals, underscoring our continued success in attracting new tenants to our high-quality assets. Our in-service office portfolio ended the quarter at 75.9% occupied, up 80 basis points sequentially and 76.5% leased, up 30 basis points sequentially representing steady progress in our leasing efforts.

GAAP rents were 6.3% lower compared to prior levels, while cash rents were 10% lower. This primarily reflects 40,000 square feet across six smaller leases in Palo Alto, rolling from peak market, pre-pandemic rents to still healthy, close to $80 per square foot triple net rents. Importantly, we're seeing clear signs of rental rate stabilization across the Peninsula and Silicon Valley with improving tenant demand and space absorption positioning us well for future rent growth. While our 2026 expirations are about 3% below market, quarterly rent spreads always reflect a snapshot of backfilled leases expired over the last 12 months. As we saw this quarter, geography, tenant size and other factors influence these results. Our various leading indicators of future strong quarterly leasing activity continue to show positive momentum. Touring at our assets accelerated significantly in the third quarter, comprising 2.1 million square feet of unique requirements, up nearly 20% sequentially and 60% year-over-year. This reflects growing demand across our markets, two-thirds of which is technology-related and the third is specifically AI.

Our leasing pipeline of deals and leases proposals or LOIs stands at 2.2 million square feet, with nearly 600,000 square feet in advanced stages. We're now seeing, on average, 20,000 square foot requirements for tours, while within our pipeline, average requirements are approaching 25,000 square feet, underscoring that companies are becoming more confident about their growth trajectories and space needs. Hudson Pacific's lease expiration profile is now very favorable, allowing our team to focus more on occupancy growth opportunities rather than simply defensive renewals. We only have 140,000 square feet of remaining 2025 expirations, all less than 20,000 square feet and we're in leases or negotiations to address close to half of that footage.

Looking forward to 2026 we have 1 million square feet expiring representing approximately 8% of our in-service portfolio. That's about 40% less square footage expiring than our average annual expirations over the last four years. Given our strong leasing momentum, we're already in leases or active negotiations on approximately 50% of 2026 expirations, which is ahead of our historical pace. Notably, we have 75% coverage on our four expirations exceeding 50,000 square feet. With only 30% of our in-service portfolio subject to pre-pandemic leases and 75% of our availabilities in quality assets in Bay Area markets leading the West Coast recovery, we are poised to grow occupancy and cash flow.

Turning to our studio operations, we continue to make strides in positioning our business optimally for the current environment while preserving upside potential as a production recovery takes hold. On a trailing 12-month basis, our in-service studio stages were 65.8% leased, representing a 220 basis point sequential increase driven primarily by additional occupancy at Sunset Las Palmas and to a lesser extent Sunset Glenoaks. Our Quixote stages were 48.3% leased on a trailing 12-month basis, representing a sequential increase of 90 basis points. We are now seeing the benefits of our cost savings initiatives. And in the third quarter, despite sequentially lower revenue, studio NOI, adjusted for one-time expenses increased by $4 million sequentially finishing in positive territory for the first time in more than a year. This represents yet another step forward in alignment with our overarching goal of positioning our studio business and Quixote in particular to operate profitably in any market environment.

On the development front, Sunset Pier 94 Studios, Manhattan's first purpose-built studio is on-time and budget for a year-end delivery and first quarter grand opening. As we approach completion, we have strong interest from multiple high-

quality productions looking to lease significant portions of the facility for six months to a year with a potential to renew for additional term thereafter. The quality and location of Sunset Pier 94 is unmatched and we expect demand to further accelerate as we approach completion.

In the third quarter, we received entitlements to redevelop our 10900-10950 Washington office property in Culver City into a mixed-use project with approximately 500 residential units and ground floor retail. With housing in short supply, 10900-10950 offers a premier multifamily location where the demand and rents achievable make for an extremely compelling development site. We are evaluating our options to maximize value, which could include bringing in a partner to develop the site with Hudson Pacific contributing the land or selling outright. We look forward to providing additional updates on this unique value creation opportunity in the coming quarters.

And with that, I'll turn the call over to Harout for our financial results, capital structure and outlook.

Harout Diramerian, CFO

Thanks, Mark. I'll take everyone through our third quarter financial results, which reflect solid operational execution amid our ongoing focus on leasing.

Total revenues for the quarter were $186.6 million compared to $200.4 million in the prior year, primarily resulting from asset sales and lower occupancy as we continue working through our lease-up process. G&A expenses improved substantially to $13.7 million, compared to $19.5 million in the prior year, representing a 30% reduction. This savings reflects the successful implementation of various organizational efficiency measures and underscores our commitment to rightsizing our cost structure while maintaining operational excellence. We generated FFO excluding specified items in the third quarter of $16.7 million, or $0.04 per diluted share, compared to $14.3 million, or $0.10 per diluted share in the prior year. The year-over-year 17% increase resulted from improved G&A, interest expense and studio NOI, partially offset by lower office NOI. Note that third quarter FFO per diluted share reflects the share count increase following our second quarter common equity offering. Specified items in the third quarter totaled $2 million or $0.00 per diluted share and primarily consisted of one-time expenses associated with cost saving initiatives and financing activities. In the prior year period, specified items were $7.5 million or $0.02 per diluted share.

