Hudson Pacific Properties, Inc.
Form 10-Q
May 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______
Commission File Number: 001-34789

Hudson Pacific Properties, Inc.
Hudson Pacific Properties, L.P.
(Exact name of registrant as specified in its charter)

Hudson Pacific Properties, Inc.	Maryland (State or other jurisdiction of incorporation or organization)	27-1430478 (I.R.S. Employer Identification Number)
Hudson Pacific Properties, L.P.	Maryland (State or other jurisdiction of incorporation or organization)	80-0579682 (I.R.S. Employer Identification Number)

11601 Wilshire Blvd., Ninth Floor
Los Angeles, California 90025
(Address of principal executive offices) (Zip Code)
(310) 445-5700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and
former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Hudson Pacific Properties, Inc. Yes x No o Hudson Pacific Properties, L.P. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Hudson Pacific Properties, Inc. Yes x No o Hudson Pacific Properties, L.P. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Hudson Pacific Properties, Inc.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Hudson Pacific Properties, L.P.
Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Hudson Pacific Properties, Inc. Yes o No x Hudson Pacific Properties, L.P. Yes o No x

The number of shares of common stock outstanding at May 1, 2016 was 90,008,521.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the three months ended March 31, 2016 of Hudson Pacific Properties, Inc., a Maryland corporation, and Hudson Pacific Properties, L.P., a Maryland limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” or “our Company” refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

Hudson Pacific Properties, Inc. is a real estate investment trust, or REIT, and the sole general partner of our operating partnership. As of March 31, 2016, Hudson Pacific Properties, Inc. owned approximately 61.5% of the outstanding common units of partnership interest (including unvested restricted units) in our operating partnership, or common units. The remaining approximately 38.5% of outstanding common units are owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors, including funds affiliated with The Blackstone Group L.P. (“Blackstone”) and Farallon Capital Management, LLC. As the sole general partner of our operating partnership, Hudson Pacific Properties, Inc. has the full, exclusive and complete responsibility for our operating partnership’s day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of Hudson Pacific Properties, Inc. and the operating partnership into this single report results in the following benefits:

- enhancing investors’ understanding of our Company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation because a substantial portion of the disclosure applies to both our Company and our operating partnership; and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between our Company and our operating partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between our Company and our operating partnership in the context of how we operate as an interrelated, consolidated company. Hudson Pacific Properties, Inc. is a REIT, the only material assets of which are the units of partnership interest in our operating partnership. As a result, Hudson Pacific Properties, Inc. does not conduct business itself, other than acting as the sole general partner of our operating partnership, issuing equity from time to time and guaranteeing certain debt of our operating partnership. Hudson Pacific Properties, Inc. itself does not issue any indebtedness but guarantees some of the debt of our operating partnership. Our operating partnership, which is structured as a partnership with no publicly traded equity, holds substantially all of the assets of our Company and conducts substantially all of our business. Except for net proceeds from equity issuances by Hudson Pacific Properties, Inc., which are generally contributed to our operating partnership in exchange for units of partnership interest in our operating partnership, our operating partnership generates the capital required by our Company’s business through its operations, its incurrence of indebtedness or through the issuance of units of partnership interest in our operating partnership.

The presentation of non-controlling interest, stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of our Company and those of our operating partnership. The common units in our operating partnership are accounted for as partners’ capital in our operating partnership’s consolidated financial statements and, to the extent not held by our Company, as non-controlling interest in our Company’s consolidated financial statements. The differences between stockholders’ equity, partners’ capital and non-controlling interest result from the differences in the equity issued by our Company and our operating partnership.

To help investors understand the significant differences between our Company and our operating partnership, this report presents the consolidated financial statements separately for our Company and our operating partnership. All other sections of this report, including “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk,” are presented together for our Company and our operating partnership.

In order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that Hudson Pacific Properties, Inc. and our operating partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, or the Exchange Act and 18 U.S.C. §1350, this report also includes separate “Item 4. Controls and Procedures” sections and separate Exhibit 31 and 32 certifications for each of Hudson Pacific Properties, Inc. and our operating partnership.

Hudson Pacific Properties, Inc.
Hudson Pacific Properties, L.P.
FORM 10-Q
March 31, 2016
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PART I—FINANCIAL INFORMATION

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
REAL ESTATE ASSETS		
Land	$1,274,600	$1,274,600
Building and improvements	4,008,819	3,956,638
Tenant improvements	297,255	293,130
Furniture and fixtures	4,397	9,586
Property under development	203,387	218,438
Total real estate held for investment	5,788,458	5,752,392
Accumulated depreciation and amortization	(302,835)	(269,074)
Investment in real estate, net	5,485,623	5,483,318
Cash and cash equivalents	57,367	53,551
Restricted cash	20,011	18,010
Accounts receivable, net	16,600	21,159
Notes receivable, net	28,788	28,684
Straight-line rent receivables, net	65,294	59,636
Deferred leasing costs and lease intangible assets, net	311,846	318,031
Derivative assets	—	2,061
Goodwill	8,754	8,754
Prepaid expenses and other assets, net	27,401	27,292
Assets associated with real estate held for sale	17,435	233,539
TOTAL ASSETS	$6,039,119	$6,254,035
LIABILITIES AND EQUITY		
Notes payable, net	$2,080,005	$2,260,716
Accounts payable and accrued liabilities	97,964	84,304
Lease intangible liabilities, net	86,614	95,208
Security deposits	22,364	21,302
Prepaid rent	32,972	38,245
Derivative liabilities	17,664	2,010
Liabilities associated with real estate held for sale	262	13,036
TOTAL LIABILITIES	2,337,845	2,514,821
6.25% series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
EQUITY		
Hudson Pacific Properties, Inc. stockholders' equity:		
Common stock, $0.01 par value, 490,000,000 authorized, 89,242,183 shares and 89,153,780 shares outstanding at March 31, 2016 and December 31, 2015, respectively	892	891
Additional paid-in capital	1,693,930	1,710,979
Accumulated other comprehensive loss	(10,568)	(1,081)
Accumulated deficit	(42,505)	(44,955)
Total Hudson Pacific Properties, Inc. stockholders' equity	1,641,749	1,665,834
Non-controlling interest—members in consolidated entities	264,347	262,625

Non-controlling common units in the operating partnership	1,785,001	1,800,578
TOTAL EQUITY	3,691,097	3,729,037
TOTAL LIABILITIES AND EQUITY	$6,039,119	$6,254,035

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share data)

	Three Months Ended March 31, 2016		2015	
Revenues				
Office				
Rental	$ 116,227		$ 41,576	
Tenant recoveries	20,533		6,064	
Parking and other	5,532		5,295	
Total office revenues	142,292		52,935	
Media & Entertainment				
Rental	6,028		5,467	
Tenant recoveries	199		240	
Other property-related revenue	4,969		4,109	
Other	49		73	
Total Media & Entertainment revenues	11,245		9,889	
Total revenues	153,537		62,824	
Operating expenses				
Office operating expenses	47,703		17,135	
Media & Entertainment operating expenses	5,952		6,005	
General and administrative	12,503		9,200	
Depreciation and amortization	68,368		17,158	
Total operating expenses	134,526		49,498	
Income from operations	19,011		13,326	
Other expense (income)				
Interest expense	17,251		5,493	
Interest income	(13	)	(53	)
Unrealized loss on ineffective portion of derivative instruments	2,125		—	
Acquisition-related expenses	—		6,044	
Other expense (income)	24		(41	)
Total other expenses	19,387		11,443	
(Loss) income before gain on sale of real estate	(376	)	1,883	
Gain on sale of real estate	6,352		22,691	
Net income	5,976		24,574	
Net income attributable to preferred stock and units	(159	)	(3,195	)
Net income attributable to restricted shares	(197	)	(70	)
	(1,945	)	(1,502	)

