Hudson Pacific Properties, Inc.
Q2 2026 Earnings Conference Call
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Corporate Participants:

Laura Campbell *Executive Vice President – Investor Relations & Marketing*
Victor Coleman *Chairman & Chief Executive Officer*
Mark Lammas *President*
Harout Diramerian *Chief Financial Officer*
Arthur Suazo *Executive Vice President – Leasing*

Other Participants:

James Feldman *Analyst, Wells Fargo*
Jana Galan *Analyst, BofA*
Alexander Goldfarb *Analyst, Piper Sandler*
Caitlin Burrows *Analyst, Goldman Sachs*
Dylan Burzinski *Analyst, Green Street*
Seth Bergey *Analyst, Citigroup*
John P. Kim *Analyst, BMO*
Ronald Kamdem *Analyst, Morgan Stanley*
Richard Anderson *Analyst, Cantor Fitzgerald*

MANAGEMENT DISCUSSION SECTION

Operator:

Hello, everyone. Thank you for joining us and welcome to the Hudson Pacific Properties Second Quarter 2026 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions] I will now hand the conference over to Laura Campbell, Executive Vice President, Investor Relations & Marketing. Laura, please go ahead.

Laura Campbell
Executive Vice President-Investor Relations & Marketing, Hudson Pacific Properties, Inc.

Good afternoon, everyone. Thanks for joining us. With me on the call today are Victor Coleman, Chairman and CEO; 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 our second quarter results and current market trends, Mark will provide detail on our office and studio operations, and Harout will review our financial results and 2026 outlook. Thereafter, we'll be happy to take your questions. Victor?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Laura. Hello, everyone, and welcome to our second quarter call. This was both a record leasing and highly productive quarter for Hudson Pacific. We signed 1.3 million square feet of new and renewal office leases, headlined by a landmark 891,000 square foot 24-year lease with the city and county of San Francisco at 1455 Market, which locks in nearly a quarter of a century of cash flow visibility. Occupancy increased 470 basis points, our fourth consecutive quarter of gains and improved performance across our office and studio portfolios drove same-store NOI up 7.5%.

Together with continued cost reductions and Quixote restructuring, we nearly tripled core FFO and achieved a 30% increase on a per share basis. We also stayed disciplined on capital, maintaining total liquidity of $876 million while continuing to execute our asset disposition plan. And importantly, as we look ahead, we reloaded our leasing pipeline to 2.4 million square feet. That leasing strength is playing out against a constructive venture and IPO backdrop. US venture investment totaled $145 billion in the second quarter, its second largest and strongest quarter ever with funding broadening beyond large language models into defense tech, AI infrastructure, robotics and space tech.

This all points to a wider, more diverse tenant base rather than a single sector betv, which will benefit our portfolio over time. The IPO market is improving, too, with pending listings signaling further office demand as newly public companies and the ecosystem around them continue to grow. Across nearly every market in our portfolio, demand is broadening along virtually no new construction, and that dynamic is strengthening fundamentals, though at different rates across our markets. San Francisco posted its seventh consecutive quarter of positive absorption and its largest year-over-year rent increase since 2020. We're seeing strength at the submarket levels across the Peninsula and the Valley, led by strong year-to-date positive absorption in Foster City and Redwood City, Redwood Shores, along with multiple headline leases in Santa Clara.

In Los Angeles, our leasing efforts are focused on West Los Angeles, which commands the market's most robust activity and highest rents even as the broader markets remain challenged overall. The Puget Sound extended its recovery for its third consecutive quarter, led by downtown Seattle, which leases came from Anthropic, Docusign and Stripe helped drive the first improvement in CBD vacancy in six years. And Downtown Vancouver continues to stand out on fundamentals, with vacancy just over 12%, the tightest in our portfolio with positive net absorption both for the quarter and year-to-date.

Regarding studios, our prime location studios continue to outperform as the production landscape remains mixed. New York show counts improved, and Los Angeles was relatively stable as California's production pipeline continues to work through a meaningful backlog of tax credit approval projects not yet in production. Importantly, with SAG-AFTRA, WGA and DGA all ratifying new four-year AMPTP agreements, the labor risk that drove much of the industry's recent volatility is now off the table. Our strategy remains unchanged, restructure Quixote while optimizing performance at our best-in-class assets.

