Hudson Pacific Properties, Inc.
Form 10-Q
August 04, 2017

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 June 30, 2017
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.)
Commission File Number: 333-202799-01 (Hudson Pacific Properties, L.P.)

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 Website, 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Hudson Pacific Properties, Inc.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o	

Hudson Pacific Properties, L.P

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Hudson Pacific Properties, Inc. o Hudson Pacific Properties, L.P. 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 of Hudson Pacific Properties, Inc. outstanding at August 1, 2017 was 156,070,227.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the three months ended June 30, 2017 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 June 30, 2017, Hudson Pacific Properties, Inc. owned approximately 99.6% of the outstanding common units of partnership interest (including unvested restricted units) in our operating partnership, or common units. The remaining approximately 0.4% of outstanding common units at June 30, 2017 were owned by certain of our executive officers and directors, certain of their affiliates and other outside investors. As of December 31, 2016, certain affiliates of Blackstone Group L.P. (“Blackstone”) and Farallon Capital Management, LLC (“Farallon Funds”) held an ownership interest in the Company and the operating partnership. Following a common stock offering and a common unit repurchase on January 10, 2017, Blackstone and Farallon Funds informed us that they no longer owned common stock or common units in the Company or the operating partnership. 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.

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 a 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 “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 our Company 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 Part I, 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. AND HUDSON PACIFIC PROPERTIES, L.P.
QUARTERLY REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017
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PART I—FINANCIAL INFORMATION

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

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate assets		
Land	$1,413,269	$1,265,399
Building and improvements	4,765,915	4,502,235
Tenant improvements	403,359	373,778
Furniture and fixtures	7,230	4,276
Property under development	247,634	295,239
Total real estate held for investment	6,837,407	6,440,927
Accumulated depreciation and amortization	(506,118)	(419,368)
Investment in real estate, net	6,331,289	6,021,559
Cash and cash equivalents	73,242	83,015
Restricted cash	17,284	25,177
Accounts receivable, net	4,088	6,852
Straight-line rent receivables, net	93,093	87,281
Deferred leasing costs and lease intangible assets, net	282,272	309,962
Derivative assets	5,858	5,935
Goodwill	8,754	8,754
Prepaid expenses and other assets, net	32,777	27,153
Investment in unconsolidated entities	15,377	37,228
Assets associated with real estate held for sale	—	66,082
TOTAL ASSETS	$6,864,034	$6,678,998
LIABILITIES AND EQUITY		
Notes payable, net	$2,598,780	$2,688,010
Accounts payable and accrued liabilities	134,237	120,444
Lease intangible liabilities, net	66,438	80,130
Security deposits	35,655	31,495
Prepaid rent	33,344	40,755
Derivative liabilities	987	1,303
Liabilities associated with real estate held for sale	—	3,934
TOTAL LIABILITIES	2,869,441	2,966,071
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, 155,301,850 shares and 136,492,235 shares outstanding at June 30, 2017 and December 31, 2016, respectively	1,553	1,364
Additional paid-in capital	3,656,009	3,109,394
Accumulated other comprehensive income	5,960	9,496
Accumulated income (deficit)	7,592	(16,971)
Total Hudson Pacific Properties, Inc. stockholders' equity	3,671,114	3,103,283
Non-controlling interest—members in consolidated entities	299,898	304,608
Non-controlling interest—units in the operating partnership	13,404	294,859
TOTAL EQUITY	3,984,416	3,702,750
TOTAL LIABILITIES AND EQUITY	$6,864,034	$6,678,998

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Office				
Rental	$133,602	$118,047	$267,118	$234,274
Tenant recoveries	25,038	21,303	42,439	41,836
Parking and other	8,212	5,050	14,111	10,582
Total Office revenues	166,852	144,400	323,668	286,692
Media & Entertainment				
Rental	9,105	6,857	15,790	12,885
Tenant recoveries	129	213	794	412
Other property-related revenue	4,361	2,810	8,403	7,779
Other	53	41	130	90
Total Media & Entertainment revenues	13,648	9,921	25,117	21,166
TOTAL REVENUES	180,500	154,321	348,785	307,858
OPERATING EXPENSES				
Office operating expenses	55,468	49,091	103,422	96,794
Media & Entertainment operating expenses	7,003	6,295	14,254	12,247
General and administrative	14,506	13,016	28,316	25,519
Depreciation and amortization	75,415	66,108	146,182	134,476
TOTAL OPERATING EXPENSES	152,392	134,510	292,174	269,036
INCOME FROM OPERATIONS	28,108	19,811	56,611	38,822
OTHER EXPENSE (INCOME)				
Interest expense	21,695	17,614	43,625	34,865
Interest income	(16)	(73)	(46)	(86)
Unrealized loss on ineffective portion of derivative instruments	51	384	45	2,509
Acquisition-related expenses	—	61	—	61
Other income	(576)	(47)	(1,254)	(23)
TOTAL OTHER EXPENSES	21,154	17,939	42,370	37,326
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	6,954	1,872	14,241	1,496
Gains on sale of real estate	—	2,163	16,866	8,515
NET INCOME	6,954	4,035	31,107	10,011
Net income attributable to preferred units	(159)	(159)	(318)	(318)
Net income attributable to participating securities	(255)	(196)	(495)	(393)
Net income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Net income attributable to units in the operating partnership	(13)	(445)	(215)	(1,867)
Net income attributable to Hudson Pacific Properties, Inc. common stockholders	$3,553	$839	$24,068	$3,092
Basic and diluted per share amounts:				
Net income attributable to common stockholders—basic	$0.02	$0.01	$0.16	$0.03
Net income attributable to common stockholders—diluted	$0.02	$0.01	$0.16	$0.03
Weighted average shares of common stock outstanding—basic	155,290,559	95,145,496	151,640,853	92,168,432
Weighted average shares of common stock outstanding—diluted	156,095,603	95,995,496	152,431,897	93,000,432

