Douglas Emmett Inc
Form 10-K
February 16, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017
Commission file number: 1-33106
Douglas Emmett, Inc.
(Exact name of registrant as specified in its charter)

MARYLAND	(20-3073047)
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

808 Wilshire Boulevard, Suite 200, Santa Monica, California 90401
(310) 255-7700
(Address, including Zip Code and Telephone Number, including Area Code, of Registrant’s principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes þ or No 1
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.	Yes 1or No þ
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.	Yes þ or No 1
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	Yes þ or No 1
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	þ

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 definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer 1 Non accelerated filer 1 Smaller reporting company 1 Emerging growth company 1

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	Yes 1 or No þ

The aggregate market value of the common stock, $0.01 par value, held by non-affiliates of the registrant, as of June 30, 2017, was $5.79 billion. (This computation excludes the market value of all shares of Common Stock reported as beneficially owned by executive officers and directors of the Registrant. Such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.)

The registrant had 169,566,064 shares of its common stock, $0.01 par value, outstanding as of February 9, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be issued in conjunction with the registrant’s annual meeting of shareholders to be held in 2018 are incorporated by reference in Part III of this Report on Form 10-K. Such proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant’s fiscal year ended December 31, 2017.

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DOUGLAS EMMETT, INC.
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Glossary

Abbreviations used in this Report:

ADA	Americans with Disabilities Act of 1990
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM	At-the-Market
BOMA	Building Owners and Managers Association
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Internal Revenue Code of 1986, as amended
COO	Chief Operating Officer
DEI	Douglas Emmett, Inc.
EPA	United States Environmental Protection Agency
EPS	Earnings Per Share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFO	Funds from Operations
Fund X	Douglas Emmett Fund X, LLC
FIRPTA	Foreign Investment Real Property Tax Act
Funds	Unconsolidated institutional real estate funds (Fund X, Partnership X and Opportunity Fund)
GAAP	Generally Accepted Accounting Principles (United States)
IRS	Internal Revenue Service
IPO	Initial Public Offering
IT	Information Technology
JV	Joint Venture
LIBOR	London Interbank Offered Rate
LTIP Units	Long-Term Incentive Plan Units
MGCL	Maryland General Corporation Law
NAREIT	National Association of Real Estate Investment Trusts
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income (Loss)
OP Units	Operating Partnership Units
Operating Partnership	Douglas Emmett Properties, LP
Opportunity Fund	Fund X Opportunity Fund, LLC
OFAC	Office of Foreign Assets Control
Partnership X	Douglas Emmett Partnership X, LP
PCAOB	Public Company Accounting Oversight Board (United States)
QRS	Qualified REIT subsidiary(ies)
REIT	Real Estate Investment Trust
Report	Annual Report on Form 10-K
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
S&P 500	Standard & Poor's 500 Index
TRS	Taxable REIT subsidiary(ies)
US	United States
VIE	Variable Interest Entity(ies)

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Glossary

Defined terms used in this Report:

Annualized Rent	Annualized cash base rent (excludes tenant reimbursements, parking income, lost rent recovered from insurance and other revenue) before abatements under leases commenced as of the reporting date. For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.
Consolidated Portfolio	Includes the properties in our consolidated results, which includes the properties owned by our consolidated JVs.
Funds From Operations (FFO)	We calculate FFO in accordance with the standards established by NAREIT by excluding gains (or losses) on sales of investments in real estate, real estate depreciation and amortization (other than amortization of deferred loan costs) from our net income (including adjusting for the effect of such items attributable to consolidated joint ventures and unconsolidated real estate funds, but not for noncontrolling interests included in our Operating Partnership).
Net Operating Income (NOI)	We calculate NOI as revenue less operating expenses attributable to the properties that we own and operate. NOI is calculated by excluding the following from our net income: general and administrative expense, depreciation and amortization expense, other income, other expense, income, including depreciation, from unconsolidated real estate funds, interest expense, gains (or losses) on sales of investments in real estate and net income attributable to noncontrolling interests.
Occupied Rate	The percentage leased, excluding signed leases not yet commenced, as of the reporting date. Management space and storage space is considered leased and occupied, while space taken out of service during a repositioning is excluded from both the numerator and denominator for calculating percentage leased and occupied.
Recurring Capital Expenditures	Building improvements required to maintain revenues once a property has been stabilized, and excludes capital expenditures for (i) acquired buildings being stabilized, (ii) newly developed space, (iii) upgrades to improve revenues or operating expenses, (iv) casualty damage or (v) bringing the property into compliance with governmental requirements.
Rentable Square Feet	Based on the BOMA remeasurement and consists of leased square feet (including square feet with respect to signed leases not commenced as of the reporting date), available square feet, building management use square feet and square feet of the BOMA adjustment on leased space.
Same Properties	Our consolidated wholly-owned properties that have been owned and operated by us in a consistent manner, and reported in our consolidated results during the entire span of both periods being compared. We exclude from our same property subset any properties (i) acquired during the comparative periods; (ii) sold, held for sale, contributed or otherwise removed from our consolidated financial statements during the comparative periods; or (iii) that underwent a major repositioning project that we believed significantly affected its results during the comparative periods.
Short-Term Lease	Represents leases that expired on or before the reporting date or had a term of less than one year, including hold over tenancies, month to month leases and other short term occupancies.
Total Portfolio	Includes our Consolidated Portfolio plus the properties owned by our Funds.