Finally, turning to dispositions, we continue to make good progress against our $200 million target, having sold 2001 Gateway after quarter end with three additional Bay Area office assets currently in contract or negotiation alongside our 10950 Washington residential development site. Buyer demand for Bay Area office assets has picked up meaningfully this year, allowing us to execute this program on our timeline and redeploy capital toward our broader strategic priorities.

Now with that, I'm going to turn it over to Mark, who's going to talk about leasing and operations.

Mark Lammas
President, Hudson Pacific Properties, Inc.

Thanks, Victor. As you noted, we signed 1.3 million square feet of office leases in the quarter, 61% new and 39% renewal. On top of the city and county of San Francisco lease for 891,000 square feet, we executed an additional 402,000 square feet of leases, 71% of which were new and 29% renewal. Our occupancy increased 470 basis points sequentially to 82.5%, and our leased rate climbed 440 basis points sequentially to 82.8%. Our portfolio occupancy and leased percentages improved everywhere except the already strong Palo Alto and Vancouver submarkets, both of which ended the quarter effectively 94% leased.

Rent spreads grew 17.2% on a GAAP basis and decreased 11.4% on a cash basis. Excluding the city and county lease, GAAP rents were off 3.3% and cash rents were down 9.9% due primarily to mid-sized deals in Palo Alto rolling off of pre-pandemic peak market rents. However, these rents are still quite healthy at north of $80 per square foot. Net effective rents strengthened this quarter, rising 22% sequentially and 9% year-over-year, benefiting significantly from the city and county lease. Trailing 12-month net effective rents were up 7% sequentially and 1% year-over-year. Tours rose nearly 20% year-over-year. Even with strong second quarter leasing, we reloaded the pipeline to 2.4 million square feet, nearly 70% new leases with an average requirement size north of 20,000 square feet.

Excluding 2001 Gateway, which we sold earlier in the third quarter and 875 Howard, where we now have line of sight on a potential sale, we have just over 50% coverage on approximately 400,000 square feet of leases set to expire through the remainder of the year. This includes 80% coverage on the PayPal lease at Fourth & Traction. At Washington 1000, we now have coverage for approximately 65% of the building, up from 60% last quarter with active negotiations across nine tenants, including requirements of up to 125,000 square feet. We're seeing strong traction on our newly delivered move-in ready suites with eight tenants in the last 30 days touring or scheduling tours. Tour activity building-wide has also increased, driven primarily by new-to-market tech AI and professional services firms.

Turning to studios, we continue to see strong interest from leading showrunners and major studios for our prime production space. Our in-service stages were 74.6% leased during the second quarter, up 180 basis points sequentially, driven by an improved lease rate at Sunset Pier 94, up 40 percentage points to 78.5%. Our Hollywood stages, inclusive of Sunset Las Palmas, remain well leased at 95.5%. As part of our Quixote restructuring, we have designated as non-core with plans to exit its leased soundstage facilities and Atlanta area operations, as well as Quixote's pro supplies and stage ancillary businesses, including lighting and grip.

Going forward, we will speak to our studio NOI on a core basis, which in the second quarter reflects Sunset Studios and Quixote's fleet operations in Los Angeles and New York. Core studio NOI was up $3.1 million sequentially and $7 million year-over-year to $4.6 million with HPP's share turning positive for the first time in two years at 2.2 million. Putting a finer point on the Quixote restructuring to-date, Quixote generated negative cash NOI of $18.6 million in 2024. Since then, our restructuring efforts have improved annualized run rate cash NOI by approximately $14.3 million, bringing the fleet business to just over $4 million of negative annualized cash NOI at current demand levels, closing roughly three quarters of the gap to our breakeven objective.

Turning to value creation optionality across the portfolio, we continue to make progress on our re-entitlement and adaptive reuse, an area where our team's expertise is a real differentiator. At 901 Market in San Francisco, we filed our office for residential re-entitlement application with entitlements expected before year end. We're also advancing construction drawings in parallel so we can quickly move once approved, essentially the same playbook we're running at 10950 Washington. We also recently amended the CC&Rs at Metro Center in Foster City and across our Redwood Shores assets to permit residential use, giving us the flexibility to explore residential and mixed-use development.