Our third quarter same-store cash NOI was $89.3 million, compared to $100 million in the prior year, mostly due to lower office occupancy. As Victor highlighted, we significantly strengthened our balance sheet and capital structure. In the third quarter, our activities included the $285 million refinancing of 1918 Eighth, which underscores our ability to access the debt markets on favorable terms for assets with our high-quality portfolio. We also amended and extended our credit facility, which provides us with $795.3 million of capacity through the end of next year and $462 million through the end of 2029, with continued strong participation from our core banking group. Our liquidity position is strong at $1 billion, comprised of $190.4 million of unrestricted cash and cash equivalents and $795.3 million of undrawn credit facility capacity. We have another $15.9 million at HPP share of undrawn capacity under the Sunset Pier 94 construction loan. 100% of our debt is fixed or capped, providing for predictable debt service costs that support our financial planning and cash flow management. Looking ahead, our next debt maturity isn't until the loans secured by our Hollywood Media portfolio, owned jointly with Blackstone matures in the third quarter of 2026. In anticipation, we continue to focus on operational enhancements at those assets and have a plan in place with Blackstone to approach the refinancing in the first quarter of next year with a goal of maximizing our financial flexibility.

Turning to outlook, for the fourth quarter, we anticipate FFO of $0.01 to $0.05 per diluted share. To bridge from our third quarter FFO of $0.04 per diluted share, we expect lower studio NOI due to typical seasonality. We do not expect fourth quarter average show counts to reflect the benefit of tax incentives as productions receiving allocations have up to six months to begin filming. We also anticipate slightly elevated G&A in line with our full-year G&A expense assumptions, which remains unchanged from last quarter. Lower stage occupancy and potential ongoing challenges required the Sunset Glenoaks joint venture to reconsider the risks associated with the underlying project financing and treatment of the venture as consolidated for accounting purposes. Based on these considerations, Sunset Glenoaks has been deconsolidated leading to the following adjustments to our full-year outlook assumptions: lower interest expense, lower

FFO from unconsolidated joint ventures and higher FFO attributable to non-controlling interests. Our full-year same-store cash NOI growth assumption also remains unchanged from last quarter. As always, our outlook excludes the impact of potential dispositions, acquisitions, financings and/or capital markets activity during the remainder of the year.

And now I'll turn the call back over to Victor for closing remarks.

Victor Coleman, Chairman & CEO
Thanks, Harout. As we wrap up today's call, I want to emphasize that Hudson Pacific is uniquely positioned at the intersection of the AI-driven technology expansion, the West Coast office market recovery and the return of a more robust studio demand. Our strategic focus on high-quality assets and in innovation hubs is already paying dividends with our strongest leasing year since 2019 and positive absorption inflection point while our strengthened balance sheet, $1 billion in liquidity, 100% fixed debt and no maturities until Q3 2026 provides the financial flexibility to capitalize on embedded growth opportunities. The momentum we're seeing from record AI investment to expanding venture capital activity reinforces our conviction that we're in the early stages of a meaningful recovery and Hudson Pacific is ready to capture this opportunity.

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

Q&A Section

Operator
We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Alexander Goldfarb with Piper Sandler & Company. Your line is open. Please go ahead.

Victor Coleman, Chairman & CEO
Alex, are you there? Operator let's go to the next question, please.

Operator
Your next question comes from the line of Ronald Kamdem with Morgan Stanley. Your line is open. Please go ahead.

Ronald Kamem, Morgan Stanley
Hey. Can you hear me?

Victor Coleman, Chairman & CEO
Yes. We can, Ron.

Ronald Kamem, Morgan Stanley
Okay. Great. Just a couple of couple quick ones for me. Just starting I would love – I see the leasing coming through. I'd love sort of an update on just high-level where you think occupancy trends over the next sort of 12, 24, 36 months? And if you could tie in sort of any high-level commentary on the implication for same-store NOI that'd be great as well. Thanks.

Mark Lammas, President
Yeah. Thanks, Ronald. We indicate in our prepared remarks, where our expirations are, right, with 140,000 square feet in the fourth quarter, about 1 million square feet next year. 67% of the activity just this quarter is all new leasing and we've got 15% coverage on next year's expirations ahead of where we would typically be at this point. So all indications are, we are heading into positive net absorption territory and hopefully picking up steam, right, because that 500,000-plus square feet per quarter for quite some sequential quarters now, we're going to be outpacing those expirations by quite a bit. So trending in the right direction, not going to get too specific here about exact percentages on where we're going to land on either year-end or heading into next year. But I think reasonable to expect that you're going to see and you saw it this quarter, you're going to see more positive net absorption.

On the NOI, same-store NOI I think those are obviously correlated. You're seeing a little bit of a lag. Third quarter average same-store office occupancy dipped a little bit, right, and we sequentially went down from like 73.3% to 72.8%. And in comparison to last year, you're comparing yourself to higher occupancy in that previous year, right, in a higher 70s with some pretty high rent paying tenants, not the least of which were Uber at 1455. We had Amazon in Met Park North, we had Picture Shop at 6040. Those are the main contributors to the prior year NOI that are no longer flowing through the number. In the same way that office occupancy is trending up, so we finished actually higher sequentially at 75.9% so higher even than the average occupancy. The average occupancy flowing through the same-store is also going to go up. While we need to get somewhere I think north of 76% because in fourth quarter we were 76.3% average occupancy in the same-store. So somewhere higher than that plus the studios need to come – either be stable or improve a bit and then you're going to start to see that positive –you're going to see same-store NOI start to move in a positive direction.