Dividends declared per share	$0.250	$0.200	$0.500	$0.400

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	$6,954	$4,035	$31,107	$10,011
Other comprehensive (loss) income: change in fair value of derivative instruments	(2,760)	(8,430)	104	(23,905)
Comprehensive income (loss)	4,194	(4,395)	31,211	(13,894)
Comprehensive income attributable to preferred units	(159)	(159)	(318)	(318)
Comprehensive income attributable to participating securities	(255)	(196)	(495)	(393)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Comprehensive (income) loss attributable to units in the operating partnership	(3)	2,474	(233)	7,040
Comprehensive income (loss) attributable to Hudson Pacific Properties, Inc. stockholders	$803	$(4,672)	$24,154	$(11,906)

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	Additional Paid-in Capital	Accumulated (Deficit) Income	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Units in the Operating Partnership	Non-controlling Interest—Members in Consolidated Entities	Total Equity
Balance at January 1, 2016	89,153,780	$891	$1,710,979	$(44,955)	$(1,081)	$1,800,578	$262,625	$3,729,037
Contributions	—	—	—	—	—	—	33,996	33,996
Distributions	—	—	—	—	—	—	(1,303)	(1,303)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	47,010,695	470	1,449,111	—	—	—	—	1,449,581
Issuance of unrestricted stock	590,520	6	—	—	—	—	—	6
Shares withheld to satisfy tax withholding	(262,760)	(3)	(8,424)	—	—	—	—	(8,427)
Declared dividend	—	—	(90,005)	—	—	(27,814)	—	(117,819)
Amortization of stock-based compensation	—	—	13,609	—	—	1,045	—	14,654
Net income	—	—	—	27,984	—	5,848	9,290	43,122
Change in fair value of derivatives	—	—	—	—	10,577	(4,635)	—	5,942
Redemption of common units in the operating partnership	—	—	34,124	—	—	(1,480,163)	—	(1,446,039)
Balance at December 31, 2016	136,492,235	1,364	3,109,394	(16,971)	9,496	294,859	304,608	3,702,750
Contributions	—	—	—	—	—	—	3,870	3,870
Distributions	—	—	—	—	—	—	(14,591)	(14,591)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	18,656,575	187	647,322	—	—	—	—	647,509
Issuance of unrestricted stock	273,301	3	(3)	—	—	—	—	—
	(120,261)	(1)	(4,202)	—	—	—	—	(4,203)

Shares withheld to satisfy tax withholding								
Declared dividend	—	—	(78,835)	—	—	(328)	—	(79,163)
Amortization of stock-based compensation	—	—	6,868	—	—	1,338	—	8,206
Net income	—	—	—	24,563	—	215	6,011	30,789
Change in fair value of derivatives	—	—	—	—	86	18	—	104
Redemption of common units in the operating partnership	—	—	(24,535)	—	(3,622)	(282,698)	—	(310,855)
Balance at June 30, 2017	155,301,850	$1,553	$3,656,009	$7,592	$5,960	$13,404	$299,898	$3,984,416

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)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$31,107	$10,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	146,182	134,476
Amortization of deferred financing costs and loan premium, net	2,373	2,134
Amortization of stock-based compensation	7,788	6,643
Straight-line rents	(5,781)	(11,281)
Straight-line rent expenses	160	750
Amortization of above- and below-market leases, net	(10,405)	(9,302)
Amortization of above- and below-market ground lease, net	1,470	1,070
Amortization of lease incentive costs	758	655
Bad debt (recovery) expense	(75)	512
Amortization of discount and net origination fees on purchased and originated loans	—	(208)
Unrealized loss on ineffective portion of derivative instruments	45	2,509
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	3,177	10,001
Deferred leasing costs and lease intangibles	(15,216)	(25,725)
Prepaid expenses and other assets	(5,873)	(5,882)
Accounts payable and accrued liabilities	6,304	5,619
Security deposits	3,667	4,214
Prepaid rent	(7,779)	(8,814)
Net cash provided by operating activities	141,036	108,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(147,476)	(104,112)
Property acquisitions	(257,734)	—
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	14,893	—
Deposit for property acquisitions	—	(20,000)
Proceed from repayment of notes receivable	—	28,892
Net cash (used in) provided by investing activities	(309,681)	160,242
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	230,000	677,000
Payments of notes payable	(321,270)	(597,416)
Proceeds from issuance of common stock, net	647,509	293,628
Payment for redemption of common units in the operating partnership	(310,855)	(294,209)
Distributions paid to common stockholders and unitholders	(79,163)	(59,119)
Distributions paid to preferred unitholders	(318)	(318)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(14,591)	(663)
Payments to satisfy tax withholding	(4,203)	(1,776)

Payments of loan costs	—	(1,334)
Net cash provided by financing activities	150,979	15,896
Net (decrease) increase in cash and cash equivalents and restricted cash	(17,666)	285,005
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$90,526	$356,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$42,462	$38,714
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(3,427)	$(8,866)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate assets		
Land	$1,413,269	$1,265,399
Building and improvements	4,765,915	4,502,235
Tenant improvements	403,359	373,778
Furniture and fixtures	7,230	4,276
Property under development	247,634	295,239
Total real estate held for investment	6,837,407	6,440,927
Accumulated depreciation and amortization	(506,118)	(419,368)
Investment in real estate, net	6,331,289	6,021,559
Cash and cash equivalents	73,242	83,015
Restricted cash	17,284	25,177
Accounts receivable, net	4,088	6,852
Straight-line rent receivables, net	93,093	87,281
Deferred leasing costs and lease intangible assets, net	282,272	309,962
Derivative assets	5,858	5,935
Goodwill	8,754	8,754
Prepaid expenses and other assets, net	32,777	27,153
Investment in unconsolidated entities	15,377	37,228
Assets associated with real estate held for sale	—	66,082
TOTAL ASSETS	$6,864,034	$6,678,998
LIABILITIES		
Notes payable, net	$2,598,780	$2,688,010
Accounts payable and accrued liabilities	134,237	120,444
Lease intangible liabilities, net	66,438	80,130
Security deposits	35,655	31,495
Prepaid rent	33,344	40,755
Derivative liabilities	987	1,303
Liabilities associated with real estate held for sale	—	3,934
TOTAL LIABILITIES	2,869,441	2,966,071
6.25% Series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
CAPITAL		
Hudson Pacific Properties, L.P. partners' capital:		
Common units, 155,870,895 and 145,942,855 issued and outstanding at June 30, 2017 and December 31, 2016, respectively.	3,678,536	3,392,264
Accumulated other comprehensive income	5,982	5,878
Total Hudson Pacific Properties, L.P. partners' capital	3,684,518	3,398,142
Non-controlling interest—members in consolidated entities	299,898	304,608
TOTAL CAPITAL	3,984,416	3,702,750
TOTAL LIABILITIES AND CAPITAL	$6,864,034	$6,678,998