This isn't a reaction to soft leasing demand as we're seeing healthy interest in these locations. Rather a proactive step to unlock value by tapping into strong residential demand independent of where the office leasing cycle stands. In short, these entitlement efforts will create development options to enhance our current portfolio value. And now, Harout will take you through our financial results and outlook.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Thanks, Mark. Total revenues were $188.3 million compared to $190 million in the prior year, primarily due to asset dispositions, most significantly, the sale of Element LA almost entirely offset by improved office occupancy. As a result of ongoing cost-saving initiatives, G&A Thanks, Mark. Total revenues were $188.3 million compared to $190 million in the prior year, primarily due to asset dispositions, most significantly, the sale of Element LA almost entirely offset by improved office occupancy. As a result of ongoing cost-saving initiatives, G&A improved 11% to $12 million compared to $13.5 million in the prior year. The latter adjusted to exclude the prior-year expense associated with the onetime cancelation of non-cash compensation agreements. We nearly tripled core FFO to $23.1 million, up from $8 million in the prior year while core FFO on a per diluted share basis increased 30% to $0.35, up from $0.27 in the prior year.

Adjustments to core FFO, including non-core Quixote lines of business totaled $7.5 million or $0.11 per diluted share, compared to $19.2 million or $0.64 per diluted share in the prior year. We grew same-store cash NOI 7.5% to $90.2 million compared to $83.9 million in the prior year, driven by higher office and studio occupancy. Turning to our balance sheet. Total liquidity of $876 million includes $81 million of cash and full availability of $795 million on our credit facility. Interest expense was 20% lower year-over-year, representing $9.7 million of savings. And all of our debt is fixed or capped.

Regarding the Hollywood Media portfolio loan, subsequent to quarter end, the loan transferred to the special servicer ahead of its third quarter maturity. The borrower and the special servicer have since agreed on terms for a longer term extension, along with a 30-day extension to finalize documentation.

Wrapping up our 2026 outlook, we are raising our full-year core FFO to a range of $1.12 to $1.20 per diluted share, up from the prior range of $1.10 to $1.18 per diluted share. This updated range reflects at the midpoint approximately $0.01 of outperformance in the second quarter compared to our initial expectations, as well as approximately $0.01 attributable to improved expectations for the second half of the year. As we have previously noted, even with the first and second quarter outperformance, we anticipate third quarter expirations will impact occupancy and earnings results with a rebound in the fourth quarter. As a reminder, this updated range excludes the previously announced closures of Quixote's stage and Atlanta operations and the associated stage ancillary and pro supply segments from core FFO. And as always, our outlook excludes potential dispositions, acquisitions or capital markets activity. With that, I'll turn the call back to Victor for closing remarks.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Harout. Simply put, the second quarter reflects exactly the execution we said we deliver, record leasing, our fourth consecutive quarter of occupancy growth, a transformative long term agreement with the city and county of San Francisco, and a Quixote restructuring that's now yielding measurable earnings benefits. We still have work ahead of us, but each of these actions reinforces the same outcome, a clear and credible path to sustained FFO per share growth. Operator, now I'd like to turn it back to you for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Jamie Feldman with Wells Fargo. Jamie, your line is open. Please go ahead.

James Feldman
Analyst, Wells Fargo Securities LLC

Great. Thanks for taking the question. I'm sitting in for Blaine today. He's off. But great color on some the market... [indiscernible] yeah, we're back. Don't call it a comeback. I had some line that I was going to use, but I don't know. Couldn't come up with anything good. So, West LA, you're talking about a recovery and then you still have decent upside to get to stabilization in North San Jose, Denny Triangle. Can you just talk more about those markets, but especially West LA, if there's a real inflection point happening or how we should think about what's to come?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Well, I mean, West LA, you guys cover other of our peers. You're seeing, it's a bifurcated marketplace, right? You've got Brentwood and Century City and Beverly Hills doing exceptionally well. I think Westwood and Santa Monica are a little slower. Olympic Corridor is a little slower. But, again, there is zero construction in the near future for new product. And so good space is pretty much leased up or in – spoken for and being expanded upon. And I think you're seeing that momentum potentially drive into some of the other marketplaces like Santa Monica and hopefully in Westwood and overall the West Side. Culver City has been strong all the way through, but there's very little product there. And everything is – that's being built in that marketplace is already pre-leased.