Ronald Kamem, Morgan Stanley
Really helpful. And if I could just ask a follow up on the studio. I think we've been talking about sort of the recovery path and trying to understand the shape. It sounds like you are seeing more activity. But just in terms of like what are the key sort of milestones and data points that we should be looking for to get a sense that the recovery is really getting going in a way that's favorable? Thanks.

Victor Coleman, Chairman & CEO
So a couple of points on that. I mean, listen, the content spend is still constant and going up. I think you will see some pretty impressive numbers with the Skydance Paramount purchase at the end of the day now. Their new content spend is sort of rivaling the numbers that Netflix has, which is in excess of $20 billion a year. So those numbers are going to obviously permeate in. And specific to California, as we sort of mentioned it in our prepared remarks, with the new tax credits in place and the number of productions that have to commence within the first six months of approval, you're going to see that number just organically grow. And I think we're going to be able to capitalize on that in the production side, not just from the OpCo side but the PropCo side as well, which we're already seeing in our Hollywood assets, which we've seen that – we've picked occupancy there to almost 100%. We only have two stages vacant now. And that is also a leading indicator in the production that we're seeing and the activity right now early on. It's very attractive as Mark mentioned in his remarks over at Pier 94.

So it's trending that way. I think that the effectiveness of the credits are doing what they should be doing. We still have some work to go though.

Ronald Kamem, Morgan Stanley
Right. That's it for me. Really helpful.

Victor Coleman, Chairman & CEO
Thanks, Ron.

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

Dylan Burzinski, Green Street
Hi, guys. Thanks for taking the question. I think I don't know if it was you, Victor or Mark that mentioned how rents are sort of stabilizing across Silicon Valley and the Peninsula. Just sort of curious how rents are sort of trending across the rest of the portfolio? If you can provide comments as it relates to San Francisco given the strong depth to AI demand there as well versus what you're seeing in Los Angeles and Seattle that'd be helpful.

Victor Coleman, Chairman & CEO
Yeah. I'll let Art jump in.

Arthur Suazo, EVP – Leasing
Yeah. I'll jump in right now. Yeah. So they've been holding steady pretty much across the portfolio. We're even seeing improvement in some of the submarkets, specifically in San Francisco with the tech demand so high and AI growth so apparent. We're seeing the growth really in the north and south financial district more than the other submarkets at this point. But we're really starting to see the growth in other submarkets as well. Seattle is holding pretty firm and again we can talk about the growth of tech and AI there that's going to cause the rates to increase over the next several quarters. But I think for now, it's really standing pat. And in LA, this building that we're in, 11601, which is our headquarters building, we're seeing a tremendous increase in rental rate – in rental rate growth. We don't have any leasing on the west side of LA. And so that's really our only look-in into the rental rates.

Dylan Burzinski, Green Street
And then, Victor, you mentioned obviously not having the need to sell anything given where the balance is at and the capital raise you guys did last quarter. But just sort of curious, I think in the past you guys have talked about just bringing non-core assets to market and just doing the normal process of capital recycling. So just given what seems to be an improving backdrop, obviously on the fundamentals front, potentially leading to an improvement on the capital markets side of things, just, do you guys still have continued desire to bring assets to market that you guys sort of no longer deem a fit within the context of your guys' go-forward portfolio?

Victor Coleman, Chairman & CEO
Yeah. Dylan, listen, as the market continues to stabilize, we're going to make further progress on our occupancy as you're seeing right as we speak. And of course, I think we're all very pleasantly surprised with the activity specifically in the Valley and how strong it has been. And as you saw by the prepared remarks that Mark said, I mean our average tenant size is going up and that's leading us to having the ability to evaluate some of the assets that we can now look to sell in the marketplace at numbers that could be much higher than they were, let's say, 12 or 18 months ago. So that's always going to be some place that we're going to reflect into and see what the opportunity is to capitalize on some form of external growth and disposing of assets.

So we've got a list of a few assets that are there. As I said in my remarks, we're not planning on selling some assets but there will be assets that will be sold. We're just not going to identify them until, at the end of the day, it's going to be a number that we're going to probably look at that's going to be a combination of assets that we could have sold in the past and now we're going to try to sell them going forward. And I think those opportunities are going to come fast and furious specifically in the Valley because everybody's focused on the city right now. And I think now the Valley is also opportunistic.

Dylan Burzinski, Green Street
Great. Appreciate those comments, guys. Have a good one.

Victor Coleman, Chairman & CEO
Thanks, Dylan.

Operator
Your next question comes from the line of Blaine Heck with Wells Fargo Securities. Your line is open. Please go ahead.

Blaine Heck, Wells Fargo
Great. Thanks. Victor, we've been talking about the influx of demand in San Francisco from AI for several quarters now. And clearly you guys have benefited as evidenced by the X.AI lease. But we've also more recently seen some layoffs coming through that could be attributed to AI displacement. So I guess my question is do you see any of your submarkets or tenant industries as more susceptible to that potential negative trend as we look ahead?