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Forward Looking Statements

This Report contains forward-looking statements within the meaning of the Section 27A of the Securities Act and Section 21E of the Exchange Act. You can find many (but not all) of these statements by looking for words such as “believe”, “expect”, “anticipate”, “estimate”, “approximate”, “intend”, “plan”, “would”, “could”, “may”, “future” or other simi in this Report. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements used in this Report, or those that we make orally or in writing from time to time, are based on our beliefs and assumptions, as well as information currently available to us. Actual outcomes will be affected by known and unknown risks, trends, uncertainties and factors beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution when relying on previously reported forward-looking statements, which were based on results and trends at the time they were made, to anticipate future results or trends. Some of the risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- adverse economic or real estate developments affecting Southern California or Honolulu, Hawaii;
- competition from other real estate investors in our markets;
- decreasing rental rates or increasing tenant incentive and vacancy rates;
- defaults on, early terminations of, or non-renewal of leases by tenants;
- increases in interest rates or operating costs;
- insufficient cash flows to service our outstanding debt or pay rent on ground leases;
- difficulties in raising capital;
- inability to liquidate real estate or other investments quickly;
- adverse changes to rent control laws and regulations;
- environmental uncertainties;
- natural disasters;
- insufficient insurance, or increases in insurance costs;
- inability to successfully expand into new markets and submarkets;
- difficulties in identifying properties to acquire and failure to complete acquisitions successfully;
- failure to successfully operate acquired properties;
- risks associated with property development;
- risks associated with JVs;
- conflicts of interest with our officers and reliance on key personnel;
- changes in zoning and other land use laws;
- adverse results of litigation or governmental proceedings;
- failure to comply with laws, regulations and covenants that are applicable to our properties;
- possible terrorist attacks or wars;
- possible cyber attacks or intrusions;
- adverse changes to accounting rules;
- weaknesses in our internal controls over financial reporting;
- failure to maintain our REIT status under federal tax laws; and
- adverse changes to tax laws, including those related to property taxes.

For further discussion of these and other risk factors see Item 1A. "Risk Factors” in this Report. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

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PART I

Item 1. Business Overview

Business description

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. We are one of the largest owners and operators of high-quality office and multifamily properties located in premier coastal submarkets in Los Angeles and Honolulu. Through our interest in our Operating Partnership and its subsidiaries, our consolidated JVs, and our unconsolidated Funds, we focus on owning, acquiring, developing and managing a significant market share of top-tier office properties and premier multifamily communities in neighborhoods with significant supply constraints, high-end executive housing and key lifestyle amenities. Our properties are located in the Beverly Hills, Brentwood, Burbank, Century City, Olympic Corridor, Santa Monica, Sherman Oaks/Encino, Warner Center/Woodland Hills and Westwood submarkets of Los Angeles County, California, and in Honolulu, Hawaii. We intend to increase our market share in our existing submarkets and may enter into other submarkets with similar characteristics where we believe we can gain significant market share. The terms "us," "we" and "our" as used in this Report refer to Douglas Emmett, Inc. and its subsidiaries on a consolidated basis.