James Feldman
Analyst, Wells Fargo Securities LLC

But I guess more on the demand side, like what's changing?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Well, listen. We've talked about the fire tenants being massively impactful in in West LA. Majority of which is led by law firms. The streaming/entertainment companies have taken sort of homes in specific marketplaces like Apple in Culver, you know, Sony in Culver, Netflix in Hollywood and Amazon spreads for themselves between, obviously, Santa Monica and Culver, Lionsgate in Beverly Hills. And so, entertainment companies, WME, the same are all in those marketplaces and then their ancillary guys are growing. Implications around AI is just not that strong here yet. They're small growth tenants. But I do think it's entertainment and FIRE and that's sort of the nucleus. Harout, do you want to comment on that?

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Yeah. I mean, I think the demand drivers, Jamie, are positive. They're modestly improving. There was an improvement in net absorption, gross leasing was up slightly, things like that that we're monitoring very closely. And that's coming from the small to midsize tenants in the market. As you know, all this talk about West LA improving. West LA has been driving the LA market for several years. And it will continue to do so as the demand drivers continue to increase.

James Feldman
Analyst, Wells Fargo Securities LLC

Okay. And then if I can ask another just the studio loan, can you just talk about how you're including that in guidance or anything you can say about expectations of what that could look like for numbers or how we should be modeling it?

Harout Krikor Diramerian

Chief Financial Officer, Hudson Pacific Properties, Inc.

Yeah. So, we can't get into any specifics because we're still finalizing documentation, but what we can say is in our guidance, we've kept things the same and that is our expectation.

James Feldman
Analyst, Wells Fargo Securities LLC
Okay. So just kept like same interest expense that you've got now?

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Correct.

James Feldman
Analyst, Wells Fargo Securities LLC

Don't change anything?

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Correct.

James Feldman
Analyst, Wells Fargo Securities LLC

Okay. All right. Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Jamie. Welcome back.

James Feldman
Analyst, Wells Fargo Securities LLC

Good to be back.

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

Jana Galan
Analyst, BofA Securities, Inc.

Thank you. Good morning and congrats on the strong office leasing and the improvements at Quixote. I guess maybe first question on the guidance, the main change seems to be the outperformance in second quarter G&A. Are there any other kind of puts and takes that are driving the FFO guidance increase given the strong leasing outlook?

Harout Krikor Diramerian

Chief Financial Officer, Hudson Pacific Properties, Inc.

Hi there. Just around guidance. So yes, our second quarter was very strong, but not that strong compared to our own expectations. We beat our own expectations by about a $0.01. And our projections are higher by about $0.01. So the leasing expectations that we've experienced in the second quarter and the projections are in line with our previous guidance. So nothing's really changed from that expectation, which is why you're not seeing any massive increase in our projections, in our guidance.

Jana Galan
Analyst, BofA Securities, Inc.
Thank you. And then maybe just on the transaction market, given the asset sale post quarter and just a few more that may come, if you can just kind of comment on what you're seeing the kind of demand and depth of buyers like.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Well, as I mentioned in my prepared remarks, I mean, San Francisco has seen an influx of interest levels. And so we have closed one deal, as we mentioned. And we've got three others, two of which are in contract and one is imminently going to be in contract that sort of show indicative interest level of the demand in the marketplace for our asset quality. And we're comfortable with our pricing. I think we've exceeded our expectations in three out of the four assets that we are selling. There is one asset that potentially could be an owner user. And so that pricing is going to be dependent on timeline and occupancy for the owner user. But, overall, the demand drivers right now for the disposition market from our standpoint are very strong.

Jana Galan
Analyst, BofA Securities, Inc.

Great. Thank you, Victor. Thanks, Harout.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks.

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

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Hey. Thank you and good morning out there. Two questions. First, Harout, on the updated guidance, you guys say it excludes the Quixote restructuring, but that would be a positive to guidance, would it not? So if you were to include that, guidance would increase. I just want to make sure I'm thinking about it right.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

No, it would not increase. Just like last quarter and the guidance provided last quarter, we've removed the impact of the Quixote restructuring. So it's not impacting the numbers that we have shared. So just like our core FFO doesn't include that in our results, neither does our guidance.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

But isn't that a drag on earnings? And once that drag is away, like, you're streamlining the portfolio and there's less costs going forward? I understand in between, there's a negative, but wouldn't that be a positive in the interim?

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Alex, you're precisely right. It is a drag. So that is to say, it operates at a loss. So the removal of it improves core FFO, right?