Net income attributable to non-controlling interest in consolidated real estate entities		
Net income attributable to common units in the operating partnership	(1,422)	(596)
Net income attributable to Hudson Pacific Properties, Inc. common stockholders	$ 2,253	$ 19,211
Basic and diluted per share amounts:		
Net income attributable to common stockholders' per share—basic	$ 0.03	$ 0.25
Net income attributable to common stockholders' per share—diluted	$ 0.03	$ 0.25
Weighted average shares of common stock outstanding—basic	89,190,803	76,783,351
Weighted average shares of common stock outstanding—diluted	89,597,803	77,330,351
Dividends declared per share of common stock	$ 0.200	$ 0.125

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	$5,976	$24,574
Other comprehensive (loss) cash flow hedge adjustment	(15,475)	(625)
Comprehensive (loss) income	(9,499)	23,949
Comprehensive income attributable to preferred stock and units	(159)	(3,195)
Comprehensive income attributable to restricted shares	(197)	(70)
Comprehensive income attributable to non-controlling interest in consolidated real estate entities	(1,945)	(1,502)
Comprehensive loss (income) attributable to common units in the operating partnership	4,566	(577)
Comprehensive (loss) income attributable to Hudson Pacific Properties, Inc. common stockholders	$(7,234)	$18,605

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in thousands, except share data)

	Hudson Pacific Properties, Inc. Stockholders' Equity									
	Shares of Common Stock	Stock Amount	Series B Cumulative Redeemable Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests — Common units in the Operating Partnership	Non-controlling Interests — Members in Consolidated Entities	Total Equity	Non-controlling Interests – Series A Cumulative Redeemable Preferred Units
Balance at January 1, 2015	66,797,816	$668	$145,000	$1,070,833	$(34,884)	$(2,443)	$52,851	$42,990	$1,275,015	$10,177
Contributions	—	—	—	—	—	—	—	217,795	217,795	—
Distributions	—	—	—	—	—	—	—	(2,013)	(2,013)	—
Proceeds from sale of common stock, net of underwriters' discount	12,650,000	127	—	385,462	—	—	—	—	385,589	—
Common stock issuance transaction costs	—	—	—	(4,969)	—	—	—	—	(4,969)	—
Redemption of Series B Preferred Stock	—	—	(145,000)	—	—	—	—	—	(145,000)	—
Issuance of common units for acquisition properties	—	—	—	—	—	—	1,814,936	—	1,814,936	—
Issuance of unrestricted stock	8,820,482	87	—	285,358	—	—	—	—	285,445	—
Issuance of restricted stock	36,223	—	—	—	—	—	—	—	—	—
Shares withheld to satisfy minimum tax withholding	(85,469)	—	—	(5,128)	—	—	—	—	(5,128)	—
Declared dividend	—	—	(11,469)	(50,244)	—	—	(25,631)	—	(87,344)	(636)
Amortization of stock-based compensation	—	—	—	8,832	—	—	—	—	8,832	—
Net income (loss)	—	—	11,469	—	(10,071)	—	(21,969)	3,853	(16,718)	636
Cash flow hedge adjustment	—	—	—	—	—	1,362	1,235	—	2,597	—

Exchange of Non-controlling Interests — Common units in the operating partnership for common stock	934,728	9	—	20,835	—	—	(20,844)	—	—	—
Balance at December 31, 2015	89,153,780	$891	$—	$1,710,979	$(44,955)	$(1,081)	$1,800,578	$262,625	$3,729,037	$10,177
Contributions	—	—	—	—	—	—	—	103	103	—
Distributions	—	—	—	—	—	—	—	(326)	(326)	—
Transaction related costs	—	—	—	—	—	—	—	—	—	—
Issuance of unrestricted stock	156,697	2	—	—	—	—	—	—	2	—
Shares withheld to satisfy minimum tax withholding	(68,294)	(1)	—	(1,682)	—	—	—	—	(1,683)	—
Declared dividend	—	—	—	(18,535)	—	—	(11,267)	—	(29,802)	(159)
Amortization of stock-based compensation	—	—	—	3,168	—	—	256	—	3,424	—
Net income	—	—	—	—	2,450	—	1,422	1,945	5,817	159
Cash flow hedge adjustment	—	—	—	—	—	(9,487)	(5,988)	—	(15,475)	—
Balance at March 31, 2016	89,242,183	$892	$—	$1,693,930	$(42,505)	$(10,568)	$1,785,001	$264,347	$3,691,097	$10,177

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$5,976	$24,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,368	17,158
Amortization of deferred financing costs and loan premium, net	871	508
Amortization of stock-based compensation	3,342	2,149
Straight-line rents	(5,658)	(3,464)
Straight-line expenses	529	—
Amortization of above- and below-market leases, net	(4,851)	(1,444)
Amortization of above- and below-market ground lease, net	535	62
Amortization of lease incentive costs	328	138
Bad debt expense (recovery)	537	(44)
Amortization of discount and net origination fees on purchased and originated loans	(104)	(104)
Unrealized loss on ineffective portion of derivative instruments	2,125	—
Gain from sale of real estate	(6,352)	(22,691)
Change in operating assets and liabilities:		
Restricted cash	(2,001)	177
Accounts receivable	4,412	2,960
Deferred leasing costs and lease intangibles	(5,420)	(1,900)
Prepaid expenses and other assets	(935)	(5,535)
Accounts payable and accrued liabilities	3,084	13,445
Security deposits	430	(404)
Prepaid rent	(6,319)	1,540
Net cash provided by operating activities	58,897	27,125
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(54,415)	(30,635)
Proceeds from sale of real estate	212,629	88,316
Deposits for property acquisitions	—	(261,648)
Net cash provided by (used for) investing activities	158,214	(203,967)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from notes payable	30,000	319
Payments of notes payable	(210,906)	(173,200)
Proceeds from issuance of common stock	—	385,572
Common stock issuance transaction costs	—	(5,050)
Dividends paid to common stock and unitholders	(29,802)	(10,287)
Dividends paid to preferred stock and unitholders	(159)	(3,195)
Contributions by members	103	219,150
Distribution to non-controlling member in consolidated real estate entities	(326)	(933)
Payment to satisfy minimum tax withholding	(1,683)	(1,750)
Payments of loan costs	(522)	(3,647)
Net cash (used for) provided by financing activities	(213,295)	406,979
Net increase in cash and cash equivalents	3,816	230,137

Cash and cash equivalents—beginning of period	53,551	17,753
Cash and cash equivalents—end of period	$57,367	$247,890

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited, in thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of amounts capitalized	$12,101	$7,095
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for investment in property	$6,868	$(7,850)

