



Hudson Pacific Properties, Inc. (HPP) Q3 2024 Earnings 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:

Blaine Heck *Analyst Wells Fargo Securities LLC*

Alexander Goldfarb *Analyst Piper Sandler & Co.*

Michael A. Griffin *Analyst Citigroup Global Markets, Inc.*

Caitlin Burrows *Analyst Goldman Sachs & Co. LLC*

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Thomas Catherwood *Analyst BTIG LLC*

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Operator: Good afternoon. My name is Sierra, and I will be your conference operator today. At this time, I'd like to welcome everyone to Hudson Pacific Properties Third Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a Q&A session. [Operator Instructions] Thank you.

At this time, I'd like to turn the call over to Laura Campbell, Executive Vice President, Investor Relations and Marketing.

Laura Campbell: Good afternoon, everyone. Thanks for joining us. With me on the call today are Victor Coleman, CEO and Chairman; Mark Lammas, President; Harout Diramerian, CFO; and Art Suazo, EVP of



Leasing. This afternoon, we filed our earnings release and supplemental on an 8-K with the SEC, and both are now available on our website. An audio webcast of this call will be available for replay on our website.

Some of the information we'll share on the call today is forward-looking in nature. Please reference our earnings release and supplemental for statements regarding forward-looking information as well as the reconciliation of non-GAAP financial measures used on this call.

Today, Victor will discuss industry and market trends and capital recycling. Mark will provide an update on our office and studio operations and development, and Harout will review our financial results and 2024 outlook. Thereafter, we'll be happy to take your questions. Victor?

Victor Coleman: Thank you, Laura. Good afternoon, everyone, and welcome to our third quarter call. At Hudson Pacific, we have spent nearly two decades acquiring, transforming, developing, leasing and operating premier real estate and related services in the most sought-after locations catering to the dynamic tech and media industries. Over the last several years, our talented team has worked diligently to leverage the strength and resiliency of this unique platform to rise above the multiple unprecedented once-in-a-generation challenges impacting our core industries and markets.

As we sit today, we are gaining additional confidence that the tide is turning. While more time is needed, we believe that as we exit this year and move through 2025, we will stabilize our portfolio and be positioned for a return to growth and ultimately, outperformance. The positive office-related indicators that are emerging are numerous. The data clearly shows that office-oriented cultures enhance productivity and performance. And with the US facing the steepest decline in white collar productivity in 50 years, the push to four or even five-day workweek has begun.

Today, only 1% of the Fortune 100 companies still have fully remote office attendance policies and 80% of the CEO respondents in KPMG's most recent survey anticipate their work will be full-time in office in the coming years. And this movement, which had early traction with financial companies on the East Coast is now gaining momentum among tech companies along the West Coast. Recent full-time mandate announcements include Seattle's largest employer, Amazon, Dell and San Francisco's largest employer, Salesforce.

Underscoring the momentum in San Francisco, in September, Muni ridership surpassed 520,000 average weekday boardings and approximately 75% of pre-pandemic levels, with certain routes recovering to well in excess of 100%. Add to that, tech layoffs are slowing, venture fundraising is picking up and after years of cost cutting, venture investors are finally advising portfolio companies to get back out on the offensive. Tech layoffs have consistently declined since the first quarter of 2023, now reaching their lowest level since second quarter of 2022, a 45% improvement year-over-year.

Furthermore, AI companies, 44% of which are in the Bay Area, have brought venture investors back to the table. 2024 is on pace to be one of the best years for AI funding on record, with the lion's share going to the Bay Area, which we expect to provide another leasing catalyst in the coming months. AI companies tend to be office first and since January 2022 have leased 2.3 million square feet in the Bay Area, a footprint Cushman & Wakefield expects to grow 200% over the next two years. At present, we're monitoring 25 tenants in a market seeking about 800,000 additional square feet.



Big picture, a recovery that has already taken hold on the East Coast is now gaining traction on the West Coast. And in the third quarter, tenant requirements in the West Coast tech-centric office markets increased 17% year-over-year compared to just 7% for the broader US office market. Downtown San Francisco had positive net absorption for Class A product for the first time in two years. And year-to-date overall gross leasing is the highest since 2019 with tenant requirements up 20% year-over-year.

The San Francisco Peninsula has also had its first quarter of positive net absorption since 2022, and software and Internet companies led leasing volume representing 42% of the top 25 transactions. And in the Valley, office occupancy losses are starting to recede and tenant requirements were up 33% year-over-year. And in Seattle, we're now seeing mid-size demand coming back to the market with overall requirements up about 30% year-over-year. All of this activity mirrors what we're experiencing with our own office portfolio.

Now turning to studios. The following three months of Los Angeles show counts has been approximately in the low 80s. Production has started to pick up, nearing 90 shows during October, on trend with stronger demand we are seeing for 2025. While we are moving in the right direction, Los Angeles production has yet to return to any sense of normalcy, which continues to limit demand for our stages and services. Los Angeles is still the worldwide leader in film and television production. But to win back productions in an increasingly competitive cost-conscious environment, we must have the appropriate financial incentives.

Fortunately, office officials in the public realm at all levels have recognized this. And a few weeks ago, Governor Newsom introduced legislation that, if passed, would more than double the tax credit program to three quarters of a billion dollars, making it the largest in the United States. This is a very positive development, and if passed, would go into effect in mid-2025 at a key moment when many companies such as Netflix envision production to be back to normal. We think new soundstage supply will remain limited and a comprehensive offering of studios and services will be poised to successfully capture incremental demand, which typically builds ahead of production.