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Okay. Cool.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

So our NAREIT FFO is impacted by it but our core FFO is not.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Okay. Now I'm thinking about it right. Second question is, Art, on Seattle as we think about the interplay between the East Side and CBD, there's – like, we want to get really enthusiastic and say, hey, Seattle could turn quickly and things are going well at the same time, office moves slower than we all think. As we think about the CBD rebound, do you think this is a later this year 2027 event or you think it takes longer than that just based on how office always, as I say, seems to take longer than we'd like?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

Yeah. I mean, the good news is, the word rebound is being used. We're already seeing green shoots, Alex. We've been talking about the Greater Puget Sound, with three quarters of positive absorption. We saw for the first time in six years the CBD this quarter had positive absorption. We're seeing demand drivers continue to increase across downtown Seattle. And specific to our portfolio, specific to our pipeline, Seattle for the last two quarters has the most deals in negotiation than any submarket we have, including the Valley, including San Francisco.

And to us, I mean, that's a tremendous sign of what's to come. And it's really being driven by not just the larger tenants that have come back in the market that we've talked about the last two or three quarters. It's really the 10,000 to 30,000 square foot tenants and the expansion of those tenants in the market, which by the way is predominantly driven by growth in the professional service firms, the FIRE sector and governmental firms that are there. So we're seeing it real time. And it's demonstrated by the fact that this last quarter, there were three larger deals done in downtown Seattle. Again, that demonstrates that the larger tenant demand is broadening beyond just Bellevue as people have thought before.

Alexander Goldfarb

Analyst, Piper Sandler & Co.

Okay. Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Alex.

Operator: Your next question comes from the line of Caitlin Burrows with Goldman Sachs. Caitlin, your line is open. Please go ahead.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Hi. Just to follow up then on Seattle, wondering if you can talk about how, what you're seeing in the Seattle market is or is not impacting activity at Washington 1000 and kind of leasing potential there.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Hi. Yeah. No, it absolutely is. In fact, we're seeing, as I mentioned to Alex, we have more activity in our pipeline, which is active deals in negotiation in Seattle than any other market. It's over 600,000 square feet for the market. Washington 1000, we talked about nine deals we have in negotiation, represents over half of that, so 300,000, about 350,000 square feet of deals in different stages that have been impacted. And we feel like we've had more momentum than we ever had even as we speak kind of the last 30 days, tour activity has increased. Kind of in the dead of summer, tour activity has increased tremendously.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Okay. Got it. And then just on the maybe same-store NOI side, it looks like guidance suggests a deceleration in the second half. I think you guys mentioned earlier that there could be like lease expirations or low retention in the second half. So wondering if you could talk about that a little bit and the expectation for yeah, I guess, like occupancy in the back half.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.
Sure. As far as the guidance goes, what I basically said, not the second half but primarily the third quarter. We have two large expirations that are impacting our numbers in the third quarter that we've previously spoken about. This is not the first time we brought it up and we expect a rebound again in the fourth quarter.

Mark Lammas
President, Hudson Pacific Properties, Inc.

Let me answer on the occupancy question, if you're waiting on that answer. We've maintained that midpoint, that 81%, when we initially launched that guidance, we had indicated that if you kind of run the math from the beginning to the end of the year, it suggests that we should end the year towards the mid – kind of mid 80-ish range. And that remains intact.

Caitlin Burrows
Analyst, Goldman Sachs & Co. LLC

Okay. Thank you.

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

Dylan Robert Burzinski
Analyst, Green Street Advisors LLC

Hi, guys. Thanks for taking the question. Just maybe continuing with that mid 80% occupancy year end and maybe looking at sort of the 2.4 million square foot leasing pipeline, is there any sort of large leases that are needed or required to hit that mid 80% occupancy range? And then maybe just sort of diving into that 2.4 million square feet a little bit more, you mentioned average size of over 20,000 square foot, but are there any sort of leases or potential leases that are well over that 100,000 square foot range?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Hey, Dylan. So, yeah, we have a series of leases that are the average size that we're talking about. And that's the majority of the portfolio. There are a couple of deals that are multi-tenant floors and leases that are that are large, but we're still banking on our bread and butter, which is the 20,000 to 30,000 footers that are out there right now. And that seems to be the consistent aspect of where our properties are lined up. Not to say, as Art had mentioned, in Seattle as an example, I mean, there have been now a handful of deals either closed or about to close over 100,000 feet. And I think there's more for sure in that marketplace behind it. There is clearly more in the city that are larger tenants. Specific to our portfolio, we do have our fair share. But what we're really talking about on the 2.4 million square feet is the average size tenants, 20,000 to 30,000-footers.