Victor Coleman, Chairman & CEO
So, Blaine, listen, I – of course everybody's focused on AI. But if you look at these leases that we're signing, they are tech and tech-related leases. But we've signed a lot of fire-related tenants and the expansion of those tenants I think is evident

currently today. There is obviously a backdrop of what's the initial impact on labor for AI going forward. But what we're seeing right now, it's not impacting the core businesses that are signing, which is legal firms, insurance firms which you would think would be impacted. They still are signing leases and taking space that is on a positive basis.

A lot of education is coming to the marketplaces at the same time. Don't underestimate that. I think the financial institutions have yet to really show up on – specifically in San Francisco the way they had in the past. So they're less active and that would be more of an impact. And clearly you're hearing and seeing a lot of the financial institutions shipping employees to secondary tier markets where they can have lower cost of rents and the likes of that. And so I think we're finding that the impact is not as great immediately.

One true sign though and Art can get into some statistics, which is I think very, very unique to this past quarter's data that we've seen is now we're seeing a drop in sublease dramatically impacted in some instances and throughout all of our markets but really in the Peninsula and in the city. The sublease space is coming back to the tenants because they realized they want that space now for future growth.

Arthur Suazo, EVP – Leasing
Yeah. Victor, I was going, to say to your point, it's AI and tech really grabbing the headlines everywhere cause it's a sexy thing to say but it's not a 90-10 situation, Blaine. It's really 55% of our pipeline is tech and half of that is AI. There's 45% of our pipeline is fire sector, professional service firms, education that we're availing ourselves of as well.

Blaine Heck, Wells Fargo
Great. That's really helpful color. Just switching gears with respect to Quixote. You guys have done a good job of improving efficiencies in that business. Can you just give us an update on how much more you can cut on the cost side or whether that effort has kind of run its course at this point? And any color on your ultimate plans for that business would be helpful.

Victor Coleman, Chairman & CEO
Yeah. Listen, I think we're making some headway, as you said. We've got more to go. We've got some things in plan. Obviously, I'm not going to disclose the exact numbers and the timeline but it's in the works right now. We're on the precipice of breaking even. That's been the objective for the first quarter of 2026. And we're getting there along the way and comfortable that I think that we'll achieve that. From that point on, we'll have to look at where the market is, where the show counts are, what's the absorption from our market share from the OpCo side and then see what's the next phase in that business. We've always said we're going to be reacting to where the future of this business is going to go. We've gone through, what we would call as the 100-year storm. And hopefully we're coming out of it and maybe better off than we think. We're not optimistic yet, but we're at least seeing the positive signs.

Mark, do you want to comment?

Mark Lammas, President
No. I think you summed it up. I would just say, Blaine, in our prior call we had mentioned a cost saving of approximately $23 million per annum, pro forma $23 million to $24 million. And if you look at our most recent results, it bears that out perfectly. Last year in the third quarter, we had $25 million – nearly $25 million of expenses for Quixote. And this quarter, adjusted for those one-time items, we're at $19 million. And so if you run the run rate on that, you'll see it supports the annual savings target that we had mentioned, which I think is for us a nice confirmation that our cost savings is coming through.

Blaine Heck, Wells Fargo
Great. Thanks, everyone.

Victor Coleman, Chairman & CEO
Thanks, Blaine.

Operator
Your next question comes from the line of Richard Anderson with Cantor Fitzgerald. Your line is open. Please go ahead.

Victor Coleman, Chairman & CEO
Rich, are you there?

Richard Anderson, Cantor Fitzgerald
Excuse me. Sorry. Okay. I'm on now I think.

Victor Coleman, Chairman & CEO
I thought you were with Alex.

Richard Anderson, Cantor Fitzgerald
Yeah. I know how – geez! Don't know how to use Zoom. I was going to say, Buy rating on the Zoom execution here I like it a lot, except for the fact I don't know how to unmute myself.

So I was looking at the leasing stat sequentially and I was trying to do this quickly while you were talking. But when was the last time in the office space that leasing sequentially went up, both from an occupancy perspective and a leased percentage perspective? Because it wasn't in 2024 and it wasn't at least in a lot of 2023. That's as far as I got before I asked the question. I'm just curious how substantial you see that sequential move, albeit small, is that something that's sort of signaling to you part of this bottoming that you're hoping to see?

Victor Coleman, Chairman & CEO
Well, as Mark sort of checking the stats, because I don't think it was – I think the last time was probably in 2022. But he's going to look. He probably doesn't have it. But I can tell you we did say on our last call, I think somebody had asked the question, where is the bottom? And I think I commented that we are at it. And so that sequential move. Yes. Listen, it's positive. We're nowhere near satisfied to where it's going to be. As you know, the indications, as we said between what we have in our pipeline and deals that are out to be negotiated both on the 50% of the deals that we have for next year that we're already in negotiations on and new leasing. We're moving on that track. But I don't really know what that number is, Mark?