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Office				
Rental	$133,602	$118,047	$267,118	$234,274
Tenant recoveries	25,038	21,303	42,439	41,836
Parking and other	8,212	5,050	14,111	10,582
Total Office revenues	166,852	144,400	323,668	286,692
Media & Entertainment				
Rental	9,105	6,857	15,790	12,885
Tenant recoveries	129	213	794	412
Other property-related revenue	4,361	2,810	8,403	7,779
Other	53	41	130	90
Total Media & Entertainment revenues	13,648	9,921	25,117	21,166
TOTAL REVENUES	180,500	154,321	348,785	307,858
OPERATING EXPENSES				
Office operating expenses	55,468	49,091	103,422	96,794
Media & Entertainment operating expenses	7,003	6,295	14,254	12,247
General and administrative	14,506	13,016	28,316	25,519
Depreciation and amortization	75,415	66,108	146,182	134,476
TOTAL OPERATING EXPENSES	152,392	134,510	292,174	269,036
INCOME FROM OPERATIONS	28,108	19,811	56,611	38,822
OTHER EXPENSE (INCOME)				
Interest expense	21,695	17,614	43,625	34,865
Interest income	(16)	(73)	(46)	(86)
Unrealized loss on ineffective portion of derivative instruments	51	384	45	2,509
Acquisition-related expenses	—	61	—	61
Other income	(576)	(47)	(1,254)	(23)
TOTAL OTHER EXPENSES	21,154	17,939	42,370	37,326
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	6,954	1,872	14,241	1,496
Gains on sale of real estate	—	2,163	16,866	8,515
NET INCOME	6,954	4,035	31,107	10,011
Net income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Net income attributable to Hudson Pacific Properties, L.P.	3,980	1,639	25,096	5,670
Net income attributable to preferred units	(159)	(159)	(318)	(318)
Net income attributable to participating securities	(255)	(196)	(495)	(393)
Net income available to Hudson Pacific Properties, L.P. common unitholders	$3,566	$1,284	$24,283	$4,959
Basic and diluted per unit amounts:				
Net income attributable to common unitholders—basic	$0.02	$0.01	$0.16	$0.03
Net income attributable to common unitholders—diluted	$0.02	$0.01	$0.16	$0.03
Weighted average shares of common units outstanding—basic	155,859,604	145,549,363	152,647,055	145,518,523
Weighted average shares of common units outstanding—diluted	156,664,648	146,399,363	153,438,100	146,350,523

Dividends declared per unit	$0.250	$ 0.200	$0.500	$ 0.400

The accompanying notes are an integral part of these consolidated financial statements.

HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$6,954	$4,035	$31,107	$10,011
Other comprehensive (loss) income: change in fair value of derivative instruments	(2,760)	(8,430)	104	(23,905)
Comprehensive income (loss)	4,194	(4,395)	31,211	(13,894)
Comprehensive income attributable to preferred units	(159)	(159)	(318)	(318)
Comprehensive income attributable to participating securities	(255)	(196)	(495)	(393)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Comprehensive income (loss) attributable to Hudson Pacific Properties, L.P. partners' capital	$806	$(7,146)	$24,387	$(18,946)

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)

	Hudson Pacific Properties, L.P. Partners' Capital				
	Number of Common Units	Common Units	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Members in Consolidated Entities	Total Capital
Balance at January 1, 2016	145,450,095	$3,466,476	$ (64)	$ 262,625	$3,729,037
Contributions	—	—	—	33,996	33,996
Distributions	—	—	—	(1,303)	(1,303)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	47,010,695	1,449,581	—	—	1,449,581
Issuance of unrestricted units	590,520	6	—	—	6
Units withheld to satisfy tax withholding	(262,760)	(8,427)	—	—	(8,427)
Declared distributions		(117,819)	—	—	(117,819)
Amortization of unit-based compensation	—	14,654	—	—	14,654
Net income	—	33,832	—	9,290	43,122
Change in fair value of derivative instruments	—	—	5,942	—	5,942
Redemption of common units	(46,845,695)	(1,446,039)	—	—	(1,446,039)
Balance at December 31, 2016	145,942,855	3,392,264	5,878	304,608	3,702,750
Contributions	—	—	—	3,870	3,870
Distributions	—	—	—	(14,591)	(14,591)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	18,656,575	647,509	—	—	647,509
Issuance of unrestricted units	273,301	—	—	—	—
Units withheld to satisfy tax withholding	(120,261)	(4,203)	—	—	(4,203)
Declared distributions	—	(79,163)	—	—	(79,163)
Amortization of unit-based compensation	—	8,206	—	—	8,206
Net income	—	24,778	—	6,011	30,789
Change in fair value of derivative instruments	—	—	104	—	104
Redemption of common units	(8,881,575)	(310,855)	—	—	(310,855)
Balance at June 30, 2017	155,870,895	$3,678,536	$ 5,982	$ 299,898	$3,984,416