We remain confident our studios team is the best in the business and recently promoted two senior executives in recognition of their growing responsibilities. Stefanie Bourne, who joined Hudson Pacific in 2021 from Disney, has been promoted to EVP Studios, with oversight of sales, production services, operations and strategic initiatives. And Anne Mehrtens has been promoted to EVP, Studio Real Estate & Southern California Office Operations, having led at different times those functions for over a decade. I know both, alongside with our team and the broader studio leadership team will ensure we continue to benefit from the creative strategies, streamline operations and exceptional level of service for which we are known.

Finally, I want to just talk about capital recycling. With Fed policy easing and office fundamentals improving, transaction volume across our markets is accelerating. We are strategically tapping into this demand as a key component of our efforts to deleverage with a focus on completing additional non-core office asset sales where we can maximize value.

Of note, our Bay Area assets are garnering strong buyer interest. And as of the third quarter, we're under contract with a buyer that has gone non-refundable on Foothill Research Center in Palo Alto for \$23 million. We've opted to sell at an attractive price per square foot rather than continuing to invest in this asset. Inclusive of Foothill, we presently have three sales under contract, another three under



negotiation, which have the potential to generate gross proceeds totaling \$200 million to \$225 million. In addition, we have begun discussions with potential partners and lenders on a portfolio of six office assets as both a secured financing and a joint venture opportunity, and we're optimistic the related transactions could close early next year. We look forward to providing much more detail and additional updates.

With that, I'm going to turn it over to Mark.

Mark Lammas: Thanks, Victor. We had another strong quarter of execution from our leasing team, signing 539,000 square feet of office leases with 56% being new deals. This brought our year-to-date total to 1.6 million square feet or 25% ahead of this time last year. Our priority has been to stabilize and grow occupancy. And this quarter, we reported occupancy sequentially 40 basis points higher at 79.1%, along with a consistent leased percentage at 80%. In addition, if we adjust for the 100% leased and occupied Foothill Research Center, which we designated as held-for-sale in the third quarter, sequentially, our occupancy increased 60 basis points to 79.3% and our leased percentage increased 20 basis points to 80.2%.

Our lease economics are improving or stable with third quarter net effective rents 3% higher than our trailing 12-month average and only 4% off our pre-pandemic trailing 12-month average. We have continued to extend lease term, which in the third quarter was approximately six years, slightly above our trailing 12-month average and 42% above our trailing 12-month average a year ago. While we reported GAAP and cash rent spreads, 11.5% and 13.3% off prior levels, but for a 29,000 square foot short-term lease in Los Angeles, and two mid-size Bay Area leases totaling 68,000 square feet, one in Palo Alto, the other in downtown San Francisco, our GAAP and cash rent spreads would have been essentially flat.

In short, as average lease terms continue to lengthen and TIs and free rent remain in check, our net effective rents have held up even by comparison to pre-pandemic periods in spite of the occasional setback on rent spreads. Our leasing activity pipeline, including deals in leases, LOIs or proposals remains robust at close to 2 million square feet, about 70% of which are new leases. Quarter-over-quarter, our pipeline in Seattle and Silicon Valley has increased, in part attributable to an 18% to 20% increase in requirement size in those markets.

Tours remained active at 1.3 million square feet during the quarter with a nearly 50% increase in Seattle, which is indicative of the level of interest we are seeing at our recently completed Washington 1000 development. To date, we have toured tenants through that project, representing a total of 700,000 square feet of requirements, which range in size from 35,000 to 150,000 square feet.

Feedback from Seattle's top brokers during the recent dinner we held at the asset underscores Washington 1000's superior quality and leaseability, only further enhanced by recent market strengthening. Across our office portfolio, if we sustain our leasing momentum of roughly 500,000 square feet per quarter, which our pipeline and tours suggest is reasonable, we expect occupancy to stabilize by the middle of next year with the potential for meaningful occupancy growth thereafter.

We have about 670,000 square feet remaining to expire by year-end. This includes 140,000 square feet at Met Park North, with a full-building tenant recently exercised their right to terminate the lease. We are actively exploring options for this asset, which include early discussions with multiple tenants for



30,000 to 100,000 square foot requirements. Our coverage, which includes deals and leases, LOIs or proposals on remaining 2024 expirations is 37%, which increases to 55% accounting for leases in discussions. This is not surprising given that apart from Met Park North, our average lease expiration is roughly 7,000 square feet and delayed decision making is typical for these smaller tenants.

As we look to 2025, excluding the full-building lease at Foothill Research Center, which is held for sale, we have less than 1.7 million square feet expiring or 16% of our ABR. Our remaining top five expirations next year collectively total 660,000 square feet, and we have approximately 64% coverage. Beyond that, our average expiring lease in 2025 is roughly 6,000 square feet.

Turning to studios. In the third quarter, our in-service stages were 76% leased during the prior 12 months, down 220 basis points sequentially, reflecting the previously discussed single tenant vacating last year. Note this lease percentage excludes Sunset Glenoaks, for which there is not yet trailing 12-month data. Our Quixote stage lease percentage was up 60 basis points sequentially to 33.4% due to increased commercial shoots at our Quixote West Hollywood and Griffith Park locations. Compared to a year ago, our third quarter studio revenue was \$5.6 million higher even as we had a sequential \$8.5 million decline due to lower average production levels in the third quarter compared to the second quarter, primarily affecting our studio ancillary and transportation segments.