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
REAL ESTATE ASSETS		
Land	$1,274,600	$1,274,600
Building and improvements	4,008,819	3,956,638
Tenant improvements	297,255	293,130
Furniture and fixtures	4,397	9,586
Property under development	203,387	218,438
Total real estate held for investment	5,788,458	5,752,392
Accumulated depreciation and amortization	(302,835)	(269,074)
Investment in real estate, net	5,485,623	5,483,318
Cash and cash equivalents	57,367	53,551
Restricted cash	20,011	18,010
Accounts receivable, net	16,600	21,159
Notes receivable, net	28,788	28,684
Straight-line rent receivables, net	65,294	59,636
Deferred leasing costs and lease intangible assets, net	311,846	318,030
Derivative assets	—	2,061
Goodwill	8,754	8,754
Prepaid expenses and other assets, net	27,401	27,292
Assets associated with real estate held for sale	17,435	233,539
TOTAL ASSETS	$6,039,119	$6,254,034
LIABILITIES		
Notes payable, net	$2,080,005	$2,260,716
Accounts payable and accrued liabilities	97,964	84,304
Lease intangible liabilities, net	86,614	95,208
Security deposits	22,364	21,302
Prepaid rent	32,972	38,245
Derivative liabilities	17,664	2,010
Liabilities associated with real estate held for sale	262	13,036
TOTAL LIABILITIES	2,337,845	2,514,821
6.25% series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
CAPITAL		
Partners’ capital:		
Common units, 145,538,498 and 145,450,095 issued and outstanding at March 31, 2016 and December 31, 2015, respectively.	3,426,750	3,466,412
Non-controlling interest—members in Consolidated Entities	264,347	262,625
TOTAL CAPITAL	3,691,097	3,729,037
TOTAL LIABILITIES AND CAPITAL	$6,039,119	$6,254,035

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except unit amounts)

	Three Months Ended March 31, 2016	2015
Revenues		
Office		
Rental	$ 116,227	$ 41,576
Tenant recoveries	20,533	6,064
Parking and other	5,532	5,295
Total office revenues	142,292	52,935
Media & Entertainment		
Rental	6,028	5,467
Tenant recoveries	199	240
Other property-related revenue	4,969	4,109
Other	49	73
Total Media & Entertainment revenues	11,245	9,889
Total revenues	153,537	62,824
Operating expenses		
Office operating expenses	47,703	17,135
Media & Entertainment operating expenses	5,952	6,005
General and administrative	12,503	9,200
Depreciation and amortization	68,368	17,158
Total operating expenses	134,526	49,498
Income from operations	19,011	13,326
Other expense (income)		
Interest expense	17,251	5,493
Interest income	(13)	(53)
Unrealized loss on ineffective portion of derivative instruments	2,125	—
Acquisition-related expenses	—	6,044
Other expense (income)	24	(41)
Total other expenses	19,387	11,443
(Loss) income before gain on sale of real estate	(376)	1,883
Gain on sale of real estate	6,352	22,691
Net income	5,976	24,574
Net income attributable to non-controlling interest in consolidated real estate entities	(1,945)	(1,502)
	4,031	23,072

Net income (loss) attributable to Hudson Pacific Properties, L.P.		
Preferred distributions—Series A units	(159)	(159)
Preferred distributions—Series B units	—	(3,036)
Total preferred distributions	(159)	(3,195)
Net income attributable to restricted shares	(197)	(70)
Net income available to common unitholders	$ 3,675	$ 19,807
Basic and diluted per unit amounts:		
Net income attributable to common unitholders per unit—basic	$ 0.03	$ 0.25
Net income attributable to common unitholders per unit—diluted	$ 0.03	$ 0.25
Weighted average shares of common units outstanding—basic	145,487,118	79,165,914
Weighted average shares of common units outstanding—diluted	145,894,118	79,712,914
Dividends declared per unit	$ 0.200	$ 0.125

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	$5,976	$24,574
Other comprehensive (loss) cash flow hedge adjustment	(15,475)	(625)
Comprehensive (loss) income	(9,499)	23,949
Comprehensive income attributable to Series A preferred units	(159)	(159)
Comprehensive income attributable to Series B preferred units	—	(3,036)
Comprehensive income attributable to restricted shares	(197)	(70)
Comprehensive income attributable to non-controlling interest in consolidated real estate entities	(1,945)	(1,502)
Comprehensive (loss) income attributable to Hudson Pacific Properties, L.P. unitholders	$(11,800)	$19,182

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(Unaudited, in thousands, except unit data)

	Partners' Capital						
	Preferred Units	Number of Common Units	Common Units	Total Partners' Capital	Non-controlling Interests — Members in Consolidated Entities	Total Capital	Non-controlling Interests — Series A Cumulative Redeemable Preferred Units
Balance at January 1, 2015	$145,000	69,180,379	$1,087,025	$ 1,232,025	$ 42,990	$1,275,015	$ 10,177
Contributions	—	—	—	—	217,795	217,795	
Distributions	—	—	—	—	(2,013)	(2,013)	—
Proceeds from sale of common units, net of underwriters' discount	—	12,650,000	385,589	385,589	—	385,589	—
Equity offering transaction costs	—	—	(4,969)	(4,969)	—	(4,969)	—
Redemption of Series B Preferred Stock	(145,000)	—	—	(145,000)	—	(145,000)	—
Issuance of unrestricted units	—	63,668,962	2,100,381	2,100,381	—	2,100,381	—
Issuance of restricted units	—	36,223	—	—	—	—	
Units withheld to satisfy minimum tax withholding	—	(85,469)	(5,128)	(5,128)	—	(5,128)	—
Declared distributions	(11,469)	—	(75,875)	(87,344)	—	(87,344)	(636)
Amortization of unit-based compensation	—	—	8,832	8,832	—	8,832	—
Net income	11,469	—	(32,040)	(20,571)	3,853	(16,718)	636
Cash Flow Hedge Adjustment	—	—	2,597	2,597	—	2,597	—
Balance at December 31, 2015	$—	145,450,095	$3,466,412	$ 3,466,412	$ 262,625	$3,729,037	$ 10,177
Contributions	—	—	—	—	103	103	—
Distributions	—	—	—	—	(326)	(326)	—
Equity offering transaction costs	—	—	—	—	—	—	—
Issuance of unrestricted units	—	156,697	2	2	—	2	—
Units withheld to satisfy minimum tax withholding	—	(68,294)	(1,683)	(1,683)	—	(1,683)	—
Declared distributions	—	—	(29,802)	(29,802)	—	(29,802)	(159)
Amortization of unit-based compensation	—	—	3,424	3,424	—	3,424	—
Net income	—	—	3,872	3,872	1,945	5,817	159
Cash Flow Hedge Adjustment	—	—	(15,475)	(15,475)	—	(15,475)	—

Balance at March 31, 2016	$—	145,538,498	$3,426,750	$ 3,426,750	$ 264,347	$3,691,097	$ 10,177