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)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$31,107	$10,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	146,182	134,476
Amortization of deferred financing costs and loan premium, net	2,373	2,134
Amortization of unit-based compensation	7,788	6,643
Straight-line rents	(5,781)	(11,281)
Straight-line rent expenses	160	750
Amortization of above- and below-market leases, net	(10,405)	(9,302)
Amortization of above- and below-market ground lease, net	1,470	1,070
Amortization of lease incentive costs	758	655
Bad debt (recovery) expense	(75)	512
Amortization of discount and net origination fees on purchased and originated loans	—	(208)
Unrealized loss on ineffective portion of derivative instruments	45	2,509
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	3,177	10,001
Deferred leasing costs and lease intangibles	(15,216)	(25,725)
Prepaid expenses and other assets	(5,873)	(5,882)
Accounts payable and accrued liabilities	6,304	5,619
Security deposits	3,667	4,214
Prepaid rent	(7,779)	(8,814)
Net cash provided by operating activities	141,036	108,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(147,476)	(104,112)
Property acquisitions	(257,734)	—
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	14,893	—
Deposit for property acquisitions	—	(20,000)
Proceed from repayment of notes receivable	—	28,892
Net cash (used in) provided by investing activities	(309,681)	160,242
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	230,000	677,000
Payments of notes payable	(321,270)	(597,416)
Proceeds from issuance of common units, net	647,509	293,628
Payment for redemption of common units	(310,855)	(294,209)
Distributions paid to common unitholders	(79,163)	(59,119)
Distributions paid to preferred unitholders	(318)	(318)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(14,591)	(663)

Payments to satisfy tax withholding	(4,203)	(1,776)
Payments of loan costs	—	(1,334)
Net cash provided by financing activities	150,979	15,896
Net (decrease) increase in cash and cash equivalents and restricted cash	(17,666)	285,005
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$90,526	$356,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$42,462	$38,714
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(3,427)	$(8,866)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

The accompanying notes are an integral part of these consolidated financial statements.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited 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 as 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 "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 Northern California region. 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.

The Company's portfolio consists of properties located throughout Northern and Southern California and the Pacific Northwest. The following table summarizes our portfolio as of June 30, 2017:

	Number of Properties	Square Feet (unaudited)
Office properties:		
Northern California[1]	29	9,595,286
Southern California[2]	16	2,817,509
Pacific Northwest[3]	7	1,490,613
Total Office properties	52	13,903,408
Media & Entertainment properties:		
Southern California[2]	3	1,256,577
Total Media & Entertainment properties	3	1,256,577
Total	55	15,159,985

(1) Includes the San Francisco, Redwood Shores, Palo Alto, Milpitas, North San Jose, San Mateo, Foster City and Santa Clara submarkets.
(2) Includes the Burbank, Hollywood, Torrance, West Los Angeles and Downtown Los Angeles submarkets.
(3) Includes the Lynnwood, South Lake Union and Pioneer Square submarkets.

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, 2017. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the 2016 Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. and the notes thereto.

Certain amounts in the consolidated financial statements for the prior period have been reclassified to conform to the current period presentation. Specifically, in the Consolidated Balance Sheets for the prior period, certain amounts have been reclassified to held for sale. These amounts relate to 3402 Pico Boulevard, which was sold on March 21, 2017.

Principles of Consolidation

The unaudited interim consolidated financial statements of the Company include the accounts of the Company, the operating partnership and all wholly owned subsidiaries and variable interest entities (“VIEs”), of which the Company 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.

The Company consolidates all VIEs of which the Company is considered the primary 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. Four of the Company’s joint ventures and its operating partnership meet the definition of a VIE. The Company is the primary beneficiary of and consolidates three of the joint ventures and the operating partnership. Refer to Note 16 for details. Substantially all of the assets and liabilities of the Company are related to these VIEs. As of June 30, 2017, the Company is not consolidating one of its joint ventures, of which it is not the primary beneficiary. As of December 31, 2016, the Company was not consolidating one of its joint ventures, of which it is not the primary beneficiary, and an interest in land. Due to its significant influence over non-consolidated entities, the Company accounts for them using the equity method of accounting. Refer to Note 7 for details.

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.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (the “FASB”) in the form of Accounting Standards Update (“ASU”). The following ASUs were adopted by the Company in 2017:

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This guidance removes step two from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.	The Company early adopted this guidance during the second quarter of 2017 and applied it prospectively. The adoption did not have an impact on the Company’s consolidated financial statements.

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

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)	The guidance in this ASU is based on two SEC staff announcements made at the September 2016 and November 2016 EITF meetings. In the September meeting, the SEC announced that a registrant should disclose the potential material effects of the ASUs related to revenues, leases and credit losses on financial instruments. As a result of the November meeting, the ASU conforms Accounting Standards Codification (“ASC”) 323 to the guidance issued in ASU 2014-01 related to investments in qualified affordable housing projects.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. With the adoption, the Company provided updates on its implementation of the ASUs related to revenue, leases and credit losses on financial instruments. Please refer to sections below for updates on the implementation of revenue and lease ASUs. The ASU related to credit losses on financial instruments could have a material impact on trade receivables and the Company is currently assessing the impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements.
ASU 2016-19, Technical Corrections and Improvements	The technical corrections make minor change to certain aspects of the FASB ASC, including changes to resolve differences between current and pre-Codification guidance, updates to wording, references to avoid misapplication and textual simplifications to increase the Codification’s utility and understandability and minor amendments to guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This guidance requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company revised the Consolidated Statement of Cash Flows and disclosed the reconciliation to the related captions in the Consolidated Balance Sheets in Note 19.
ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control	This guidance outlines how a single decisionmaker of a VIE should treat indirect interests held through other related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE.	The Company adopted this guidance during the first quarter of 2017 and applied it retrospectively. The adoption did not have a material impact on the Company’s consolidated financial statements

		and did not change the consolidation conclusion.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU clarifies how certain transactions should be classified in the statement of cash flows, including debt prepayment costs, contingent consideration payments made after a business combination and distributions received from equity method investments. The ASU provides two approaches to determine the classification of cash distributions received from equity method investments: (i) the “cumulative earnings” approach, under which distributions up to the amount of cumulative equity in earnings recognized will be classified as cash inflows from operating activities, and those in excess of that amount will be classified as cash inflows from investing activities and (ii) the “nature of the distribution” approach, under which distributions will be classified based on the nature of the underlying activity that generated cash distributions. The guidance requires a Company to elect either the “cumulative earnings” approach or the “nature of the distribution” approach at the time of adoption.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company elected the “nature of the distribution” approach related to the distributions received from its equity method investments. The adoption did not have an impact on the Company’s Consolidated Statements of Cash Flows.