We currently have signed leases, are in contract, or have client interest on 79% of our film and TV stage square footage, or all but 14 of our 59 film and TV stages inclusive of Sunset Glenoaks. This activity includes a notable increase in what the industry calls holds, essentially expressions of interest for specific stages for 2025 production dates. Similarly, coincident with a modest improvement in production activity late in and subsequent to the third quarter, we have seen stage leads and tours increase, and transportation and location services utilization has improved. We are optimistic these are early indicators of sustained stronger demand next year.

Finally, I will touch on development. We have one active development project, Sunset Pier 94 Studios, which will be the first purpose-built studio in Manhattan. Construction is progressing on time and on budget for an anticipated delivery by the end of next year. And as of October, we have no further equity contributions. We are in active discussions with a leading studio as well as other productions on multiyear agreements for one or more stages.

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

Harout Diramerian: Thanks, Mark. Our third quarter 2024 revenue was \$200.4 million compared to \$231.4 million in third quarter of last year, almost entirely due to the sale of One Westside and the expiration of the Block lease at 1455 Market, partially offset by improved studio revenue following resolution of the related union strikes. Our third quarter FFO, excluding specified items, was \$14.3 million or \$0.10 per diluted share compared to \$26.1 million or \$0.18 per diluted share a year ago.

Specified items for the third quarter totaled \$0.05 per diluted share, consisting of a \$3.9 million one-time straight-line rent reserve related to the transitioning a tenant to cash basis reporting, a \$2.2 million non-cash revaluation of a loan swap unqualified for hedge accounting, a \$1.2 million non-cash deferred tax write-off and a \$0.3 million transaction-related expense.

The year-over-year change in FFO excluding the specified items, was mostly attributable to the factors affecting revenue and lower FFO from non-controlling interests following our purchase of our partner's



interest in 1455 Market earlier this year. Our third quarter AFFO was \$15.8 million or \$0.11 per diluted share compared to \$28.1 million or \$0.20 per diluted share in the third quarter last year, with the change largely attributable to the previously mentioned items affecting FFO. Our third quarter same-store cash NOI was \$96.9 million compared to \$113.2 million in the third quarter of last year, mostly due to tenant move outs, including block at 1455 Market.

Turning to our balance sheet. As Victor noted earlier, we are proactively pursuing multiple paths to increase liquidity, including asset sales, JV partnerships and secured financings. We have no debt maturing until November 2025. Our share of net debt relative to our share of undepreciated book value is 37.4% and our percentage of debt fixed or capped is 91.5%. At the end of the third quarter, we had \$696 million of liquidity comprised of \$91 million of unrestricted cash and cash equivalents and \$605 million of undrawn capacity on our unsecured revolving credit facility. We also have \$195 million of construction loan capacity, of which our share is \$53 million.

Turning to our outlook. For the fourth quarter, we expect FFO per diluted share to range from \$0.09 to \$0.13 per diluted share. We anticipate fourth quarter NOI for our Quixote business to moderately improve as compared to our third quarter results due to the improved production activity that Victor and Mark highlighted.

We expect fourth quarter NOI for our in-service office and studio portfolios to remain at levels consistent with the third quarter result adjusted for previously mentioned straight-line rent reserve. We anticipate having lower office occupancy in the fourth quarter, reflecting the full-building tenant vacating Met Park North in early December. But for this early termination and the designation of Foothill Research Center as held-for-sale, we believe our office occupancy would have shown another sequential increase.

Similarly, solely due to the removal of Foothill Research Park (sic) [Foothill Research Center] (00:18:27) from our same-store pool, we are updating the range of the same-store property cash NOI growth to a negative 13% to 14% from a negative 12.5% to 13.5%. As always, our outlook excludes the impact of any potential dispositions, acquisitions, financings and/or capital markets activity.

And now I'll turn the call back to Victor.

Victor Coleman:

Thank you, Harout. Each quarter, we are executing on office leasing, and we are on track to significantly outperform our activity last year along with the West Coast office fundamentals that are undoubtedly strengthening. On the studio side, we have contracts or interest in nearly 80% of our film and TV stages, while Los Angeles production levels are challenging but improving and the proposed state tax credit legislation and potential City of L.A. incentives stand to meaningfully boost demand.

And based on these factors, we believe we are on a path to stabilize and start to grow occupancy and cash flow across our entire portfolio next year. And with that, the momentum of asset sales, our positive discussions with JV partners and lenders, we expect to have the balance sheet and liquidity to achieve our business objectives.

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

Question And Answer Section



Operator: [Operator Instructions] Our first question today comes from Blaine Heck with Wells Fargo. Your line is now open.

Blaine Heck: Great. Thanks. Good afternoon. Just starting on the sales, Victor, can you just talk about the drivers behind what looks like an accelerated effort on the asset sales side and the rationale behind looking at the additional fixed office asset securitization? Any expectations for cap rates you can provide there. And then lastly, just maybe how we should expect all of those moves to kind of affect your covenant?

Victor J. Coleman: Thanks, Blaine. Well, listen, I'm not going to comment on the actual sales in direct until we have them non-refundable, which to date is not the case. As I said, we've got three under contract of which one is non-refundable. We've got three more that we're in negotiations that should go under contract. And the combined total of those are between \$200 million and \$225 million. The assets, how you should look at those assets as being non-core, we always evaluate assets in the portfolio that may or may not fit into our long-term strategy with capital allocation and with excess work around leasing or capital improvements or the future growth of those assets.