Dylan Robert Burzinski
Analyst, Green Street Advisors LLC

Okay. That's helpful. And then maybe just touching on sort of capital markets obviously mentioned confidence in hitting that $200 million target this year. But as you sort of think about beyond 2026, I mean, is there any desire to sort of continue bringing assets to market to potentially help deleverage the balance sheet, given the strength that you've seen in capital markets? And hopefully that continues.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

So, Dylan, as you know, you've covered us for a long time. We've increased our optionality for the ability for us to lower our debt metrics and the likes of that. And that will continue, working on these dispositions right now, confident that they're all going to go through and we're going to exceed that $200 million number that we talked about at the beginning of the year. We have other options that are out there with assets that could either be put in the marketplace, given the activity in the market or we have options on refinancing certain assets or just financing assets that are unencumbered as well. So and we have got other alternatives. The nice thing is, is we do have some time. We're acutely aware of what our needs are and what the demand market is at the end of the day. And I think we're comfortable with our ability to execute on all fronts.

Dylan Robert Burzinski

Analyst, Green Street Advisors LLC

Great. Thanks, Victor.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

See you, buddy.

Operator: Your next question comes from the line of Seth Bergey with Citi. Seth, your line is open. Please go ahead.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Hey. Thanks for taking my question. I guess just to start, you kind of touched on the increased activity with the transaction market just – and the depth of the buyer pool. But just what type of money is out there that's interested in office product? Is it core money, is it opportunistic money? And just how are you seeing that kind of evolve?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

So I think there's three buckets, Seth, you're looking at. I mean, there is a revamped core money that is out there. That is looking for the high end, high quality. It was more driven around vault and it's still sort of sort of relies on that aspect. I mean, the opportunistic dollars are absolutely at the forefront for office looking for value add, which is usually lease up or repositioning. And then you still have your owner user dollars that are out there that we've seen a fair amount that is either owner user for an occupancy standpoint or conversion standpoint. We did comment in our prepared remarks we have some options on some assets just like we did at 10950. It's not been our core game plan to convert assets to residential, but we are in the process of a couple of assets in the portfolio right now that we're entitling and the activity is very strong on that as well, given the demand for residential.

So I think there are three buckets. They're consistent. I believe that the trade dollars, we haven't seen much of trade dollars, albeit we did do a deal with the 1031 exchange just recently. That was our most recent deal. So the markets are pretty much even across the board for activity and interest levels.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Great. Thanks. And then just maybe as leasing activity continues to accelerate, are you seeing any changes in kind of the timing of the conversion from when tenants are touring assets to signing leases?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

I mean, I think at the end of the day, it's competitive driven, right? So high quality stuff. If there's one or two tenants looking at it, the decisions are being made quicker. Brokers are more aware. I will let Art comment but – and Ken's in the room as well for the Bay Area. But I think what you're finding now is high-quality space is getting grabbed quickly. And as a result of that, the tenant is only looking at – when they had maybe four or five options that were clear and identified. Now, if it's one or two, they're moving quicker on one and two versus, hey, I have four different options. I can take my time.

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

Yeah, no question. It's demand driven. We're seeing in the markets where actually we are well-leased, 94% in Palo Alto and Vancouver and so forth, West LA. I mean, decisions have to be made quicker by necessity. And so as you start to see that pendulum swing on leverage, dare I say leverage, you're going to get a truncated deal cycle time. And we're certainly seeing more and more of that.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Let's not mistaken this to be a landlord's market, though, I want to make sure we're clear.

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

Yeah. That's what I said dare I say.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.
Doors are always open for us to make deals.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Great. Thank you, guys.

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

John P. Kim
Analyst, BMO Capital Markets Corp.

Thank you. I wanted to ask for more color on your 2.4 million square feet leasing pipeline. I think last quarter you gave some information on how much of that was tech versus AI. So if you could provide some of that. And how much of the pipeline will be addressing either near-term expirations or currently vacant space.