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

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting	The guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance also requires an investor that has an available-for-sale security that subsequently qualifies for the equity method to recognize in net income the unrealized holding gains or losses in accumulated other comprehensive income related to that security when it begins applying the equity method. It is required to apply this guidance prospectively.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.
ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	The guidance states that the novation of a derivative contract (e.g., a change in the counterparty) in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. The hedge accounting relationship could continue uninterrupted if all of the other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. Either a prospective or a modified retrospective approach can be applied.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.

Update on ASC 606, Revenue from Contracts with Customers (“ASC 606”), implementation

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and specifically notes that lease contracts with customers are a scope exception. FASB has subsequently issued other ASUs to amend and provide further guidance related to ASC 606. These ASUs are effective for annual reporting periods (including interim periods) beginning after December 15, 2017. Either the full retrospective basis (to the beginning of its contracts) or modified retrospective method (from the beginning of the latest fiscal year of adoption) is permitted.

The Company has formed an implementation team, completed training of the new standards with the implementation team and begun review and documentation. Additionally, the Company has developed a project plan and is in the process of refining the project plan. The Company has preliminarily identified three revenue streams. Two of these revenue streams will be accounted for under ASC 606 when it becomes effective on January 1, 2018. The remaining one revenue stream integral to the Company’s leasing revenues will be accounted for under ASC 606, effective with the adoption of ASC 842 on January 1, 2019. The Company plans on adopting ASC 606 on January 1, 2018 using the modified retrospective approach.

Update on ASC 842, Leases (“ASC 842”), implementation

On February 25, 2016, the FASB issued ASU 2016-02 to amend the accounting guidance for leases. Under this guidance, lessor can capitalize only those costs that are defined as initial direct costs. The Company anticipates that indirect leasing costs will be expensed as incurred. For lessee accounting, this guidance requires all lessees to record a lease liability at lease inception, with a corresponding right-of-use asset, except for short-term leases. ASC 842 also provides practical expedients that allow entities to not (i) reassess whether any expired or existing contracts are or contain leases; (ii) reassess the lease classification for any expired or existing leases; (iii) reassess initial direct costs for any existing leases. This ASU is effective for annual reporting periods (including interim periods) beginning after December 15, 2018. It is required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the consolidated financial statements.

The Company has formed an implementation team, completed training of the new standards with the implementation team and begun review and documentation. As a lessor, the Company will expense indirect leasing costs as incurred under the new guidance. During the three and six months ended June 30, 2017, the Company capitalized $1.7 million and $3.2 million of indirect leasing costs, respectively. The Company continues to evaluate the amounts of right-of-use asset and lease liability that will need to be recorded with respect to its ground leases where it is the lessee. As of June 30, 2017, the future undiscounted minimum lease payments under the Company’s ground leases totaled $458.2 million. The Company plans on adopting the standard on January 1, 2019 and expects to adopt using the practical expedience elections.

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

Other recently issued ASUs

The Company considers the applicability and impact of all ASUs. The following table lists the recently issued ASUs that have not been disclosed in the Company's 2016 Annual Report on Form 10-K and have not been adopted by the Company. The list excludes those ASUs that are not expected to have a material impact on the Company's consolidated financial statements.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. It is required to apply this guidance prospectively.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2017	The Company does not currently expect a material impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements. The Company plans to adopt this guidance during the first quarter in 2018.
ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	The guidance updates the definition of an in substance nonfinancial asset and clarifies the scope of ASC 610-20 on the sale or transfer of nonfinancial assets to noncustomers, including partial sales. It also clarifies the derecognition guidance for nonfinancial assets to conform with the new revenue recognition standard. Either a full or modified retrospective approach can be applied.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2017	The Company currently expects that the adoption of this ASU could have a material impact on its consolidated financial statements; however, such impact will not be known until the Company disposes of any of its investments in real estate properties, which would all be sales of nonfinancial assets. The Company plans to adopt this guidance during the first quarter in 2018 and apply it using the modified retrospective approach.

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 assesses fair value based on Level 2 and Level 3 inputs within the fair value framework, which includes estimated cash flow projections that utilize appropriate discount, capitalization rates, renewal probability and available market information, which includes market rental rate and market rent growth rates. 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 are based on the estimated 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 below-market 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 and legal and other related costs.

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

The following table summarizes the information on the acquisitions completed during the six months ended June 30, 2017:

Property	Submarket	Segment	Date of Acquisition	Square Feet (unaudited)	Purchase Price[1] (in millions)
Sunset Las Palmas Studios[2]	Hollywood	Media and Entertainment	5/1/2017	369,000	$ 200.0
11601 Wilshire land[3]	West Los Angeles	Office	6/15/2017	N/A	50.0
6666 Santa Monica[4]	Hollywood	Media and Entertainment	6/29/2017	4,150	3.2
Total acquisitions				373,150	$ 253.2

(1) Represents purchase price before certain credits, prorations and closing costs.

(2) The property consists of stages, production office and support space on 15 acres near Sunset Gower Studios and Sunset Bronson Studios. The purchase price above does not include equipment purchased by the Company for $2.8 million, which purchase was transacted separately from the studio acquisition. In April 2017, the Company drew $150.0 million under the unsecured revolving credit facility to fund the acquisition.