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$5,976	$24,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,368	17,158
Amortization of deferred financing costs and loan premium, net	871	508
Amortization of stock-based compensation	3,342	2,149
Straight-line rents	(5,658)	(3,464)
Straight-line expenses	529	—
Amortization of above- and below-market leases, net	(4,851)	(1,444)
Amortization of above- and below-market ground lease, net	535	62
Amortization of lease incentive costs	328	138
Bad debt expense (recovery)	537	(44)
Amortization of discount and net origination fees on purchased and originated loans	(104)	(104)
Unrealized loss on ineffective portion of derivative instruments	2,125	—
Gain from sale of real estate	(6,352)	(22,691)
Change in operating assets and liabilities:		
Restricted cash	(2,001)	177
Accounts receivable	4,412	2,960
Deferred leasing costs and lease intangibles	(5,420)	(1,900)
Prepaid expenses and other assets	(935)	(5,535)
Accounts payable and accrued liabilities	3,084	13,445
Security deposits	430	(404)
Prepaid rent	(6,319)	1,540
Net cash provided by operating activities	58,897	27,125
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(54,415)	(30,635)
Proceeds from sale of real estate	212,629	88,316
Deposits for property acquisitions	—	(261,648)
Net cash provided by (used for) investing activities	158,214	(203,967)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	30,000	319
Payments of notes payable	(210,906)	(173,200)
Proceeds from issuance of common units	—	385,572
Common units issuance transaction costs	—	(5,050)
Dividends paid to common unitholders	(29,802)	(10,287)
Dividends paid to preferred unitholders	(159)	(3,195)
Contributions by members	103	219,150
Distribution to non-controlling member in consolidated real estate entities	(326)	(933)
Payment to satisfy minimum tax withholding	(1,683)	(1,750)
Payments of loan costs	(522)	(3,647)
Net cash (used for) provided by financing activities	(213,295)	406,979
Net increase in cash and cash equivalents	3,816	230,137

Cash and cash equivalents—beginning of period	53,551	17,753
Cash and cash equivalents—end of period	$57,367	$247,890

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of amounts capitalized	$12,101	$7,095
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for investment in property	$6,868	$(7,850)

The accompanying notes are an integral part of these consolidated financial statements.
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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Consolidated Financial Statements
(Unaudited, tabular amounts in thousands, except square footage, share and unit data)

1. Organization

Hudson Pacific Properties, Inc. is a Maryland corporation formed on November 9, 2009 that did not have any meaningful operating activity until the consummation of its initial public offering and the related acquisition of its predecessor and certain other entities on June 29, 2010 ("IPO"). Since the completion of the IPO, the concurrent private placement, and the related formation transactions, Hudson Pacific Properties, Inc. has been a fully integrated, self-administered, and self-managed real estate investment trust ("REIT"). Through its controlling interest in the operating partnership and its subsidiaries, Hudson Pacific Properties, Inc. owns, manages, leases, acquires and develops real estate, consisting primarily of office and media and entertainment properties. Unless otherwise indicated or unless the context requires otherwise, all references in these financial statements to the "Company" refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to the "our operating partnership" or "the operating partnership" refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

On April 1, 2015, the Company completed the acquisition of the EOP Northern California Portfolio ("EOP Acquisition") from Blackstone Real Estate Partners V and VI ("Blackstone"). The EOP Acquisition consisted of 26 high-quality office assets totaling approximately 8.2 million square feet and two development parcels located throughout the San Francisco Peninsula, Redwood Shores, Palo Alto, Silicon Valley and North San Jose submarkets. The total consideration paid for the EOP Acquisition before certain credits, prorations, and closing costs included a cash payment of $1.75 billion and an aggregate of 63,474,791 shares of common stock of Hudson Pacific Properties, Inc. and common units in the operating partnership.

As of March 31, 2016, the Company owned a portfolio of 53 office properties and two media and entertainment properties. These properties are located in California and the Pacific Northwest.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company and the operating partnership are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented.

The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2016. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. for the year ended December 31, 2015 and the notes thereto.

Certain amounts in the Consolidated Balance Sheets for the prior period related to Patrick Henry Drive have been reclassified to be comparable with the presentation as held for sale as of March 31, 2016.

Principles of Consolidation

The unaudited interim consolidated financial statements of Hudson Pacific Properties, Inc. include the accounts of Hudson Pacific Properties, Inc., the operating partnership and all wholly-owned subsidiaries and variable interest entities (“VIEs”), of which Hudson Pacific Properties, Inc. is the primary beneficiary. The unaudited interim consolidated financial statements of the operating partnership include the accounts of the operating partnership, and all wholly-owned subsidiaries and VIEs of which the operating partnership is the primary beneficiary. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

During the first quarter of 2016, the Company adopted ASU 2015-02, Consolidation (“Topic 810”): Amendments to the Consolidation Analysis, to amend the accounting guidance for consolidation. The standard simplifies the current guidance for consolidation and reduces the number of consolidation models through the elimination of the indefinite deferral of Statement 167. Additionally, the standard places more emphasis on risk of loss when determining a controlling financial interest. The Company consolidates all entities that the Company controls through either majority ownership or voting rights. In addition, the Company consolidates all VIEs of which the Company is considered the primarily beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE’s economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. As a result of the adoption, the Company concluded that two of its joint ventures and its operating partnership met the definition of a VIE and is the primarily beneficiary of these VIEs. Substantially all of the assets and liabilities of the Company are related to these VIEs.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties, its accrued liabilities, and its performance-based equity compensation awards. The Company bases its estimates on historical experience, current market conditions, and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from these estimates.

Investment in Real Estate Properties

Acquisitions

When the Company acquires properties that are considered business combinations, the assets acquired and liabilities assumed are recorded at fair value. These assets and liabilities include, but are not limited to, land, building and improvements, intangible assets related to above-and below-market leases, intangible assets related to in-place leases, debt and other assumed assets and liabilities. The initial purchase price accounting is based on management’s preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price accounting are made within the measurement period, which typically does not exceed one year, within the Consolidated Balance Sheets.

The Company assesses fair value based on level 2 and level 3 inputs within the fair value hierarchy, which includes estimated cash flow projections that utilize discount and/or capitalization rates and available market information. See “Fair value of Assets and Liabilities” below. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions.

The fair value of tangible assets of an acquired property considers the value of the property as if it was vacant. The fair value of acquired “above- and below-” market leases is estimated through cash flow projections utilizing discount rates that reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the extended term for any leases with below-market renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on the Company's evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes estimates of lost rents at market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs. Acquisition-related expenses associated with acquisition of operating properties are expensed in the period incurred.

Cost Capitalization

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Indirect development costs, including salaries and benefits, office rent, and associated costs for those individuals directly responsible for and who spend their time on development activities are also capitalized and allocated to the projects to which they relate. Capitalized personnel costs for the three months ended March 31, 2016 and 2015 were approximately $2.3 million and $0.9 million, respectively. Interest is capitalized on the construction in progress at a rate equal to the Company's weighted average cost of debt. Capitalized interest for the three months ended March 31, 2016 and 2015 was approximately $2.6 million and $2.0 million, respectively. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of tenant improvements but no later than one year after cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as they are incurred. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as they are incurred.

Operating Properties

The properties are generally carried at cost, less accumulated depreciation and amortization. The Company computes depreciation using the straight-line method over the estimated useful lives of generally 39 years for building and improvements, 15 years for land improvements, five to seven years for furniture and fixtures and equipment, and over the shorter of asset life or life of the lease for tenant improvements. Above- and below-market lease intangibles are amortized to revenue over the remaining non-cancellable lease terms and bargain renewal periods, if applicable. Other in-place lease intangibles are amortized to the depreciation and amortization line item of the Consolidated Statements of Operations over the remaining non-cancellable lease term.