Mark Lammas, President
I mean there may have been a blip in there somewhere, but it's got to be two, if not more than two years since we've had a sequential positive quarter both on leasing and occupancy. We bottomed out, as Victor said, essentially two quarters ago. We were at 75.1% and then we sequentially did another 75.1% in occupancy and of course we're 80 basis points higher than that this quarter. So you can easily discern that bottoming and then sequential improvement. But that's been a long time in the making. We can get it to you, Rich, but it's got to be over two years since we've had that.

Richard Anderson, Cantor Fitzgerald
Okay. Great. Second question for me, understanding you got a lot going on besides AI, but I'm curious about the kind of the shared knitting of an AI-oriented lease. Are companies maybe taking less lease term or maybe different types of assets, maybe not high-rise, but more low-rise, suburban, just not making an over-commitment yet to AI in terms of the space – the type of space and the commitment they're making time-wise. I'm wondering if it's different with AI than it is for your other more conventional office tenants?

Victor Coleman, Chairman & CEO
I think the only thing that and Art is going to jump in and tell you about the stats, right, but the only thing that's different is they're looking for growth, right? They're much more growth-oriented. If they want 100,000 feet today, they want a line of sight for another 50,000 or 100,000 feet tomorrow. And that is obviously going to be correlated to high-quality buildings with some potential role that they can absorb when tenants move out or vacancy in place. And that's been consistent throughout. But I think that theme has also been always with tech. They want the ability to grow but also they want the

ability to have their own security and safety amongst their employees. They're spending a ton of money on personnel. They want to make sure that the environment is conducive to their people and not other companies. And there's a there's been a big negotiation now, which we hadn't seen until early on in the tech years where the competitive landscape of other tenants going in the same building, they refuse to have similar tenants in similar working class or proprietary information being in their buildings.

Richard Anderson, Cantor Fitzgerald
Okay.

Arthur Suazo, EVP – Leasing
Yeah. Victor, hit the nail on the head. It's really about path to growth, being able to control their growth, being able to control their security. There's talk about high-rise versus low-rise. They're looking for quality Class A or trophy assets with growth top of mind. No question about that. They also are looking more for kind of richly amenitized space. That's a big driver for the AI users. And – which is another reason they're looking at second generation, really high-quality second generation space; (a) to cut cost; and (b) to move in quicker. So those are really the key items.

Richard Anderson, Cantor Fitzgerald
Okay. And then if I could sneak in one quick one. On the tax credits for studios, obviously an improvement, but do you think it's enough versus other areas of the world in terms of trying to move production elsewhere else outside of LA? Do you think that enough has been done or do you think it needs to be something even more substantial to keep production in California?

Victor Coleman, Chairman & CEO
Listen, I never think it's enough. This is a captured business that I think the leaders, both on the statewide and city and countywide took for granted for a very long time and realized now that they have to be competitive. I do believe that there is going to be more changes that are just more than beyond just tax credits, both above the line and below the line and the below the line is really important for the unions right now and they're focusing on that. There is other things that we have talked about and we're seeing implemented like fees; license fees, filming fees, ease of production. Right now, it is beating the markets that really took a lot of infrastructure away from us, like the Georgia's and the New Mexico's and the New Orleans' of the world. But at the end of the day, you can always do more and we've been pushing very hard with all the entities, both in the federal and the stateside, film commissions and in the city and the Mayor and the Governor to help enhance this. And it's clearly evident that they recognize they need to do more. We just hope it's going to be enough and quickly.

Richard Anderson, Cantor Fitzgerald
Great stuff. Thanks very much.

Operator
Your next question comes from the line of Alexander Goldfarb with Piper Sandler & Company. Your line is open. Please go ahead.

Alexander Goldfarb, Piper Sandler
Hey. Good morning and – yeah, thanks, Victor. Unmuting, a new challenge with this new technology.

Victor Coleman, Chairman & CEO
Are you talking, Alex. Can I hear you? Sorry. Alex, are you there?

Alexander Goldfarb, Piper Sandler
Yes.

Victor Coleman, Chairman & CEO
Okay.

Alexander Goldfarb, Piper Sandler
Thanks. I feel like a dinosaur. My kids would have fun. Call me a fud. So, two questions here. Art, just going to Northern California specifically. We hear a lot of talk that more of the AI and more of the growth is in San Francisco but your overall comment suggests that the Peninsula is picking up with activity. So can you just give a sense of the dynamic between what the leasing is like in San Francisco itself and then how the leasing is going in the Peninsula? And if it's big tech in the Peninsula or if you're starting to see a lot of the smaller startups and other smaller tenants active in the Peninsula?

Arthur Suazo, EVP – Leasing
Sure. A couple of quarters ago, I mean the talk was it was chiefly two, three quarters ago, chiefly it was the big AI users in the city. And then I would say over the last quarter-and-a half, we've really started to see the migration of some of these larger users who are taking 200,000 or 300,000 feet in the city, now taking 50,000, 100,000, 150,000 square feet down across the Valley and the Peninsula. So it's really – I think it's really evened out in terms of growth. And obviously in the Valley, we see more of kind of the early-stage tenants, incubator-stage tenants that are growing into 5,000, 10,000, 15,000 feet, which will become the next 25,000, 50,000 square foot tenants. So we're really seeing brisk activity across all of Northern California at this point.