(3) On July 1, 2016 the Company purchased a partial interest in land held as a tenancy in common in conjunction with its acquisition of the 11601 Wilshire property. The land interest held as a tenancy in common was accounted for as an equity method investment. On June 15, 2017, the Company purchased the remaining interest which was re-measured and allocated to land and building.

(4) This parcel is adjacent to the Sunset Las Palmas Studios property.

The Company evaluated each acquisition to determine if the integrated set of assets and activities acquired meet the definition of a business and need to be accounted for as a business combination in accordance with ASC 805, Business Combinations. An integrated set of assets and activities would fail to qualify as a business if either (i) substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets or (ii) the integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction). An acquired process is considered substantive if (i) the process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable and experienced in performing the process, (ii) the process cannot be replaced without significant cost, effort, or delay or (iii) the process is considered unique or scarce. These acquisitions did not meet the definition of a business and were therefore accounted for as asset acquisitions.

The following table represents the Company’s final aggregate purchase price accounting, as of the respective acquisition dates, for each of the Company’s acquisitions completed in the six months ended June 30, 2017:

	Sunset Las Palmas Studios[1]	11601 Wilshire land	6666 Santa Monica	Total
Investment in real estate, net	$ 202,723	$ 50,034	$ 3,091	$ 255,848
Deferred leasing costs and in-place lease intangibles[2]	1,741	—	145	1,886
Total asset assumed	$ 204,464	$ 50,034	$ 3,236	$ 257,734

(1) The purchase price allocation includes equipment purchased by the Company of $2.8 million.
(2) Represents weighted-average amortization period of 1.21 years.

Dispositions

The following table summarizes the properties sold during the six months ended June 30, 2017. These properties were non-strategic assets to the Company's portfolio:

Property	Date of Disposition	Square Feet (unaudited)	Sales Price[1] (in millions)
222 Kearny Street	February 14, 2017	148,797	$ 51.8
3402 Pico Boulevard	March 21, 2017	50,687	35.0
Total dispositions		199,484	$ 86.8

(1) Represents gross sales price before certain credits, prorations and closing costs.

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

The dispositions of these properties resulted in gains of $16.9 million for the six months ended June 30, 2017. This amount is included in gains on sale of real estate in the Consolidated Statements of Operations. There were no dispositions for the three months ended June 30, 2017.

Held for Sale

The Company had two properties classified as held for sale as of December 31, 2016. Both properties were disposed of during the first quarter of 2017. The Company had no properties classified as held for sale as of June 30, 2017.

Impairment of Long-Lived Assets

No impairment indicators have been noted and the Company recorded no impairment charges for the six months ended June 30, 2017.

4. Deferred Leasing Costs and Lease Intangibles, net

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

	June 30, 2017	December 31, 2016
Above-market leases	$21,881	$ 23,430
Accumulated amortization	(14,706)	(12,989)
Above-market leases, net	7,175	10,441
Deferred leasing costs and in-place lease intangibles	371,813	378,540
Accumulated amortization	(161,756)	(145,551)
Deferred leasing costs and in-place lease intangibles, net	210,057	232,989
Below-market ground leases	71,210	71,423
Accumulated amortization	(6,170)	(4,891)
Below-market ground leases, net	65,040	66,532
Deferred leasing costs and lease intangible assets, net	$282,272	$ 309,962
Below-market leases	$134,472	$ 141,676
Accumulated amortization	(69,018)	(62,552)
Below-market leases, net	65,454	79,124
Above-market ground leases	1,095	1,095
Accumulated amortization	(111)	(89)
Above-market ground leases, net	984	1,006
Lease intangible liabilities, net	$66,438	$ 80,130

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Above-market leases(1)	$1,911	$3,695	$3,267	$7,414
Below-market leases(1)	6,584	8,146	13,672	16,716
Deferred leasing costs and in-place lease intangibles(2)	20,644	22,098	40,437	44,666
Above-market ground leases(3)	11	11	22	22
Below-market ground leases(3)	844	546	1,492	1,092

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

5. Accounts Receivable, net

The Company's accounting policy and methodology used to estimate the allowance for doubtful accounts is discussed in the Company's 2016 Annual Report on Form 10-K. The following table summarizes the Company's accounts receivable, net of allowance for doubtful accounts as of:

	June 30, 2017	December 31, 2016
Accounts receivable	$5,857	$ 8,697
Allowance for doubtful accounts	(1,769)	(1,845)
Accounts receivable, net	$4,088	$ 6,852

6. Straight-line Rent Receivables, net

The Company's accounting policy and methodology used to estimate the allowance for doubtful accounts is discussed in the Company's 2016 Annual Report on Form 10-K. The following table represents the Company's straight-line rent receivables, net of allowance for doubtful accounts as of:

	June 30, 2017	December 31, 2016
Straight-line rent receivables	$93,210	$ 87,417
Allowance for doubtful accounts	(117)	(136)
Straight-line rent receivables, net	$93,093	$ 87,281

7. Investment in Unconsolidated Entities

Investment in unconsolidated real estate in which the Company has the ability to exercise significant influence (but not control) is accounted for under the equity method of investment. Under the equity method, the Company initially records the investment at cost and subsequently adjusts for equity in earnings or losses and cash contributions and distributions. The Company's net equity investment is reflected within investment in unconsolidated entities on the Consolidated Balance Sheets and the Company's share of net income or loss from the entity is included within other income on the Consolidated Statements of Operations.

On June 16, 2016, the Company entered into a joint venture to co-originate a loan secured by land in Santa Clara, California. The Company holds a 21% interest in the joint venture. The assets of the joint venture consist of the notes receivable. The Company’s investment in this joint venture was $15.4 million and $29.4 million as of June 30, 2017 and December 31, 2016, respectively, which represents the maximum exposure for loss for the Company. On June 13, 2017, the

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Company received a return of capital of $14.9 million. The joint venture meets the criteria of a VIE and the Company accounts for this investment under the equity method of accounting since the Company is not the primary beneficiary.