Held for sale

The Company classifies properties as held for sale when certain criteria set forth in Accounting Standard Codification ("ASC") Topic 360, Property, Plant, and Equipment, are met. These criteria include (i) whether the Company is committed to a plan to sell, (ii) whether the asset or disposal group is available for immediate sale, (iii) whether an active program to locate a buyer and other actions required to complete the plan to sell have been initiated, (iv) whether the sale of the asset or disposal group is probable (i.e., likely to occur) and the transfer is expected to qualify for recognition as a completed sale within one year, (v) whether the long-lived asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value, (vi) whether actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. At the time a property is classified as held for sale, the Company reclassifies its assets and liabilities to held for sale in the Consolidated Balance Sheets for the periods presented and ceases recognizing depreciation expense. Properties held for sale are reported at the lower of their carrying value or their estimated fair value, less estimated costs to sell. There was one property classified as held for sale at March 31, 2016 and two properties classified as held for sale at December 31, 2015.

Impairment of Long-Lived Assets

The Company assesses the carrying value of real estate assets and related intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impairment losses are recorded on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company recognizes impairment losses to the extent the carrying amount exceeds the fair value of the properties. The Company recorded no impairment charges for the three months ended March 31, 2016 and 2015.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share amounts)

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired and liabilities assumed in business acquisitions. The Company's goodwill balance as of March 31, 2016 and December 31, 2015 was $8.8 million. The Company does not amortize this asset but instead analyzes it on an annual basis for impairment. No impairment indicators have been noted during the three months ended March 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and in banks, plus all short-term investments with a maturity of three months or less when purchased.

The Company maintains some of its cash in bank deposit accounts that, at times, may exceed the federally insured limit. No losses have been experienced related to such accounts.

Restricted Cash

Restricted cash consists of amounts held by lenders to provide for future real estate taxes and insurance expenditures, repairs and capital improvements reserves, general and other reserves and security deposits.

Accounts Receivable, net

Accounts receivable consist of amounts due for monthly rents and other charges. The Company maintains an allowance for doubtful accounts for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. The Company evaluates the collectability of accounts receivable based on a combination of factors. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Company's historical collection experience. The Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. Historical experience has been within management's expectations.

The following table summarizes the Company's accounts receivable, net of allowance for doubtful accounts as of:

	March 31, 2016	December 31, 2015
Accounts receivable	$18,129	$ 22,180
Allowance for doubtful accounts	(1,529)	(1,021)
Accounts receivable, net	$16,600	$ 21,159

Straight-line rent receivables, net

For straight-line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease. The Company evaluates the collectability of straight-line rent receivables based on the length of time the related rental receivables are past due, the current business environment and the Company's historical experience.

The following table represents the Company's straight-line rent receivables, net of allowance for doubtful accounts as of:

	March 31, 2016	December 31, 2015
Straight-line rent receivables	$65,342	$ 60,606
Allowance for doubtful accounts	(48)	(970)
Straight-line rent receivables, net	$65,294	$ 59,636

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Notes Receivable, net

On August 19, 2014, the Company entered into a loan participation agreement for a loan with a maximum principal of $140.0 million. The Company's share was 23.77%, or $33.3 million. The note receivable is secured by a real estate property, bears interest at 11.0% and matures on August 22, 2016. Interest is payable monthly with the principal due at maturity. The Company received a $0.4 million commitment fee as a result of this transaction. The balance as of March 31, 2016 and December 31, 2015, net of the accretion of commitment fee, was $28.8 million and $28.7 million, respectively. The Company believes these balances are fully collectible.

Revenue Recognition

The Company recognizes rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

Certain leases provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. Such revenue is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Other property-related revenue is revenue that is derived from the tenants' use of lighting, equipment rental, parking, power, HVAC and telecommunications (telephone and Internet). Other property-related revenue is recognized when these items are provided.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred. The reimbursements are recognized and presented gross, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

The Company recognizes gains on sales of properties upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when (i) the collectability of the sales price is reasonably assured, (ii) the Company is not obligated to perform significant activities after the sale, (iii) the initial investment from the buyer is sufficient and (iv) other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition have been met.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the respective loans and are reported net of accumulated amortization in notes payable, net to the extent they are associated with drawn loans and prepaid expenses and other assets, net to the extent they relate to the unsecured revolving credit facility and undrawn term loans.

Derivative Instruments

The Company manages interest rate risk associated with borrowings by entering into derivative instruments. The Company recognizes all derivatives on the Consolidated Balance Sheets on a gross basis at fair value. Derivatives that are not effective hedges are adjusted to fair value and the changes in fair value are reflected as income or expense. If the derivative is an effective hedge, depending on the nature of the hedge, changes in the fair value are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income (loss), which is a component of equity. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Stock-Based Compensation

Compensation cost of restricted stock, restricted stock units and performance units under the Company's equity incentive award plans are accounted for under ASC Topic 718, Compensation-Stock Compensation ("ASC 718"). The compensation committee of Hudson Pacific Properties, Inc.'s board of directors will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to the Company's equity incentive award plans and programs.

Income Taxes

The Company's property-owning subsidiaries are limited liability companies and are treated as pass-through entities or disregarded entities (or, in the case of the entity that owns the 1455 Market Street property, a REIT) for federal income tax purposes. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements for the activities of these entities.

Hudson Pacific Properties, Inc. has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with its taxable year ended December 31, 2010. The Company believes that the Company has operated in a manner that has allowed Hudson Pacific Properties, Inc. to qualify as a REIT for federal income tax purposes commencing with such taxable year, and the Company intends to continue operating in such manner. To qualify as a REIT, Hudson Pacific Properties, Inc. is required to distribute at least 90% of its net taxable income, excluding net capital gains, to its stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership.

Provided that it continues to qualify for taxation as a REIT, Hudson Pacific Properties, Inc. is generally not subject to corporate level income tax on the earnings distributed currently to its stockholders. If Hudson Pacific Properties, Inc. fails to qualify as a REIT in any taxable year, and is unable to avail itself of certain savings provisions set forth in the Code, all of its taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Unless entitled to relief under specific statutory provisions, Hudson Pacific Properties, Inc. would be ineligible to elect to be treated as a REIT for the four taxable years following the year for which the Company loses its qualification. It is not possible to state whether in all circumstances Hudson Pacific

Properties, Inc. would be entitled to this statutory relief.

The Company has elected, together with one of its subsidiaries, to treat such subsidiary as a taxable REIT subsidiary ("TRS") for federal income tax purposes. Certain activities that the Company may undertake, such as non-customary services for the Company's tenants and holding assets that the Company cannot hold directly, will be conducted by a TRS. A TRS is subject to federal and, where applicable, state income taxes on its net income. The Company's TRS did not have significant tax provisions or deferred income tax items as of March 31, 2016 and 2015.

The Company is subject to the statutory requirements of the states in which it conducts business.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share amounts)

The Company periodically evaluates its tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of March 31, 2016, the Company has not established a liability for uncertain tax positions.

The Company and its TRS file income tax returns with the U.S. federal government and various state and local jurisdictions. The Company and its TRS are no longer subject to tax examinations by tax authorities for years prior to 2011. Generally, the Company has assessed its tax positions for all open years, which include 2011 to 2015, and concluded that there are no material uncertainties to be recognized.

Fair Value of Assets and Liabilities

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company uses several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establishes a fair value by assigning weights to the various valuation sources.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The Company considers the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the Company's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

The Company considers the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by Financial Accounting Standards Board ("FASB") in the form of ASUs. The Company considers the applicability and impact of all ASUs. Recently issued ASUs not listed below are not expected to have a material impact on the Company's consolidated financial statements, because either the ASU is not applicable or the impact is expected to be immaterial.