So that's how we identify them. They're not core to the portfolio and they're not what we would call as our best and highest quality assets. I do think you touched on the JV and the CMBS structure. We've allocated some time and energy around six assets that we've got a very, very great response from JV partners and from our CMBS debt allocation for that portfolio. We're exhausting our talent around that. We should have, I think, more definitive information by first quarter, early first quarter of the year. But so far, it's on track.

I don't want to get into cap rates at all at this time. Suffice to say, our ownership interest in that is going to be equal to what it's been in our past JVs, which is roughly around 50%. So that's the intent for that aspect.

Lastly, in terms of covenants, there is not going to be any impact in covenants. We are working through that right now. We feel confident that this form of liquidity is another avenue for us to go on the offensive down the road.

Blaine Heck: Okay. Great. We'll look forward to more updates there. I guess just second question. Thanks for your commentary on the studio side. I guess I'm still wondering how much of it affects some of this movement out of L.A. and into other markets has changed the kind of stabilized run rate of studio production that can come from L.A. and whether you think that all of that is reversible with Governor Newsom's tax credit proposal?

Victor J. Coleman: Well, listen, I think overall, the bulk of the studio business and the entertainment business overall has been affected nationwide. It's not just California. It's California, it's Georgia and New York in general, are all impacted based on the shift in the strike.

In terms of the movement back to L.A., L.A. still is the entertainment capital of the world. We are seeing an uptick quarter-over-quarter in our prepared remarks from a show count and the – I think the movement by Governor Newsom and the impetus right now of Mayor Karen Bass for tax credits on both sides are going to help us as an industry, get back to some sense of normality.



I think it's the onslaught, the direction right now is from the holds that we have and the conversion from hold to lease facilities and our operating businesses, all look on track for 2025, and it could be in the first quarter, all the way through the fourth quarter to really see a massive impact. And so we're confident that we're in the right direction here, Blaine, and we're also confident that production is going to be enhanced by the impetus of what Gavin Newsom and Mayor Bass has put in place.

So I think all of that could be impactful and put California to where it was. And I just want to reiterate, it's not different here than it is anywhere else, other than for domestic US. I mean, yes, overseas, I think you've seen a much greater pickup as of late in production, and that hopefully would follow suit here as well.

Blaine Heck: That's helpful. Thanks. Thanks, Victor.

Victor J. Coleman: Thanks, Blaine.

Operator: Our next question comes from Alexander Goldfarb with Piper Sandler. Your line is now open.

Alexander Goldfarb: Good afternoon out there. Just going to two questions. First, I guess, Victor, continuing on Blaine's question on the debt covenants, looking at the 2025 and 2026 maturities, they're certainly meaningful amounts. And as you sit here with your leasing that you have coming up and expected asset sales and NOI, how are you looking at that debt as far as – is all of that scheduled to be dollar-for-dollar refinanced? Or do you think that some of this will be subject to negotiations?

Victor J. Coleman: I'm not sure what you mean by subject to negotiations. I mean, listen, we are intended on refinancing, we're in conversations right now on our secured debt that's coming due and in 2025, we've gotten a very good response on that. And I don't think we at all concerned about the value of those assets and the equity that we have in place on those assets that are coming due.

I'm not going to comment, Alex, on where we see rate, but we're looking at either floating or fixed and a term that could be five or seven, and the market is very conducive to that right now. So we feel that they're going to get executed, and we have all the confidence that we'll get it executed well before expiration at the end of 2025.

Alexander Goldfarb: Okay. And then the second question is, as we look into next year, I realize we're still far out from giving 2025 guidance, but the trajectory that you guys are talking about, sounds like the studio – it sounds like the businesses overall have bottomed. The recovery is a little – is a little slow. Hopefully, the Hollywood stuff with the tax credit passes and that incentivizes there. It sounds like the leasing is making some progress, but still some vacancy that needs to be addressed and the uncovered exposures. Is the \$0.11 in the fourth quarter, is that a number that we should think about for a quarterly run rate for next year? Or are there things that you would point to that would make that quarterly run rate materially higher?

Victor J. Coleman: Yeah. I would not look at the \$0.11 as a quarterly run rate for next year. I think you would have to look at it higher— and as I said in the prepared remarks, and as Harout said in his prepared remarks, we will address our full year guidance at the – at our next quarter's call. I do think that the impact of where the entertainment business was to where it is, to where it's going, yeah, we'll see a material change, and we're confident in that change being put in place. Hopefully, as I said, some



of the transactions that are on hold that are going to be secured to stages being leased and the demand going back up. So yes, I wouldn't read into the \$0.11 as being our run rate going forward.

Alexander Goldfarb: Thank you, Victor.

Victor J. Coleman: Thanks, Alex, as always.

Operator: Our next question today comes from Michael Griffin with Citi. Your line is now open.

Michael A. Griffin: Great. Thanks. Just wanted to go back to the studios for a second, and it seems like things are maybe getting better into the fourth quarter. So I know you didn't specify around kind of the Quixote piece for the fourth quarter guide, but is it fair to assume we should see an increase in NOI there relative to the third quarter? And then maybe stepping back, you talked about the tax credit being beneficial, obviously, for the industry. But is there a worry that maybe similar to the worry about the Teamsters strike this year, production could be delayed until the tax credit gets enacted? And do you think you have the political capital to go forward with a tax credit like this?