Alexander Goldfarb, Piper Sandler
Okay. And then, Victor, just going back to the entertainment and the tax credits. By your comments on the 180-day sort of shot clock, if you will. It sounds like we really shouldn't expect a material pick up until the back-half of next year. I realize Harout is not giving guidance yet, but just from sort of getting our expectations in line for how the studio ramp would go, it sounds like it's really a back-half next year based on that 180-day shot clock. Is that fair or you think it could be sooner?

Victor Coleman, Chairman & CEO
Listen, I never want to go earlier on comments especially if you're giving me a lifeline to go longer. But I think the 180 sort of takes us to the second quarter of next year and you're not going to see it right now, obviously we're in November and December is obviously the quietest month of the year for production. So by the time they start filming, it should be really effective for the second quarter. And then clearly going forward, there will be another launch of shows that are approved I believe it's November 19. So you're going to see that and then you take that 180 from that timeline is really gets you almost till May. So at the end of the day, yeah, you're going to see the second-half of the year for sure. But I do think it will have an impact after the first quarter.

Alexander Goldfarb, Piper Sandler
Okay. Thank you.

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

Vikram Malhotra, Mizuho
Good morning. Thanks for taking the questions. It was pretty simple. I just got a unmute request, so I think I clicked it. But this is great. I think this format is pretty cool. So I like that you did it.

Just – maybe just going back to the core office side, you talked a lot about fire, AI. I'm just wondering, bigger picture, like as your strategy evolves to grow from the bottom with so much vacancy in other peer buildings and just the markets like how do you gain share consistently? Are there pockets where you're saying we're giving up on price incentives? Are there like specific buildings that you're looking at and saying, okay, we need different strategies? Like, I'm just trying to figure out

like in this environment as you bottom, but to grow from the bottom, just how competitive is it? What are your peers doing? Is there just a price war? Thanks.

Victor Coleman, Chairman & CEO
Yeah. Vikram, I think that's a great sort of astute point that is it really just pricing to the bottom. And we don't see that for 75% of our portfolio because that part of the portfolio is Class A, there's a demand there. We've seen us compete with maybe one or two other projects. It's not a list of 10 that we're competing with and we're getting more than our fair share. And it looks like going forward, we're going to continue to get much more than our fair share given what we've seen on the pipeline going forward. But I would say, we've talked about this in the past. There is 20% or so of our portfolio. We have assets that are going to fight the fight with other assets in the marketplace and hopefully we'll get more than our fair share. But we're willing to take our fair share at the end of the day and whatever it takes to go out and lease those assets, we're not going to turn anything down. No. We're not giving it away by no means because the market's going to dictate that across the board. But at the end of the day I think it's safe to say that we will be much more further ahead, given where, as you can see with all the statistics that have come to market, the lack of development that is coming to the marketplace. There is zero in all three of our major markets, which is the Bay Area, the Pacific Northwest and here in Los Angeles. So those marketplaces have zero new development. Organically as you see the demands continue to drive in fire and other related businesses that are outside of tech and AI, those buildings will lease.

Arthur Suazo, EVP – Leasing
And Vikram if I can add to what Victor said. Regarding the assets that you're referring to, the type of asset you're referring to, if I could add kind of a tactical piece to this thing that gives us a competitive edge is we have in those assets, we have over 300,000 feet, closer to 350,000 square feet of ready built spaces for these tenants that are in great condition and move-in ready condition that really have carried the day for us. And it allows – especially now it allows tenants to move in a lot quicker. And so that's been the difference maker in those assets that you're referring to.

Vikram Malhotra, Mizuho
Okay. And then just on the studio side, so like I take the three big segments, your long lead or long lease, long duration leased stages, the ones that are shorter and then Quixote business. Just assuming Quixote doesn't come back for a while, for whatever reason, it's more variable. Can you remind us of the stickiness of the other two businesses? Just what's the variability there? Like how should we think about sort of a from here on a downside scenario? Thanks.

Victor Coleman, Chairman & CEO
Well, if you look at the Sunset portfolio virtually with the exception of Glenoaks right now, it's almost 100% leased. And the stickiness is those longer-term leases take us till almost 2031 for the most part. I mean, there are a couple of shows that go through 2026 and 2027 but the lion's share goes to 2031 with our Netflix leases, which is almost uniformly that way. Clearly the show-by-show, the ones we have currently have right now have all gotten picked up for the next seasons. So we're feeling good about that stickiness for those shows. And that's the directional force of what we're seeing. We're looking right now at 40%, a tenant that's taking 40% of our Pier 94 asset, which is a show that will go at least a couple of seasons. And so that I think is sort of the future of where this industry is going and the competitive landscape at the end of the day, it's going to be a show-by-show versus a long-term lease. On the Quixote side, we have the same thing. We have some sticky shows right now and we have some vacancies.

Operator
Your next question comes from the line of Tom Catherwood with BTIG. Your line is open. Please go ahead.

Thomas Catherwood, BTIG
Great. You guys hear me?

Victor Coleman, Chairman & CEO
Yes. We can.

Thomas Catherwood, BTIG
Perfect. Perfect. So I wanted to go back to Alex's question on demand in the Peninsula and Art I think last quarter you mentioned discussions with four tenants looking for something like 100,000-plus square feet each in San Jose. Can you provide an update on those and your kind of overall leasing expectations in that market?