On July 1, 2016, the Company entered into an agreement with an unaffiliated third party related to the land on which its 11601 Wilshire property is located. The Company holds a 28% interest in the land held as a tenancy in common. The agreement does not meet the definition of a VIE and the Company accounts for its interest in the land held as a tenancy in common under the equity method of accounting. The Company's interest in the land was $7.8 million as of December 31, 2016. On June 15, 2017, the Company purchased the remaining interest for $50.0 million. See Note 3 for details. As a result of this transaction, $7.8 million is included within land on the consolidated balance sheets.

8. Goodwill

The Company's goodwill balance as of June 30, 2017 and December 31, 2016 was $8.8 million. The Company does not amortize this asset but instead analyzes it on a quarterly basis for impairment. No impairment indicators have been noted during the six months ended June 30, 2017.

9. Notes Payable, net

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

	June 30, 2017	December 31, 2016
Notes payable	$2,616,568	$2,707,839
Deferred financing costs, net[1]	(17,788)	(19,829)
Notes payable, net	$2,598,780	$2,688,010

(1) Excludes deferred financing costs related to establishing the Company's unsecured revolving credit facility of $1.2 million and $1.5 million as of June 30, 2017 and December 31, 2016, respectively, which are included in prepaid expenses and other assets, net in the Consolidated Balance Sheets.

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The following table sets forth information with respect to the amounts included in notes payable, net as of:

	June 30, 2017		December 31, 2016				
	Principal Amount	Deferred Financing Costs, net	Principal Amount	Deferred Financing Costs, net	Interest Rate[1]	Contractual Maturity Date	
UNSECURED LOANS							
Unsecured Revolving Credit Facility[2]	$210,000	$—	$300,000	$—	LIBOR+ 1.15% to 1.85%	4/1/2019	[3]
5-Year Term Loan due April 2020[2][4]	450,000	(2,972)	450,000	(3,513)	LIBOR+ 1.30% to 2.20%	4/1/2020	
5-Year Term Loan due November 2020[2]	175,000	(650)	175,000	(745)	LIBOR +1.30% to 2.20%	11/17/2020	
7-Year Term Loan due April 2022[2][5]	350,000	(2,049)	350,000	(2,265)	LIBOR+ 1.60% to 2.55%	4/1/2022	
7-Year Term Loan due November 2022[2][6]	125,000	(852)	125,000	(931)	LIBOR +1.60% to 2.55%	11/17/2022	
Series A Notes	110,000	(852)	110,000	(930)	4.34%	1/2/2023	
Series E Notes	50,000	(277)	50,000	(300)	3.66%	9/15/2023	
Series B Notes	259,000	(2,144)	259,000	(2,271)	4.69%	12/16/2025	
Series D Notes	150,000	(851)	150,000	(898)	3.98%	7/6/2026	
Series C Notes	56,000	(515)	56,000	(539)	4.79%	12/16/2027	
TOTAL UNSECURED LOANS	1,935,000	(11,162)	2,025,000	(12,392)			
MORTGAGE LOANS							
Mortgage Loan secured by Rincon Center[7]	99,392	(119)	100,409	(198)	5.13%	5/1/2018	
Mortgage Loan secured by Sunset Gower Studios/Sunset Bronson Studios	5,001	(1,180)	5,001	(1,534)	LIBOR+2.25%	3/4/2019	[3]
Mortgage Loan secured by Met Park North[8]	64,500	(342)	64,500	(398)	LIBOR+1.55%	8/1/2020	
Mortgage Loan secured by 10950 Washington[7]	27,675	(320)	27,929	(354)	5.32%	3/11/2022	
Mortgage Loan secured by Pinnacle I[9][10]	129,000	(542)	129,000	(593)	3.95%	11/7/2022	
Mortgage Loan secured by Element LA	168,000	(2,190)	168,000	(2,321)	4.59%	11/6/2025	
Mortgage Loan secured by Pinnacle II[10]	87,000	(682)	87,000	(720)	4.30%	6/11/2026	
Mortgage Loan secured by Hill7[11]	101,000	(1,251)	101,000	(1,319)	3.38%	11/6/2026	
TOTAL MORTGAGE LOANS	681,568	(6,626)	682,839	(7,437)			
TOTAL	$2,616,568	$(17,788)	$2,707,839	$(19,829)			

(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 June 30, 2017, which may be different than the interest rates as of December 31, 2016 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 June 30, 2017, no such election had been made.

(3) The maturity date may be extended once for an additional one-year term.

(4) Effective July 2016, $300.0 million of the term loan has been effectively fixed at 2.75% to 3.65% per annum through the use of two interest rate swaps. See Note 10 for details.

(5) Effective July 2016, the outstanding balance of the term loan has been effectively fixed at 3.36% to 4.31% per annum through the use of two interest rate swaps. See Note 10 for details.

(6) Effective June 1, 2016, the outstanding balance of the term loan has been effectively fixed at 3.03% to 3.98% per annum through the use of an interest rate swap. See Note 10 for details.

(7) Monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.

(8) This loan bears interest only. Interest on the full loan amount has been effectively fixed at 3.71% per annum through the use of an interest rate swap. See Note 10 for details.

(9) 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.

(10) The Company owns 65% of the ownership interests in the consolidated joint venture that owns the Pinnacle I and II properties. The full amount of the loan is shown.

(11) The Company owns 55% of the ownership interest in the consolidated joint venture that owns the Hill7 property. The full amount of the loan is shown. The maturity date of this loan can be extended for an additional two years at a higher interest rate and with principal amortization.

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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 Sunset Gower Studios and Sunset Bronson Studios, the Company's separate property-owning subsidiaries are not obligors of 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 have been no events of default associated with the Company's loans.