Victor J. Coleman: So let me address the latter part first. So Michael, at the end of the day, you listen, I think we're all very confident, the industry is confident that this legislation is going to pass. The governor would not have come out as strongly as he did with the amount of amount of \$750 billion, which is going to be the highest in place tax credit for the entertainment business. And as a result, I think the modifications could be minimal. We'll see what happens in the coming months, but it's all sort of earmarked for it to be voted on and in place by midyear 2025. That's the anticipation.

The city-wide mandates that are being put in place. There's already a committee in place that is promoting back to Los Angeles production at its highest levels. There's a city tax proposal out to enhance production in Los Angeles. There are multiple factors that I think are supporting it. And just to answer your question in specifics, it doesn't mean they're going to wait until everything is in place. I think directionally, that's what we were waiting for is leadership and direction, both on the state level and on the city level.

And then overall, just in the production to see that this is a direction because it will take hold for two, three, four years. This is not a one and done process. And I think that's how we're looking at – when people are looking for production, they're going to look at multiple savings over multiple venues over multiple productions over a short to medium timeframe. So I wouldn't envision this to say it's going to be impacted day one when it's voted on. A lot of it will have some tailwinds and get us to a point where you're going to see up-sourcing and production going forward immediately in the first, second quarter of 2025.

Michael A. Griffin: Appreciate that, Victor. And then just maybe circling back again on the transaction activity, and I realized there were a number of things that you can't yet disclose. But maybe on the Foothill Research Center, I think you set a purchase price of about \$23 million. By my math, that's about \$120 a square foot. I know that was part of a portfolio, I think you acquired around 2014 or 2015. So can you give us a sense of how that valuation compares to maybe when you bought the portfolio or the property back then? And then maybe just some broad commentary around how transaction volumes and value has changed over the past, call it, pre-COVID until now?



Victor J. Coleman: Yes. Let's just talk about Foothill. I wouldn't read into the price per foot on Foothill because there's five months of term left in that lease. There's a ground lease that's expiring, is a very short-term ground lease that candidly, I think it would have cost us capital dollars as well as some favorable aspects around our existing ground lease portfolio with Stanford that would have impacted the viability of that asset to be retenanting going forward. So really, we looked at highest and best use of dollars and that's what we decided to sell that asset. And when you understand who we sold it to, I think you'll sort of figure out the strategy and the structure around that. That being said, I would not equate that to market conditions. It is a unique transaction in the market, and it's a unique transaction to both the buyer and the seller's relationship.

In terms of overall acquisition and transaction activity, I think we're pleasantly surprised. We've been patient. We, I think, identified the right kind of assets. And as I said earlier, they're not the assets in the portfolio that are our highest quality assets. They are the assets that we have to put some capital dollars in or there is some tenant risk that we're – that we may or may not be aware of or some capital expenditures that are down the road. And we've been patient in the type of buyers and the type of activity. And I think our investment team and our outside brokers team have done an excellent job of identifying appropriate buyers for those assets. And some of them have been – we will announce have been or will be owner users. So they're unique to the assets in specifics.

As I did mention in my prepared remarks, we've not seen a tremendous amount of transactions in the marketplace that would be, what I would say, Hudson-esque acquisitions. If we had access to an unlimited amount of capital, wanted to go on the offensive today, there's not an asset in the marketplace on the West Coast that us as a company would have said we would have liked to have owned and we missed out. So I think that gives you sort of an indication as to where we think the market is. But we know there will be assets coming to the market. We've identified where they are and what they are. It's going to be a timing issue. And with the – obviously, the increase in financing activity and the Fed easing, I think they're going to come to market in 2025, and you'll see what kind of opportunities are out there, which will truly test and prove out where real cap rates are.

Michael A. Griffin: Great. That's it for me. Thanks, Victor.

Victor J. Coleman: Thank you.

Operator: Your next question today comes from Caitlin Burrows with Goldman Sachs. Your line is now open.

Caitlin Burrows: Hi, everyone. I think in the prepared remarks, you guys talked about how if you kept up this pace of leasing about 500,000 square feet per quarter that could support occupancy stabilization in mid-2025. So I guess I was just wondering if you could talk a little bit about the kind of leasing cadence that you're seeing, how confident you are that that can stay at that pace? And maybe like any other details on the size and type of kind of leasing requirements that you're seeing?

Victor J. Coleman: Yeah, Caitlin, I'll start off. Listen, I think we're really very pleased with all three quarters of leasing, but the most recent quarter, it's just indicative of as the prepared remarks were made. In 2023, we did 1.7 million square feet, and we're right now in excess of 1.6 million square feet, and we're only three quarters in. The pipeline is consistent. As Mark said in his prepared remarks, we're



confident we're going to execute on that. And that's why we've come across to say that in 2025, we should see some stabilization and continued increase in occupancy to a stabilized level.

I do think Art would like to probably comment on just what markets we're seeing positive absorption in for the first time in some time.

Arthur X. Suazo: Yeah. Just to put a finer point on what Victor said, this 2 million square feet is spread across the Bay Area's 1.1 million square feet of that activity. There's 500,000 square feet in Seattle and the remaining 400,000 square feet is split evenly between Vancouver and L.A., which obviously we're encouraged about. We're extremely confident that we will achieve more than 500,000 square feet, especially because of the 1.6 million square feet, Victor just mentioned, puts us at 530,000 square feet on average right now year-to-date. So we're already ahead of that. And with our team's ability to execute, we can improve these—we can definitely improve these numbers.