At December 31, 2017, we owned a Consolidated Portfolio consisting of (i) a 16.5 million square foot office portfolio, (ii) 3,380 multifamily apartment units and (iii) fee interests in two parcels of land from which we receive rent under ground leases. We also manage and own equity interests in our unconsolidated Funds which, at December 31, 2017, owned an additional 1.8 million square feet of office space. We manage our unconsolidated Funds alongside our Consolidated Portfolio, and we therefore present the statistics for our office portfolio on a Total Portfolio basis. For more information, see Item 2 “Properties” of this Report. As of December 31, 2017, our portfolio consisted of the following (not including the two parcels of land from which we receive rent under ground leases):

	Consolidated Portfolio	Total Portfolio
Office (includes ancillary retail space)		
Wholly-owned properties	53	53
Consolidated JV properties	10	10
Unconsolidated Fund properties	—	8
	63	71
Rentable square feet (in thousands)	16,539	18,369
Multifamily		
Wholly-owned properties	10	10
Units	3,380	3,380

Business Strategy

We employ a focused business strategy that we have developed and implemented over the past four decades:

• Concentration of High Quality Office and Multifamily Properties in Premier Submarkets.

First we select submarkets that are supply constrained, with high barriers to entry, key lifestyle amenities, proximity to high-end executive housing and a strong, diverse economic base. Virtually no entitled Class A office space is currently under construction in any of our targeted submarkets. Our submarkets are dominated by small, affluent tenants, whose rents are very small relative to their revenues and often not the paramount factor in their leasing decisions. At December 31, 2017, our office portfolio median size tenant was approximately 2,600 square feet. Our office tenants operate in diverse industries, including among others legal, financial services, entertainment, real estate, accounting and consulting, health services, retail, technology and insurance, reducing our dependence on any one industry. In 2015, 2016 and 2017, no tenant accounted for more than 10% of our total revenues.

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- Disciplined Strategy of Acquiring Substantial Market Share.

Once we select a submarket, we follow a disciplined strategy of gaining substantial market share to provide us with extensive local transactional market information, pricing power in lease and vendor negotiations and an enhanced ability to identify and negotiate investment opportunities. As a result, we average approximately a 28% share of the Class A office space in our submarkets.

- Proactive Asset and Property Management.

Our fully integrated and focused operating platform provides the unsurpassed tenant service demanded in our submarkets, with in-house leasing, proactive asset and property management and internal design and construction services, which we believe provides us with a competitive advantage in managing our property portfolio. Our in-house leasing agents and legal specialists allow us to lease a large property portfolio with a diverse group of smaller tenants, closing an average of approximately three office leases each business day, and our in-house construction company allows us to compress the time required for building out many smaller spaces, resulting in reduced vacancy periods. Our property management group oversees day-to-day property management of both our office and multifamily portfolios, allowing us to benefit from the operational efficiencies permitted by our submarket concentration.

Corporate Structure

Douglas Emmett, Inc. was formed as a Maryland corporation on June 28, 2005 to continue and expand the operations of Douglas Emmett Realty Advisors and its 9 institutional funds. All of our assets are directly or indirectly held by our Operating Partnership, which was formed as a Delaware limited partnership on July 25, 2005. As the sole stockholder of the general partner of our Operating Partnership, we generally have the exclusive power under the partnership agreement to manage and conduct the business of our Operating Partnership, subject to certain limited approval and voting rights of the other limited partners. Our interest in our Operating Partnership entitles us to share in the profits and losses and cash distributions in proportion to our percentage ownership.

Funds and JVs

In addition to fifty-three office properties and ten residential properties wholly owned by our Operating Partnership, we manage and own equity interests in:

- three unconsolidated Funds through which we and institutional investors own eight office properties in our core markets totaling 1.8 million square feet and in which we own a weighted average of 60.0% at December 31, 2017 based on square footage. We are entitled to (i) priority distributions, (ii) distributions based on invested capital, (iii) a carried interest if the investors' distributions exceed a hurdle rate, (iv) fees for property management and other services and (v) reimbursement of certain costs.
- three consolidated JVs through which we and institutional investors own ten office properties in our core markets totaling 2.8 million square feet and in which we own a weighted average of 28% at December 31, 2017 based on square footage. We are entitled to (i) distributions based on invested capital as well as (in the case of two of the JVs) additional distributions based on cash net operating income, (ii) fees for property management and other services and (iii) reimbursement of certain acquisition-related expenses and certain other costs.

The financial data in this Report presents our Funds on an unconsolidated basis and our JVs on a consolidated basis in accordance with GAAP. Most of the property data in this Report is presented for our Total Portfolio, which includes the properties owned by our JVs and our Funds, as we believe this presentation assists in understanding our business.