On April 14, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This guidance clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This guidance clarifies certain aspects of the principal-versus-agent guidance in its new revenue recognition standard related to the determination of whether an entity is a principal-versus-agent and the determination of the nature of each specified good or service. Both updates affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, and defer the effective date of ASU 2014-09 by one year. These updates are effective for annual reporting periods (including interim periods) beginning after December 15, 2017 with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements and notes to the consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance simplifies several aspects of the accounting for employee share-based payment transactions related to the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, etc. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements and notes to the consolidated financial statements.

On March 15, 2016, the FASB issued ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. This guidance eliminates the retroactive adoption requirement when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company's consolidated financial statements and notes to the consolidated financial statements.

On March 14, 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts.This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company's consolidated financial statements and notes to the consolidated financial statements.

On March 14, 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This guidance clarifies the accounting treatment when there is a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company's consolidated financial statements and notes to the consolidated financial statements.

3. Investment in Real Estate

Acquisitions

The Company's acquisitions are accounted for using the acquisition method. The results of operations for each of these acquisitions are included in the Company's Consolidated Statements of Operations from the date of acquisition.

The Company had no acquisitions during the first quarter of 2016. During 2015, the Company acquired 26 office properties totaling approximately 8.2 million square feet and two development parcels throughout Northern California, 4th and Traction and 405 Mateo.

Dispositions

During the first quarter of 2016, the Company sold its Bayhill Office Center property for $215.0 million (before certain credits, prorations, and closing costs). Proceeds received were used to partially pay down the Company's unsecured revolving credit facility. During the first quarter of 2016, the Company recognized a gain of $6.4 million related to the disposal of its Bayhill Office Center property.

During first quarter of 2015, the Company sold its First Financial office property for a gain of $22.7 million.

The Company has not presented the operating results in net income (loss) from discontinued operations for these disposals because they do not represent a strategic shift in the Company's business.

Held for sale

As of March 31, 2016, the Company determined that its Patrick Henry Drive property met the criteria to be classified as held for sale and reclassified the balances related to such property within the Consolidated Balance Sheet as of March 31, 2016 and December 31, 2015. Subsequent to March 31, 2016, the Company sold its Patrick Henry Drive property for $19.0 million (before certain credits, prorations, and closing costs).

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share amounts)

4. Deferred Leasing Costs and Lease Intangibles, net

The following summarizes the Company's deferred leasing cost and lease intangibles as of:

	March 31, 2016	December 31, 2015
Above-market leases	$38,266	$ 38,481
Accumulated amortization	(20,726)	(17,210)
Above-market leases, net	17,540	21,271
Deferred leasing costs and in-place lease intangibles	359,937	352,276
Accumulated amortization	(121,906)	(112,337)
Deferred leasing costs and in-place lease intangibles, net	238,031	239,939
Below-market ground leases	59,578	59,578
Accumulated amortization	(3,303)	(2,757)
Below-market ground leases, net	56,275	56,821
Deferred leasing costs and lease intangible assets, net	$311,846	$ 318,031
Below-market leases	$137,170	$ 140,041
Accumulated amortization	(51,594)	(45,882)
Below-market leases, net	85,576	94,159
Above-market ground leases	1,095	1,095
Accumulated amortization	(57)	(46)
Above-market ground leases, net	1,038	1,049
Lease intangible liabilities, net	$86,614	$ 95,208

The Company recognized the following amortization related to deferred leasing cost and lease intangibles:

	Three Months Ended March 31,	
	2016	2015
Above-market lease(1)	$3,719	$370
Below-market lease(1)	(8,570)	(1,814)
Deferred lease costs and in-place lease intangibles(2)	22,568	4,230
Above-market ground lease(3)	(11)	—
Below-market ground lease(3)	546	62

(1) Amortization is recorded in office rental income in the Consolidated Statements of Operations.
(2) Amortization is recorded in depreciation and amortization expense in the Consolidated Statements of Operations.
(3) Amortization is recorded in office operating expenses in the Consolidated Statements of Operations.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share amounts)

5. Notes Payable

The following table summarizes the balances of the Company's indebtedness as of:

	March 31, 2016	December 31, 2015
Notes payable	$2,097,539	$2,278,445
Less: unamortized loan premium and deferred financing costs, net[1]	(17,534)	(17,729)
Notes payable, net	$2,080,005	$2,260,716

(1) Deferred financing costs exclude debt issuance costs, net related to establishing the Company's unsecured revolving credit facility and undrawn term loans. These costs are presented within prepaid expenses and other assets, net in the Consolidated Balance Sheets.

The following table sets forth information as of March 31, 2016 and December 31, 2015 with respect to the Company's outstanding indebtedness, excluding net deferred financing costs related to unsecured revolving credit facility and undrawn term loans.

	March 31, 2016		December 31, 2015			
	Principal Amount	Unamortized Loan Premium and Deferred Financing Costs, net	Principal Amount	Unamortized Loan Premium and Deferred Financing Costs, net	Interest Rate[1]	Contractual Maturity Date
Unsecured Loans						
Unsecured Revolving Credit Facility[2]	$50,000	$—	$230,000	$—	LIBOR+ 1.15% to 1.85%	4/1/2019 [11]
5-Year Term Loan due April 2020[2][3]	550,000	(5,243)	550,000	(5,571)	LIBOR+ 1.30% to 2.20%	4/1/2020
5-Year Term Loan due November 2020[2]	—	—	—	—	LIBOR +1.30% to 2.20%	11/17/2020
7-Year Term Loan due April 2022[2][4]	350,000	(2,549)	350,000	(2,656)	LIBOR+ 1.60% to 2.55%	4/1/2022
7-Year Term Loan due November 2022[2]	—	—	—	—	LIBOR + 1.60% to 2.55%	11/17/2022
Series A Notes	110,000	(1,049)	110,000	(1,011)	4.34%	1/2/2023
Series B Notes	259,000	(2,462)	259,000	(2,378)	4.69%	12/16/2025
Series C Notes	56,000	(576)	56,000	(509)	4.79%	12/16/2027
Total Unsecured Loans	$1,375,000	$(11,879)	$1,555,000	$(12,125)		
Mortgage Loans						
Mortgage loan secured by Pinnacle II[5]	$85,914	$873 [6]	$86,228	$1,310 [6]	6.31%	9/6/2016
Mortgage loan secured by 901 Market	30,000	(83)	30,000	(119)	LIBOR+2.25%	10/31/2016

Mortgage loan secured by Rincon Center[7]	101,836	(315	)	102,309	(355	)	5.13%	5/1/2018	
Mortgage loan secured by Sunset Gower/Sunset Bronson[8]	115,001	(2,055	)	115,001	(2,232	)	LIBOR+2.25%	3/4/2019	(11)
Mortgage loan secured by Met Park North[9]	64,500	(481	)	64,500	(509	)	LIBOR+1.55%	8/1/2020	
Mortgage loan secured by 10950 Washington[7]	28,288	(404	)	28,407	(421	)	5.32%	3/11/2022	
Mortgage loan secured by Pinnacle I[10]	129,000	(669	)	129,000	(694	)	3.95%	11/7/2022	
Mortgage loan secured by Element L.A.	168,000	(2,521	)	168,000	(2,584	)	4.59%	11/6/2025	
Total mortgage loans	$722,539	$ (5,655	)	$723,445	$ (5,604	)			
Total	$2,097,539	$ (17,534	)	$2,278,445	$ (17,729	)			