On the net absorption, we're seeing positive absorption in the Peninsula for the first time in a long time. We're seeing – in San Francisco, we're seeing Class A space with positive absorption for the first time in several years. More importantly, in Greater San Francisco, where negative absorption has averaged a little bit over 1 million square feet a quarter through the pandemic. Negative absorption was down to 106,000 square feet. So over the last several quarters, we're really starting to see this thing turn. And we're very excited about what we see.

Caitlin Burrows: Got it. Okay. And then I was trying to take notes as you guys were speaking in the prepared remarks, some of them were kind of fast, but I wrote something to myself about like on the studio business, a positive development for mid-2025, and you made a comment about Netflix and things being, I don't know, closer to normal or normalized rate for them, I think. I was wondering if you could just talk about that Netflix comment a little bit more and the visibility or – into that, like, I don't know, did they tell you or just that comment? Thanks.

Victor J. Coleman: Well, I think what we're finding is the streaming companies are seeing an uptick in quality, which we've talked about for a long time. And now it's an uptick in quantity. And so they greenlit more shows than the prior quarters. And we just think that nothing happens overnight, Caitlin, but once they greenlit them or green light them, I guess, is the correct term, then the production will start to move in motion, and that's how we convert holds to occupancy. And so we're seeing that. And our direct correlation with Netflix is not too dissimilar than we have with other of our studio partners that occupy our space. We're just seeing that activity pick up.

Caitlin Burrows: Got it. Thank you.

Victor J. Coleman: Thanks.

Operator: Your next question comes from John Kim with BMO. Your line is now open.

John P. Kim: Thank you. Your G&A guidance went down about \$1 million in your guidance, but it's still expected to increase year-over-year. And when you look at it on a year-to-date basis versus your NOI, it's at 23% versus 17% last year. I realize that you expect a recovery in NOI and earnings going forward, but is there anything you can do on the overhead front to kind of reduce the cost and normalize it closer to earnings?



Harout Krikor Diramerian: Sure. Good question, John. This is Harout. So first, we're constantly looking for ways to reduce our G&A as evidenced by our revised guidance. Secondly, the increase in the G&A is primarily related to incentive-based shares that we added in 2024 that we didn't have in 2023. They're not cash G&A. It's really going to be reflective of how the shares are performing.

Victor J. Coleman: And in terms of, John, G&A savings and the likes of that, we are constantly looking at evaluating all of our G&A. But yes, it's correlated to our NOI. And as we see our NOI increase and we're completing these leases and the future leases that we have, I think that's going to rightsize itself fairly quickly.

John P. Kim: Okay. And looking at your lease expiration schedule in the fourth quarter and comparing that to the same metric last quarter. The square footage that's expiring went up almost 150,000 square feet but the ABR went down a little bit. I just wanted to see why that happened. I imagine some of that is mix. But with some of these leases that expired in the second and third quarter, were they just extended on a short-term basis with no rent associated with it? Or what exactly happened?

Victor J. Coleman: I mean that's – listen, I can get the guide to you in detail, but we announced that at our Met Park North, Amazon exercised their termination, and that was almost a 100% of that number.

John P. Kim: Okay. So that got moved up – the expiration got moved up to the fourth quarter?

Victor J. Coleman: Correct.

John P. Kim: Okay. Okay. Thank you.

Operator: Your next question comes from Katie Elders with Jefferies. Your line is now open.

Pete Abramowitz: Hi. This is actually Peter on the line. Just wanted to go back to some of the comments on coverage on your expirations. So maybe one for Mark or Art. I think you said for remaining five largest expirations in 2025, you have 64% coverage. Can you just remind us how you sort of define coverage and help us think through sort of historically what's the success rate in translating when you have coverage on a lease actually getting a renewal then?

Arthur X. Suazo: Yeah. This is Art. So the coverage is deals in proposals, LOIs, we make a distinction and leases, right? And to give you a percentage on success rate, I think our teams have been at a clip of about 70%, 75% on deals that we have in negotiation that we take to lease.

Pete Abramowitz: Okay. So is the way to think about it then, the kind of 75% success rate on that 64% is like a sort of a good way to gauge it?

Arthur X. Suazo: Yeah.

Pete Abramowitz: Okay. Got it. And then one other, I just want to make sure I heard Harout correctly in your comments. Was the change in the same-store guide simply just the removal of Foothill Research Center? Or was there anything else to call out in the guide there?

Harout Krikor Diramerian: Yeah, that's the biggest driver. Without that, we would have been the same.

Pete Abramowitz: Okay. All right. That's all for me. Thanks

Operator: Your next question comes from Rich Anderson with Wedbush. Your line is now open.



Richard Anderson: Thanks. Good afternoon. So just looking back when you bought the Peninsula, Silicon Valley portfolio in 2015, that was 15 million square feet, 53 assets. Just looking at your disclosure on page 17, excluding San Francisco, you've got 17 assets in those markets, 5.5 million square feet. I don't know if that's apples-to-apples in terms of what has happened over the past 10 years, but what is your appetite and your interest in the sort of the non-San Francisco Bay Area assets that remain in the portfolio? Is that where you would see maybe a significant portion of future sales going forward? Thanks.