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

Hey, John, it's Art. Yeah. So first of all, we grew the pipeline, right? We were about 2.3 million square feet. Even after the large quarter, the team's done an excellent job of increasing the number. It's interesting, over the last 12 to 18 months, there's been a lot of attention paid to, for good reason, to tech and the AI ecosystem. But what we're finding now in our active deals in negotiation pipeline, is it's evenly distributed. It's about 50/50 AI systems/tech versus non-tech which is professional service firms, FIRE sector and now kind of governmental agencies taking more space. And so we have a broader depth of tenants that are looking for space, which is great and they're all, not just the tech and the AI ecosystem, they're all looking for some level of expansion down the road. So we feel even better than we did before this last quarter.

John P. Kim

Analyst, BMO Capital Markets Corp.

And how much of it is new versus renewal?

Arthur X. Suazo
Executive Vice President-Leasing, Hudson Pacific Properties, Inc.

Right now in our active pipeline, 70/30, 70 new, 30 renewal.

John P. Kim
Analyst, BMO Capital Markets Corp.

Okay. And now that your Hollywood media CMBS has gotten a short term extension, but it's in special servicing, is your expectation that this will ultimately be refinanced or is it a possibility that you would walk away from these assets? Assuming it's the former, do you expect a pay down as part of that extension, or do you expect pricing to change even though it's not officially in your guidance?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

So, John, I want to be clear, we've commented on it. We're not going to talk about what's the pay down. We're not going to talk about the terms until they're finalized. Okay? Your assumption is that – which is wrong, it's a short term extension. But that's your assumption. Okay. So I want to just make sure you're clear on that. In terms of us walking away from the assets or dealing with the refinancing, we'll address that publicly when we get the renewal completed.

John P. Kim
Analyst, BMO Capital Markets Corp.

So if it's not short term, how long is the extension for?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

John, as I said, you'll get full terms and conditions on the extension when we announce it. You're not going to get it in advance of anybody else.

John P. Kim
Analyst, BMO Capital Markets Corp.

Okay. Thank you.

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

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Great. Thanks so much. Just commentary just on an AFFO, obviously, a lot of the leasing has come through nicely. How do you guys think about the CapEx trailing off and sort of the prospects for that AFFO to start kicking into gear as well? Thanks.

Harout Krikor Diramerian
Chief Financial Officer, Hudson Pacific Properties, Inc.

Sure. Hey there, Ron. So the AFFO, I think we previously stated this that we're still working through the leasing spend. There's a lot of leasing that Art had mentioned that's still coming. The spend usually comes in a little later than we've experienced in the past. So we expect AFFO to be up and down over the next few quarters until all the spend is happening and the cash flow starts coming through from all those leasing. So even though we've done a lot of good leasing, there's still some CapEx to be spent and that leasing still hasn't generated cash flow yet, full cash flow.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Helpful. And then just on the studio recovery and so forth, now that obviously the Quixote services in Atlanta is out, how do you guys think about sort of the ramp and the ultimate sort of NOI opportunity now with that studio business? Any color there would be helpful. Thank you.

Mark Lammas
President, Hudson Pacific Properties, Inc.

Yeah, I mean, maybe just to make sure our expectations are in line. Our first goal is to get this thing to breakeven. And if you look at our results, and I assume you're talking about the Quixote business, because that's really where the opportunity sits. If you look at our second quarter results, you'll see that we're now generating somewhere in the neighborhood of, call it, negative $4 million annualized cash NOI. That is with a backdrop of about 70 shows.

We think we've through all of that cost cutting efforts, we've managed to lower the threshold to get to break even in terms of show count. So if shows can improve very, very modestly, say from the current 70 level to 80, we think we're at breakeven. When we started the cost cutting endeavor, shows were around 90. Had they stuck to at that level we would be in positive territory already, which is to say if we were at 90 shows, we should be running at like a positive $4 million or $5 million, we think, of positive NOI and cash for Quixote.

We're not trying to project where we think show counts are trending. We are just going to continue to focus on costs. We're going to continue to reach for that breakeven point. We think we're getting increasingly close to that as the numbers show. And we'll see where things go from there. Right now we're in summer. Summer is a historically slow period. We'll see if shows pick up as we get closer to fall. And hopefully if they do, we'll start to see positive NOI in Quixote.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Thank you.

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

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

Hey, thanks. So I'm going to draft of that last question for you, Mark. Do you still approach the Quixote unwind as if it's 70 shows you're not counting on 80 or 90. And so the process continues. I just want to make sure I understand that.

Mark Lammas
President, Hudson Pacific Properties, Inc.