The following table summarizes the minimum future principal payments due (before the impact of extension options, if applicable) on the operating partnership's secured and unsecured notes payable as of June 30, 2017:

Year	Annual Principal Payments
Remaining 2017	$1,443
2018	101,157
2019	217,886
2020	692,493
2021	3,142
Thereafter	1,600,447
Total	$2,616,568

Unsecured Revolving Credit Facility

The operating partnership's unsecured revolving credit facility is amended from time to time. The terms of the arrangement are more fully described in the Company's 2016 Annual Report on Form 10-K. The Company uses the unsecured revolving credit facility to finance the acquisition of other properties, to provide funds for tenant improvements and capital expenditures and to provide for working capital and other corporate purposes. The following table summarizes the balance and key terms of the unsecured revolving credit facility as of:

	June 30, 2017	December 31, 2016
Outstanding borrowings	$210,000	$ 300,000
Remaining borrowing capacity	190,000	100,000
Total borrowing capacity	$400,000	$ 400,000
Interest rate(1)	LIBOR+ 1.15% to 1.85%	
Facility fee-annual rate(1)	0.20% or 0.35%	
Contractual maturity date(2)	4/1/2019	

(1) The rate is based on the operating partnership's leverage ratio.
(2) The maturity date may be extended once for an additional one-year term.

Debt Covenants

The operating partnership’s ability to borrow under its unsecured loan arrangements remains subject to ongoing compliance with financial and other covenants as defined in the respective agreements. 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.

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The following table summarizes existing covenants and their covenant levels, when considering the most restrictive terms:

Covenant Ratio	Covenant Level
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 0.45:1.00
Unsecured interest coverage ratio	minimum of 2.00:1.00

The operating partnership was in compliance with its financial covenants as of June 30, 2017.

Repayment Guarantees

Sunset Gower Studios and Sunset Bronson Studios Loan

In connection with the loan secured by the Sunset Gower Studios and Sunset Bronson Studios 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. As of June 30, 2017, the outstanding balance was $5.0 million, which results in a maximum guarantee amount for the principal under this loan of $1.0 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.

Other Loans

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

Interest Expense

The following table represents a reconciliation from the gross interest expense to the amount of the interest expense line item in the Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross interest expense[1]	$23,047	$19,179	$46,238	$38,185
Capitalized interest	(2,539)	(2,828)	(4,986)	(5,454)
Amortization of deferred financing costs and loan premium, net	1,187	1,263	2,373	2,134
Interest expense	$21,695	$17,614	$43,625	$34,865

(1) Includes interest on the Company's notes payable and hedging activities.

10. Derivative Instruments

The Company enters into derivative instruments in order to hedge interest rate risk. The Company had six interest rate swaps with aggregate notional amounts of $839.5 million as of June 30, 2017 and December 31, 2016. These derivative instruments were designated as effective cash flow hedges for accounting purposes. There is no impact on the Company’s Consolidated Statements of Cash Flows.

The Company's derivative instruments 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 effectively hedged $300.0 million of the 5-Year Term Loan due April 2020 through two interest rate swaps, each with a notional amount of $150.0 million, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.36% through the loan's maturity. Therefore, the interest rate is effectively fixed at 2.66% to 3.56%, depending on the operating partnership's leverage ratio. The unhedged portion bears interest at a rate equal to one-month LIBOR plus 1.30% to 2.20%, depending on the operating partnership's leverage ratio.

The Company also effectively hedged its $350.0 million 7-Year Term Loan due April 2022 through two interest rate swaps, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.61% through the loan's maturity. Therefore, the interest rate is effectively fixed at 3.21% to 4.16% depending on the operating partnership's leverage ratio.

In July 2016, the derivative instruments described above were amended to include a 0.00% floor to one-month LIBOR and then de-designated the original swap and designated the amended swap as a hedge in order to minimize the ineffective portion of the original derivative instruments. Therefore, the effective interest rate increased to a range of 2.75% to 3.65% with respect to $300.0 million of the 5-Year Term Loan due April 2020 and 3.36% to 4.31% with respect to the 7-year Term Loan due April 2022, in each case, per annum. The interest rate within the range is based on the operating partnership's leverage ratio. The amount included in accumulated other comprehensive income (loss) prior to the de-designation is amortized into interest expense over the remaining original terms of the derivative instruments.

For the three and six months ended June 30, 2017, the Company recognized an unrealized loss of $51 thousand and $45 thousand, respectively, on the Consolidated Statement of Operations related to the ineffective portion of these derivative instruments. For the three and six months ended June 30, 2016, the Company recognized an unrealized loss of $0.4 million and $2.5 million, respectively.

7-Year Term Loan due November 2022

On May 3, 2016, the Company entered into a derivative instrument with respect to $125.0 million of the 7-Year Term Loan due November 2022. This derivative instrument became effective on June 1, 2016 and swapped one-month LIBOR, which includes a 0.00% floor, to a fixed rate of 1.43% through the loan's maturity.

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 swaps one-month LIBOR to a fixed rate of 2.16% through the loan's maturity on August 1, 2020.

Overall

The fair market value of derivative instruments is presented on a gross basis in the Consolidated Balance Sheets. The derivative assets as of June 30, 2017 and December 31, 2016 were $5.9 million and $5.9 million, respectively. The derivative liabilities as of June 30, 2017 and December 31, 2016 were $1.0 million and $1.3 million, respectively.

The Company reclassifies into earnings in the same period during which the hedged forecasted transaction affects earnings. As of June 30, 2017, the Company expects $1.9 million of unrealized loss included in accumulated other comprehensive loss will be reclassified to interest expense in the next 12 months.

11. Income Taxes

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. 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. 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.

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 entities that own the 1455 Market Street and Hill7 properties, REITs) 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.

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 June 30, 2017, 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 2012. Generally, the Company has assessed its tax positions for all open years, which include 2012 to 2016, and concluded that there are no material uncertainties to be recognized.

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12. 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
3400 Hillview		