Victor J. Coleman: Yeah, Rich, I'm not sure about your math on that because I think you said 15 million square feet. It was almost like 8.2 million square feet. It was the size of the portfolio, not 15 million square feet. But regardless, your question is about the Peninsula and the quality of those assets in the Peninsula and whether or not they're earmarked for potential disposition over a period of time. I would say that given the activity that we currently have on the six assets, one of which you note, the number of the assets in that marketplace is half. So the majority of the assets are in other markets as well.

That being said, there're some very high-quality assets in that portfolio that we are still very excited to be owners of. And there's a couple in the Redwood Shores area. We've commented on in the past that's a marketplace that I think we would exercise some prudent guidance if we could exit those assets in that marketplace. And we've had some reverse increase on that that are not a part of the...

Richard Anderson: [indiscernible] (00:43:24)

Victor J. Coleman: ...yeah, sorry. I was going to say we had reverse increase. They are not part of the six assets. Go ahead, Rich.

Richard Anderson: Okay. Fair enough. Yeah. I was looking at the combined company at the time of that deal. So apologies for that 8.2 million square feet. It's – I'm obviously wrong in saying 15 million square feet.

And then the second question is, Victor, you had said at some point along the way that the studio business has resulted in, and correct me if I'm wrong, \$100 million of lost EBITDA because of all of the things that have happened. How has that number changed in terms of the potential recapture going forward? Has that gone up? Or has it stabilized in that range? I'm just curious what we're looking at as a possible recapture of EBITDA as studio business starts to stabilize and improve going forward? Thanks.

Victor J. Coleman: Got it. I mean, Mark, do you want to jump in?

Mark Lammas: Yeah. Yeah. Rich, hard to perfectly recreate what you have in mind on the \$100 million. Historically, we've pointed the fact that the same-store studios have contributed on a consolidated basis around, call it, \$34 million in 2022. On that, we – our view around Quixote is that it has the potential on historically to – based on historical pro formas to generate, call it, \$60-plus million of the EBITDA. So those two combined get you essentially to that \$100 million of EBITDA.

The same-store studios continue to hold up well. We got back some stages during the strike at Sunset Las Palmas. They are being back filled. We've got four or five of those stages are currently spoken for. As production improves, we're expecting to see that those get absorbed into 2025.

That takes us to Quixote. For the time being, you're seeing the results come through. Show counts in the third quarter were in the low 80s. They got to 90 by October. We think they're going to continue to



improve here on out, judging by the number of holds we have, the tours we've got, the indications of interest we have across the services business. And as those show counts improve, so will the EBITDA for the Quixote business. And we think – and we demonstrated in the fourth quarter annualized 2022 results, that was \$44 million at a clip. If we can get to that 120-ish show count level, we should be right back around that level. And that in combination with that same-store, you're looking at about \$75 million of run rate EBITDA across the studio platform.

Richard Anderson: Okay, great. Great color. Thanks, Mark.

Victor J. Coleman: Thanks, Rich.

Operator: Your next question comes from Tom Catherwood with BTIG. Your line is now open.

Thomas Catherwood: Thank you so much, and good afternoon, everybody. Maybe starting with Art, a two-part question on Seattle for you. First, how is sublease availability impacting demand for Washington 1000 if at all?

And then second, over in Pioneer Square, you've made progress at 411 First this year. What are your expectations for 505 First to 95 Jackson over the near term?

Arthur X. Suazo: Sure. I'll start with sublease. The reduction of sublease supply is one of the positive fundamental shifts consistent across all our portfolio, not just in Seattle. In this quarter alone, we've seen the most significant improvement in San Francisco and Seattle, where the market has absorbed 400,000 square feet and 350,000 square feet, respectively, much of which is high-quality space, allowing us to compete more effectively.

The second question is yeah, 411 yeah, that was our VSP program at work. We've talked about it constantly. The market demand is in smaller spaces, 5,000, certainly under 10,000 square feet. We leased 411 to 94% and it was just a great success story there. In 505, those are larger floor plates, about 45,000 square foot plates. As we've talked about, we're starting to see demand grow significantly. And in Seattle, we're starting to see the – kind of 20,000 to 50,000 square foot tenants, which is right in our wheelhouse, increase out there we're touring constantly. We feel that there's a one to three floor tenant out there that we're going to make some real headway on them very, very shortly.

Thomas Catherwood: Excellent. I appreciate that, Art. And then last one for me, maybe for Mark. It looks like you opened a new hub for Quixote in Atlanta. Have you been moving assets and staff to that market from the West Coast? And is the new hub in response to visible demand in that market? Or is it kind of more spec in nature?

Mark Lammas: It's not a new hub. I mean there was always an Atlanta presence from the inception at the time of purchase at Quixote. So there's nothing new. It is obviously a recognition of the status of Atlanta in terms of the overall domestic landscape on content creation. We've got roughly, I don't know, 10-ish plus percent of our overall fleet stationed there. And over the years, as Atlanta has seen its share of content creation, that fleet has been very well utilized.

So when things pick back up domestically, we expect to see it improve in Atlanta and we'll see that utilization likewise go up. We also have the freedom. The good news – one of the best attributes of the Quixote business is that fleet is, by definition, transportable. So we have the requisite facilities in



Atlanta, so we could enhance our fleet there. If we see growing demand for it, we could do it readily. And at this point, we're just waiting to see things improve across the board domestically.

Thomas Catherwood: Appreciate that. Thanks, everyone.

Mark Lammas: I think you might be referring to a new – we have a relatively new presence in Albuquerque. That fleet has done incredibly, incredibly well because Albuquerque has been one of the bright spots domestically.