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(Unaudited, tabular amounts in thousands, except square footage and share amounts)

(1) Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed. Interest rates are as of March 31, 2016, which may be different than the interest rates as of December 31, 2015 for corresponding indebtedness.
(2) The Company has the option to make an irrevocable election to change the interest rate depending on the Company's credit rating. As of March 31, 2016, no such election has been made.
(3) Effective May 1, 2015, $300.0 million of the $550.0 million term loan has been effectively fixed at 2.66% to 3.56% per annum through the use of an interest rate swap. See Note 6 for details.
(4) Effective May 1, 2015, the outstanding balance of the term loan has been effectively fixed at 3.21% to 4.16% per annum through the use of an interest rate swap. See Note 6 for details.
(5) This loan bore interest only for the first five years. Beginning with the payment due October 6, 2011, monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.
(6) Represents unamortized premium amount of the non-cash mark-to-market adjustment.
(7) Monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.
(8) Through February 11, 2016, interest on $92.0 million of the outstanding loan balance was effectively capped at 5.97% and 4.25% on $50.0 million and $42.0 million, respectively, of the loan through the use of two interest rate caps. These interest rate caps were not renewed after maturity.
(9) This loan bears interest only. Interest on the full loan amount has been effectively fixed at 3.71% per annum through use of an interest rate swap. See Note 6 for details.
(10) This loan bears interest only for the first five years. Beginning with the payment due December 6, 2017, monthly debt service will include annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.
(11) The maturity date may be extended once for an additional one-year term.

Indebtedness

The Company presents its financial statements on a consolidated basis. Notwithstanding such presentation, except to the extent expressly indicated, such as in the case of the project financing for the Sunset Gower and Sunset Bronson properties, the Company's separate property-owning subsidiaries are not obligors of or under the debt of their respective affiliates and each property-owning subsidiary's separate liabilities do not constitute obligations of its respective affiliates.

Loan agreements include events of default that the Company believes are usual for loan and transactions of this type. As of the date of this filing, there has been no events of default associated with the Company's loans.

The minimum future principal payments due on the Company's secured and unsecured notes payable at March 31, 2016 were as follows (before the impact of extension options, if applicable):

Year ended	Annual Principal Payments
2016 (nine months ending December 31, 2016)	$117,701
2017	2,714
2018	101,157
2019	167,886
2020	617,493

Thereafter	1,090,588
Total	$2,097,539

Senior Unsecured Revolving Credit Facility and Term Loan Facilities

New Term Loan Agreement

On November 17, 2015, the operating partnership entered into a new term loan credit agreement (the “New Term Loan Agreement”) with a group of lenders for an unsecured $175.0 million five-year delayed draw term loan with a maturity date of November 2020 (“5-Year Term Loan due November 2020”) and an unsecured $125.0 million seven-year delayed draw term loan with a maturity date of November 2022 (“7-Year Term Loan due November 2022”). These term loans were undrawn as of March 31, 2016. On May 3, 2016, these loans were fully drawn. See Note 14 for details.

A&R Credit

On April 1, 2015, the operating partnership entered into the Second Amended and Restated Credit Agreement dated as of March 31, 2015 (the “Credit Facility”), which extended the maturity dates and increased the availability of the credit facilities

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governed by the prior agreement. On November 17, 2015, the operating partnership amended and restated the Credit Facility ("Amended and Restated Credit Facility") to align certain terms therein with the less restrictive terms of the New Term Loan Agreement. Borrowings under the Credit Facility were used towards the EOP Acquisition in 2015 and the Amended and Restated Credit Facility is available for other purposes, including for payment of pre-development and development costs incurred in connection with properties owned by the Company, to finance capital expenditures and the repayment of indebtedness of the Company, to provide for general working capital needs and for general corporate purposes of the Company, and to pay fees and expenses incurred in connection with the Amended and Restated Credit Facility. On May 3, 2016, the unsecured revolving loan has been fully paid off and the five-year term loan due April 2020 has been partially paid off. See Note 14 for details.

Guaranteed Senior Notes

On November 16, 2015, the operating partnership entered into a Note Purchase Agreement (the "Note Purchase Agreement") with various purchasers, which provides for the private placement of $425.0 million of senior guaranteed notes by the operating partnership, designated as three notes with various interest rates and maturity dates ("Notes"). The Notes were issued on December 16, 2015 and upon issuance, the Notes pay interest semi-annually on the 16th day of June and December in each year until their respective maturities.

Debt Covenants

The operating partnership's ability to borrow under the New Term Loan Agreement, the Amended and Restated Credit Facility, and the Note Purchase Agreement remains subject to ongoing compliance with financial and other covenants as defined in the respective agreements, including maintaining a leverage ratio (maximum of 0.60:1.00), unencumbered leverage ratio (maximum of 0.60:1.00), fixed charge coverage ratio (minimum of 1.50:1.00), secured indebtedness leverage ratio (maximum of 0.55:1.00), and unsecured interest coverage ratio (minimum 2.00:1.00). Certain financial covenant ratios are subject to change in the occurrence of material acquisitions as defined in the respective agreements. Other covenants include certain limitations on dividend payouts and distributions, limits on certain types of investments outside of the operating partnership's primary business, and other customary affirmative and negative covenants.

The operating partnership was in compliance with its financial covenants at March 31, 2016.

Repayment Guaranties

Sunset Gower and Sunset Bronson Loan

In connection with the loan secured by the Sunset Gower and Sunset Bronson properties, the Company has guaranteed in favor of and promised to pay to the lender 19.5% of the principal payable under the loan in the event the borrower, a wholly-owned entity of the operating partnership, does not do so. At March 31, 2016, the outstanding balance was $115.0 million, which results in a maximum guarantee amount for the principal under this loan of $22.4 million. Furthermore, the Company agreed to guarantee the completion of the construction improvements, including tenant improvements, as defined in the agreement, in the event of any default of the borrower. If the borrower fails to complete the remaining required work, the guarantor agrees to perform timely all of the completion obligations, as defined in the agreement. As of the date of this filing, there has been no event of default associated with this loan. On May 3, 2016, this loan has been partially paid off. See Note 14 for details.

901 Market Loan

In connection with its 901 Market Street loan, the Company has guaranteed in favor of and promised to pay to the lender 35.0% of the principal under the loan in the event the borrower, a wholly-owned entity of the operating partnership, does not do so. At March 31, 2016, the outstanding balance was $30.0 million, which results in a maximum guarantee amount for the principal under this loan of $10.5 million. Furthermore, the Company agreed to guarantee the completion of the construction improvements, including tenant improvements, as defined in the agreement, in the event of any default of the borrower. The borrower has completed various of the improvements subject to this completion guaranty. If the borrower fails to complete the remaining required work, the guarantor agrees to perform timely all of the completion obligations, as defined in the agreement. As of the date of this filing, there has been no event of default associated with this loan. On May 3, 2016, this loan has been fully paid off. See Note 14 for details.