That's right. I mean, we – or maybe to put an even finer point on it, if you look at our guidance, we are assuming no improvement in show count.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

Okay. That's what I figured. I just want to confirm. Now, what does the Quixote platform look like as a long-term hold in terms of lease stages and so on, like, where and what should we expect to be the sort of the ultimate landing point?

Mark Lammas
President, Hudson Pacific Properties, Inc.

Well, once the announced wind downs are done, it will consist of a fleet of various types of vehicles of about a little bit more than 1,000 vehicles, largely located in Los Angeles with some in New York. That will be the remaining going concern, if you will. Victor can comment on where we go from there, because the first priority is to get that wind down done and give ourselves a chance at profitability. And then where we go from there, I think we'll have to explore.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Yeah. And Rich, just in line with that, let's not let the numbers get skewed a little bit here or there. We still have market share in the range of 70% in that business. So it's not that we're servicing just our portfolio, we're servicing the industry itself. And so as the industry evolves and if it lays out to where it is right now, which we underwrote it at, as Mark said, we'll breakeven relatively shortly. If it ends up expanding, then there's options for us to look at that industry in that business around Quixote and look at our alternatives.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

But it's a fleet business at the end of the day, would you be out of the leased studios as well entirely.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Yeah. That's the goal.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

Okay.

Mark Lammas
President, Hudson Pacific Properties, Inc.

On the Quixote side.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

On the Quixote side.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

On the Quixote side. Yeah. Understood. And so then my last question is, that's a nice change from $18.6 million loss in 2024 to $4 million currently run rate today. Would you describe yourself as ahead of the game versus when you started to talk about the unwind process?

Mark Lammas
President, Hudson Pacific Properties, Inc.

I would in that even as we've lost demand and that is to say, show counts have gone down over the timeframe that we've been cutting cost. The fact that we are approaching breakeven even in that kind of declining demand environment, I think is a good indicator that our plan is working and – because we would be in positive territory as I indicated, had demand held up.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

Okay. And then just real quickly, will the studio side of Quixote, will that extend into 2027 in terms of the unwind, I mean, yearend this year, will you still be in some studios? Again, I apologize for...

Mark Lammas
President, Hudson Pacific Properties, Inc.

Well, we're in the process. We've got – call it, we started with 10 leases, mostly stage leases. We're out of five of them and we are in negotiation on the remaining five.

Richard Anderson
Analyst, Cantor Fitzgerald & Co.

Okay. All right. Great. Thanks for the color.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks, Rich.

Operator: Your final question comes from Jamie Feldman with Wells Fargo. Jamie, your line is open. Please go ahead.

James Feldman
Analyst, Wells Fargo Securities LLC

Great. Thanks for taking the follow up. So I guess just sticking with the studios, can you just talk about the potential show pipeline, I think you had commented on now that there's more stability or visibility on labor, maybe you feel better about what's out there. Can you just give us more color of what you think could come to the studios?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

I mean, Jamie, listen, as Mark said, it is a quiet time right now. I think the labor comment is absolutely apparent that there are no foreseeable hurdles on that basis. As we're seeing, New York has picked up dramatically. So it's taken some business away from Los Angeles. Our core portfolio is performing extremely well and very well leased in terms of what we own. The show counts have been varied. And I think candidly, the state credits have been disappointing in that they haven't really expedited a lot of filming. We'll have to see what happens in fall.

There is banter around some federal aid on that basis. And we're in the middle of it as we said. So we'll see what happens on that side. Los Angeles isn't going anywhere from a production standpoint. And what we have seen is the other ancillary markets are in a much worse situation in Atlanta, New Orleans, Michigan, Toronto. I mean, the three core markets really that have held up are New York, Los Angeles and Vancouver. So by fall and when we get through what we're working on right now and seeing the new shows that are launched in fall, I think we'll have a clearer picture of where those numbers are going to shake out on a consistent basis.

James Feldman
Analyst, Wells Fargo Securities LLC

Okay. And is there anything you can say about Netflix or the Netflix fleet or is that offline?

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

All we can say is that our relationship and conversations are completely ongoing to the contrary of what other people are talking about.

James Feldman
Analyst, Wells Fargo Securities LLC

Okay. All right. Great. Thank you.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

Thanks.

Victor J. Coleman
Chairman & Chief Executive Officer, Hudson Pacific Properties, Inc.

With that, I'd like to thank everybody for participating in this quarter's call, and we look forward to updating you through the next quarter and speaking next quarter. Thank you.

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