Operator: Our next question today comes from Dylan Burzinski with Green Street. Your line is now open.

Dylan Burzinski: Good afternoon, guys. Thanks for taking the question. I think over the last several quarters, you guys talked about being able to achieve or ending the year in terms of office occupancy flat versus end of last year's figures. But it doesn't seem like that's the case any longer. So just trying – just curious, trying to figure out sort of what has changed in the last several months to where you guys no longer feel like you guys can reach flat occupancy year-over-year. I realize some of that is probably Amazon related. But maybe if you can just talk about sort of why that's kind of new news and being incorporated in guide or in occupancy now? And then two, like has anything changed on the leasing front? It seems like if anything at all, like leasing momentum has picked up throughout the year. So just more thoughts on that would be helpful.

Mark Lammas: Yeah. I mean you singled out one of the two factors. We would be – we're confident we would have been flat, if not slightly improved by year-end, but for two changes. One, Amazon exercising the early termination, which increased our expirations by year-end by 140,000 feet. And then the held-for-sale for Foothill roughly has a 20- basis-point impact on occupancy percentage. And – but for those two new developments, we expected to finish the year at or above current occupancy levels.

Dylan Burzinski: And then I guess just one more from me. I mean, touching on the return to office momentum that you guys are seeing across the tech landscape, especially with some of the larger tech companies like Amazon. I mean what we saw in New York was as RTO picked up, you saw a pretty swift correlation to an improvement in leasing activity and minimal downsizing upon vacate. I guess one of the things we're trying to figure out is how does that parallel with what you guys expect to happen on the West Coast? It seems like the pickup in RTO is not necessarily causing a direct improvement in leasing demand, whether it be due to cyclical factors or something else.

So just as you guys sit here today and look at the momentum you're seeing on RTO, I mean can you sort of talk about any offsetting impact associated with that? I mean it seems like Amazon is still and some of the other larger tech companies are still giving back space. So can you kind of just talk about some of the puts and takes and how you guys see that playing out over the next 12 months?

Victor J. Coleman: So Dylan, macro-wise, Art mentioned it, and we mentioned it in our prepared remarks, I mean, you've seen a phenomenal downturn in sublease space, right? And so – and if you really classify A versus B, the A space is pretty much all taken. And so that will correlate to some form of a macro move on RTO. I think we feel the momentum shift is in place for a similar wave on the West Coast that we've seen on the East Coast. And the tech companies are just getting back, right? I mean Amazon is not back five days until January 9, I think, is the date, and so is Dell and so is Salesforce. And



then the follow suite on that will be who's back, how much do we need? And then where do we go from there?

I do think one of the differences on the tech side versus the finance side, East Coast being the finance and West Coast being the tech, is a lot of these tech companies are realizing that they have a desperate need to increase their space, but they want to control their space. And what I mean by that is they're all coming out and saying, hey, we want the entire building, or we want the entire availability of security or ingress and egress and the likes of that. So it's making it a little more challenging to pick and choose which assets they want to be at. I think once those assets that are available today that are single-tenant assets come off the marketplace, then you're going to see a much bigger wave. So on a macro basis, I think that's what we feel and we're confident we're going to see that impact by second, third quarter of 2025.

Arthur X. Suazo: Victor said it exactly right, Dylan. And on top of that, let me just say, as we're doing deals, even with tenants in the process of return to office and trying to decide what their footprint looks like more than ever, we're having conversations about future growth even as they're leasing space, right? So they want to talk about how they can secure future growth in the lease because this potentially may not be good enough that's the inference, right?

Dylan Burzinski: Great. That's incredibly helpful detail, Victor and Art. Thank you so much.

Victor J. Coleman: Thanks, Dylan.

Operator: Your next question comes from Ronald Kamden with Morgan Stanley. Your line is now open.

Ronald Kamdem: Hey. Just two quick ones. Just looking at the NOI margin in the quarter, maybe was that seasonality? Or what sort of drove it down? And I think you mentioned occupancy not really bottoming until the sort of the middle of next year. As that occupancy declines at the beginning of next year, is that – should we expect more margin pressure?

Harout Krikor Diramerian: I'm sorry, are you referring to margin pressure on the studio properties, on the office properties?

Ronald Kamdem: On the office properties.

Harout Krikor Diramerian: Got it. I think the impact there is just basically, leasing activity in the middle of the quarter. So we – like we said, we rolled off that one tenant, and that drove down some of the – margin, I apologize, yeah.

Ronald Kamdem: Okay. Great. And then just my second question was just a follow-up on Amazon. Obviously, you still have two leases with them. Just what are conversations like? Any sort of update on their plans with those leases? Clearly, a lot of term on those, but wondering if they're – how they're utilizing that space? Thanks.

Victor J. Coleman: Ron, we're in active conversations. Obviously, we don't get into the details, but suffice to say, Amazon is talking to us on existing assets and some future growth throughout our Pacific Northwest portfolio. So we're confident in their ability to continue to grow within our markets and candidly in the Hudson portfolio.



The Met Park North asset was not something that we were surprised that they were going to turn around and give back. We just thought it would be probably beginning of the year versus the end. But remember, we did renew them for a very short reason – timeframe for a reason, and they were looking to expand their portfolio outside of that.

Ronald Kamdem: Great. That's it for me. Thank you.

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

Victor J. Coleman: Thanks so much for participating today and appreciate the support of Hudson Pacific. Have a good rest of your evening.

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