Other Loans

Although the rest of the operating partnership's loans are secured and non-recourse to the operating partnership, the operating partnership provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

6. Derivative Instruments

The Company entered into interest rate contracts in order to hedge interest rate risk. As of March 31, 2016, the Company had five interest rate swaps with notional amounts of $714.5 million. As of December 31, 2015, the Company had two interest rate caps and five interest rate swaps with notional amounts of $92.0 million and $714.5 million, respectively.
Each of these derivatives was designated as effective cash flow hedges for accounting purposes.

The Company's derivative contracts are classified as Level 2 and their fair values are derived from estimated values obtained from observable market data for similar instruments.

5-Year Term Loan due April 2020 and 7-year Term Loan due April 2022

On April 1, 2015, the Company entered into a derivative contract with respect to $300.0 million of the $550.0 million 5-Year Term Loan due April 2020 which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.36% through the loan's maturity. The remaining $250.0 million bears interest at a rate equal to one-month LIBOR plus 1.30% to 2.20% depending on the Company's leverage ratio.

On April 1, 2015, the Company also entered into a derivative contract with respect to the $350.0 million 7-year Term Loan due April 2022, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.61% through the loan's maturity.

During the three months ended March 31, 2016, the Company recognized an unrealized loss of $2.1 million related to the ineffective portion of these derivative contracts.

Sunset Gower and Sunset Bronson Mortgage

On February 11, 2011, the Company closed a five-year term loan totaling $92.0 million with Wells Fargo Bank, N.A., secured by the Sunset Gower and Sunset Bronson properties. The loan initially bore interest at a rate equal to one-month LIBOR plus 3.50%. On March 16, 2011, the Company purchased an interest rate cap in order to cap one-month LIBOR at 3.715% on $50.0 million of the loan through February 11, 2016. On January 11, 2012, the Company purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to $42.0 million of the loan.

Effective August 22, 2013, the terms of this loan were amended to, among other changes, increase the outstanding balance from $92.0 million to $97.0 million, reduce the interest to a rate equal to one-month LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018. The derivatives described above were not changed in connection with this loan amendment.

Effective March 4, 2015, the terms of this loan were amended and restated to introduce the ability to draw up to an additional $160.0 million for budgeted construction costs associated with the ICON development and to extend the maturity date from February 11, 2018 to March 4, 2019. The derivatives described above were not changed in connection with this loan amendment. These derivatives matured on February 11, 2016.

Met Park North

On July 31, 2013, the Company closed a seven-year loan totaling $64.5 million with Union Bank, N.A., secured by the Met Park North property. The loan bears interest at a rate equal to one-month LIBOR plus 1.55%. The full loan is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.16% through the loan's maturity on August 1, 2020.

(Unaudited, tabular amounts in thousands, except square footage and share amounts)

Overall

The fair market value of derivatives are presented on a gross basis in the Consolidated Balance Sheets. There were no derivative assets as of March 31, 2016. The derivative assets as of December 31, 2015 were $2.1 million. The derivative liabilities as of March 31, 2016 and December 31, 2015 were $17.7 million and $2.0 million, respectively.

As of March 31, 2016, the Company expects $6.2 million of unrealized loss included in accumulated other comprehensive loss will be reclassified to interest expense in the next twelve months.

7. Future Minimum Base Rents and Lease Payments Future Minimum Rents

The Company’s properties are leased to tenants under operating leases with initial term expiration dates ranging from 2016 to 2031. Approximate future combined minimum rentals (excluding tenant reimbursements for operating expenses and without regard to cancellation options) for properties at March 31, 2016 are presented below for the years/periods ended December 31. The table below does not include rents under leases at the Company's media and entertainment properties with terms of one year or less.

Future minimum base rents under the Company’s operating leases in each of the next five years and thereafter are as follows:

	Non-cancellable	Subject to early termination options	Total
2016 (nine months ending December 31, 2016)	$ 325,049	$ 1,621	$326,670
2017	407,247	6,923	414,170
2018	332,569	24,503	357,072
2019	280,175	26,998	307,173
2020	220,738	6,357	227,095
Thereafter	814,609	24,156	838,765
Total	$ 2,380,387	$ 90,558	$2,470,945

Future Minimum Lease Payments

The following table summarizes the Company's ground lease terms related to properties that are held subject to long-term noncancellable ground lease obligations:

Property	Expiration Date	Notes
Sunset Gower	3/31/2060	Every 7 years rent adjusts to 7.5% of Fair Market Value ("FMV") of the land.
Del Amo	6/30/2049	Rent under the ground sublease is $1.00 per year, with the sublessee being responsible for all impositions, insurance premiums, operating charges, maintenance charges, construction costs and other charges, costs and expenses that arise or may be contemplated under any provisions of the ground sublease.
9300 Wilshire Blvd.	8/14/2032	Additional rent is the sum by which 6% of gross rental from the prior calendar year exceeds the Minimum Rent.
222 Kearny Street	6/14/2054	Minimum annual rent is the greater of $975 thousand or 20% of the first $8.0 million of the tenant's "Operating Income" during any "Lease Year," as such terms are defined in the ground lease.
1500 Page Mill Center	11/30/2041	Minimum annual rent (adjusted on 1/1/2019 and 1/1/2029) plus 25% of adjusted gross income ("AGI"), less minimum annual rent.
Clocktower Square	9/26/2056	Minimum annual rent (adjusted every 10 years) plus 25% of AGI less minimum annual rent.
Palo Alto Square	11/30/2045	Minimum annual rent (adjusted every 10 years starting 1/1/2022) plus 25% of AGI less minimum annual rent.
Lockheed Building	7/31/2040	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent is the lesser of 10% of FMV of the land or the previous year's minimum annual rent plus 75% of consumer price index, or CPI, increase. Percentage annual rent is Lockheed's base rent x 24.125%.
Foothill Research	6/30/2039	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent is the lesser of 10% of FMV of the land or the previous year's minimum annual rent plus 75% of CPI increase. Percentage annual rent is gross income x 24.125%.
3400 Hillview	10/31/2040	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent until October 31, 2017 is the lesser of 10% of FMV of the land or $1.0 million grown at 75% of the cumulative increases in CPI from October 1989. Thereafter, minimum annual rent is the lesser of 10% of FMV of the land or the minimum annual rent as calculated as of November 1, 2017 plus 75% of subsequent cumulative CPI changes. Percentage annual rent is gross income x 24.125%. This lease has been prepaid through October 31, 2017.
Metro Center 989	4/29/2054	Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).
Metro Center Retail	4/29/2054	Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).
Metro Center Tower	4/29/2054	Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).
Techmart Commerce	5/31/2053	Subject to a 10% increase every 5 years.

Center

The following table provides information regarding the Company’s future minimum lease payments for its ground lease and corporate office lease at March 31, 2016 (before the impact of extension options, if applicable):

	Ground Leases (1)(2)(3)	Operating Leases
2016 (nine months ending December 31, 2016)	$9,064	$ 1,496
2017	12,208	2,072
2018	14,070	2,134
2019	14,120	2,198
2020	14,120	2,264
Thereafter	413,927	11,487
Total	$477,509	$ 21,651

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(1) In situations where ground lease obligation adjustments are based on third-party appraisals of fair market land value, the future minimum lease amounts above include the lease rental obligations in affect as of March 31, 2016.

(2) In situations where ground lease obligation adjustments are based on CPI adjustment, the future minimum lease amounts above include the lease rental obligations in affect as of March 31, 2016