Arthur Suazo, EVP – Leasing
Yeah. Sure, Tom. Those – we did talk about there were four tenants across the Valley and the Peninsula, one of which we executed on and the other three are still in process. We're starting to see more demand in the kind of 50,000 square foot range at the airport, which I think what's going to carry the day. And our team there has got demand drivers kind of in hand relative to those deals.

Thomas Catherwood, BTIG
So is your expectation that we could see an acceleration in leases executed in that airport market in the near term?

Arthur Suazo, EVP – Leasing
Yeah. We're definitely going to start to see an acceleration of that. And we've already started to see that in the Peninsula as well.

Victor Coleman, Chairman & CEO
I think we've been pleasantly surprised with the size increase of tenants in the Peninsula in the last six months. And the line of sight for future tenants, including the three that we're referring to, there's many behind them in that sort of 40,000 to 80,000 foot range that are in the marketplace.

Thomas Catherwood, BTIG
Great. Perfect. And then second one for me, going up to Seattle on Hill7 specifically. What's the leasing outlook for that building and how much did the need for incremental leasing CapEx play into the buyout of your partner's position?

Arthur Suazo, EVP – Leasing
Well, I'll talk about the activity in Hill7 and currently we're in negotiation with three multi-floor tenants totaling about 139,000 square feet and they're at various stages but it wouldn't address nearly all of the existing vacancy.

Victor Coleman, Chairman & CEO
Yeah. And in terms of the economics around that, listen, we look at it as an opportunity. We have an allowance that is already in place for TIs to a certain amount of the leasing that Art is referring to so it won't be coming out of pocket. It's already allocated to the building. And we just think that the asset with the quality space that's in place right now, it's going to need very little TIs. The buildout is very, very impressive and that's why the demand is there. This would be an asset that we would have to reposition but fortunately we don't. And so I think the opportunities with the tenants that we're looking at is really like a plug-and-play and we're optimistic that we're going to get some of those deals done relatively quickly.

Thomas Catherwood, BTIG
And so, that's good again, that sounds very positive, Victor. Great to hear that. But that being the case, then what drove the buyout of the tenant? Was it concern – it can't be refinancing concerns that debt doesn't come up until 2028. What was the kind of catalyst that brought that to a head at this point in time?

Arthur Suazo, EVP – Leasing
No. It's a good question. It is putting in capital in the future and we're better positioned for that and we see a bigger upside than our partner did. And so that's – you're exactly right. It's exactly that.

Victor Coleman, Chairman & CEO

And this is not new for the partner to exit. They've done this with other – specifically other REIT partners. They've just walked away from assets.

Thomas Catherwood, BTIG
No. Got it. That's great help. Thank you, guys.

Victor Coleman, Chairman & CEO
Thanks.

Operator
Your next question comes from the line of Jana Galan with Bank of America. Your line is open. Please go ahead.

Jana Galan, BofA
Hi. Thank you. Just a quick one on the office leasing this quarter. It looks like the average lease term came down for both new and renewal leases. Were there any kind of large one-offs influencing this or are AI firms just prone to shorter lease term? And as this segment increases in your portfolio, how should we think about kind of the Tis, leasing commissions and maybe faster lease commencements?

Mark Lammas, President
Yeah. The tenant, the large tenant we signed a deal on in Palo Alto was really what underlied the sequential downtick if you will in term. I mean just in terms of overall economics, leasing is holding up well. I mean you may have noticed that net effectives came down a bit sequentially, but they stayed in the same range of where they've landed now for quite some time. We're – if you look at net effectives on a trailing 12-month basis relative to pre-pandemic, we're approximately 10% off, which is kind of been – that's towards the upper end of the range of where we've been for quite some time now. I still think things are trending back towards closer to pre-pandemic net effectives it's just we had this quarter a little bit of a dip.

On other economic fronts, rates are holding fine. TIs, you'll notice ticked up a little bit, again same lease associated with that. I think where we'll see the benefit in terms of that TI spend is that that was first generation space. We completely repositioned that asset and taken it offline. So the spend sort of correlates with the condition of that space to get that tenant moved in and I think we'll see a benefit from that when we renew that tenant. We'll get a sort of more bang for our buck, if you will. But in terms of overall Tis, if you look at TIs per annum on a trailing 12-month basis, they're actually 14% lower than pre-pandemic trailing TIs per annum. So again a good sign that lease economics are holding.

Jana Galan, BofA
Great. Thank you.

Operator
And your next question comes from the line of Lauren McNichol with Citigroup Global Markets. Your line is open. Please go ahead.

Victor Coleman, Chairman & CEO
Lauren, are you there?

Operator
Lauren, [Operator instructions]

Victor Coleman, Chairman & CEO
All right. We'll come back to Lauren. Let's move on to John.

Operator

Your next question comes from the line of John Kim with BMO Capital Markets. Your line is open. Please go ahead.

John Kim, BMO
Okay. I pressed the button. I wanted your thoughts on Mayor Mamdani. No. I'm just joking. In Seattle, there was a mayoral race with a socialist frontrunner similar to what we had in New York but I was wondering if you believe that has impacted leasing decisions or any economic decisions in Seattle over the last couple of months?

Victor Coleman, Chairman & CEO
Listen, I'm getting live updates, John, right now as we speak. And as of the last, there's going to be a poll drop, I think at 11 AM this morning. But I think if it was a 54/46 in favor of Bruce and so and it looks like it's the City Council's going to be 6-3 still as a firm hold. I think we're going to see – it was an amazingly low turnout I think historically low turnout in Seattle, so we're going to see what the impact is at the end of the day. Clearly, you know where our position is on that. At the end of the day, Seattle, the shift on this potentially could be impactful only because, not based on the politics, just based on the background of the potential new mayor if she gets elected. I mean she has no background in terms of running any governmental agency or any history of that. And so I think the process in Seattle could be slowed. But let's hope that Bruce gets in and we'll know that in the next couple of days.

John Kim, BMO
Fingers-crossed. Okay. Second question is on your economic and leased occupancy. They both trended in the right direction this quarter. But it seems like you've walked back from the target that you mentioned last quarter of high 70s, low 80s by year-end. I was wondering if that was still on the table? And as part of that, if there's any update on 1455 market since that seems to be a pretty big needle-mover?

Victor Coleman, Chairman & CEO
So I'll start on that because it was – I think if you recall, I said leased, I specifically said leased and I said sometime by year-end or first quarter and I know you like to hold us to specific correlated numbers. The trajectory is there, whether it gets there by December 31 or it gets there by March 1, it's there. And so I wouldn't worry about is it's immediate and impactful on a moment in time.

And so specific to 1455, negotiations are moving along at the pace that we are very happy with but it is a city entity and the process will take time. But I believe our team is extremely confident that that deal will get done in a matter of time. That being said, as you heard by our prepared remarks and by what you've seen with our pipeline, we're very comfortable with our renewalability for the remainder of 2025 and all of 2026 and the percentages around that and the new tenant absorption and the activity around that, we're very comfortable with that as well.

Mark, do you want to jump in?

Mark Lammas, President
No. I think you've summed it up.

John Kim, BMO
1455?

Victor Coleman, Chairman & CEO
Yeah. That's right. I said – I was talking about the city. That's what I was referring.

John Kim, BMO
Oh! Okay. Okay. Got it.

Victor Coleman, Chairman & CEO

Yeah. Yeah.

John Kim, BMO
Thanks you.

Victor Coleman, Chairman & CEO
Thanks, John.

Operator
Your final question comes from the line of Lauren McNichol with Citigroup Global Markets. Your line is open. Please go ahead.

Seth Bergey, Citigroup
Hi. This is Seth Bergey. Is the line unmuted?

Victor Coleman, Chairman & CEO
Yeah. You are. You kicked Laura – Lauren out?

Seth Bergey, Citigroup
No. She's here with me. I guess my first question is on the 4Q guide, $0.01 to $0.05. At this point in November, kind of what gets you to the low and high end of the range?

Harout Diramerian, CFO
Hey, Seth / Lauren. It's I think we – in my prepared remarks, I mentioned that the driver at this point is really around the studio business. It is slower activity in the fourth quarter. So if that were to tick up, I think that puts us in the higher end of the range. And if that were to tick down, it would put us in the lower end of range. That's really the biggest driver at this point of the year.

Seth Bergey, Citigroup
Okay. And then I guess just on that, how should we think about the recovery, the shape of the recovery? I think you mentioned some seasonality in the fourth quarter and then they have six months. So is that is that kind of – is six months kind of where you would expect to kind of see the pickup or would you kind of expect to see like a steady increase until that time period?

Mark Lammas, President
Yeah. That's about – that's the right timeframe. The new – the enhanced credit went into effect in July. There was a round of awards right out of the gate, roughly I don't know, 20 something awards. More recently, there were another, I don't know, 40-plus awards for a total of 74. We think and our numbers are pretty good on this that roughly 15% of that's currently in production. So there is squarely a lag between the amount of shows that have been awarded and those that are under production. So that should hit within that 180-day timeframe from the two different awards starting in July.

Seth Bergey, Citigroup
Okay great. And if I could ask just one more. I believe, on the last call, you kind of mentioned there are some – a pickup in tour activity at Washington 1000 and some space requirements that you were kind of engaged with there. Could you just kind of give us an update on that activity?

Victor Coleman, Chairman & CEO
Sure, Seth. You're absolutely right. But this tour activity we talked about last quarter has increased even more based on the demand drivers, the positive demand drivers we're seeing in Seattle. Tour activity increased 171,000 square feet quarter-over-quarter, which is to say it went from 200,000 feet to 371,000 square feet. We're currently in some form of a negotiation with four tenants with requirements of 50,000 square feet or more and two of them are in later stages. So

we feel really good about that. And as the competitive landscape continues to improve in Seattle, we feel that we're even better positioned now than we ever have been.

Seth Bergey, Citigroup
Great. Thanks.

Operator
There are no further questions at this time. I will now turn the call back to Victor Coleman, Chief Executive Officer and Chairman for closing remarks.

Victor Coleman, Chairman & CEO
Thank you again for participating in our third quarter call and we look forward to giving you updates as we go. We'll speak to you after the New Year hopefully.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.