Taxation

We believe that we qualify, and we intend to continue to qualify, for taxation as a REIT under the Code, although we cannot assure that this has happened or will happen. See Item 1A "Risk Factors" of this Report for the risks we face regarding taxation as a REIT. The following summary is qualified in its entirety by the applicable Code provisions and related rules, and administrative and judicial interpretations. If we qualify for taxation as a REIT, we will generally not be required to pay federal corporate income taxes on the portion of our net income that is currently distributed to stockholders. This treatment substantially eliminates the “double taxation” (i.e., at the corporate and stockholder levels) that generally results from investment in a corporation. However, we will be required to pay federal income tax under certain circumstances.

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The Code defines a REIT as a corporation, trust or association (i) which is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares or certificates of beneficial interest; (iii) which would be taxable but for Sections 856 through 860 of the Code as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons; (vi) of which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, actually or constructively, by five or fewer individuals; and (vii) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Code requires that conditions (i) to (iv) be met during the entire taxable year and that condition (v) be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

There are two gross income requirements:

i. at least 75% of our gross income (excluding gross income from "prohibited transactions" as defined below and qualifying hedges) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investment income, and
ii. at least 95% of our gross income (excluding gross income from "prohibited transactions" and qualifying hedges) for each taxable year must be derived from income that qualifies under the 75% test or from other dividends, interest or gain from the sale or other disposition of stock or securities. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business.

We must satisfy five asset tests at the close of each quarter of our taxable year:

i. at least 75% of the value of our total assets must be represented by real estate assets including shares of stock of other REITs, debt instruments of publicly offered REITs, certain other stock or debt instruments purchased with the proceeds of a stock offering or long-term public debt offering by us (but only for the one-year period after such offering), cash, cash items and government securities,
ii. not more than 25% of our total assets may be represented by securities other than those in the 75% asset class,
iii. of the assets included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of the vote or value of the securities of any one issuer, in each case other than securities included under the 75% asset test above and interests in TRS or QRS, each as defined below, and in the case of the 10% value test, subject to certain other exceptions,
iv. not more than 20% of the value of our total assets may be represented by securities of one or more TRS, and
v. not more than 25% of the value of our total assets may be represented by non-qualified publicly offered REIT debt instruments.

In order to qualify as a REIT, we are required to distribute dividends (other than capital gains dividends) to our stockholders equal to at least (A) the sum of (i) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income, if any (after tax), from foreclosure property, less (B) the sum of certain items of non-cash income. The distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year, if paid on or before the first regular dividend payment date after such declaration and if we so elect and specify the dollar amount in our tax return. To the extent that we do not distribute all of our net long-term capital gains or distribute at least 90%, but less than 100%, of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. Furthermore, if we fail to distribute during each calendar year the sum of at least (i) 85% of our ordinary income for such year, (ii) 95% of our capital gains income for such year, and (iii) any undistributed taxable income from prior periods, we would be required to pay a 4% excise tax on the excess of such required distributions over the amounts actually distributed.

We own interests in various partnerships and limited liability companies. In the case of a REIT that is a partner in a partnership or a member of a limited liability company that is treated as a partnership under the Code, Treasury Regulations provide that for purposes of the REIT income and asset tests, the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company (determined in accordance with its capital interest in the entity), subject to special rules related to the 10% asset test, and will be deemed to be entitled to the income of the partnership or limited liability company attributable to such share.

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As of December 31, 2017, we owned an interest in a subsidiary which was intended to be treated as a QRS. The Code provides that a QRS will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of the QRS will be treated as our assets, liabilities and items of income. As of December 31, 2017, we also owned interests in certain corporations which have elected to be treated as TRSs. A REIT may own more than 10% of the voting stock and value of the securities of a corporation which jointly elects with the REIT to be a TRS, provided certain requirements are met. A TRS generally may engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT and of others, except a TRS may not manage or operate a hotel or healthcare facility. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. In addition, a 100% tax may be imposed on a REIT if its rental, service or other agreements with its TRS, or the TRS agreements with the REIT's tenants, are not on arm's-length terms.

We may be required to pay state or local tax in various state or local jurisdictions, including those in which we own properties or otherwise transact business or reside. The state and local tax treatment of us and our stockholders may not conform to the federal income tax consequences discussed above. We may also be subject to certain taxes applicable to REITs, including taxes in lieu of disqualification as a REIT, on undistributed income, and on income from prohibited transactions.

In addition, if we acquire any asset from a corporation that is or has been a C corporation in a transaction in which our tax basis in the asset is less than the fair market value of the asset, in each case determined as of the date on which we acquired the asset, and we subsequently recognize gain on the disposition of the asset during the five year period beginning on the date on which we acquired the asset, then we generally will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (i) the fair market value of the asset over (ii) our adjusted tax basis in the asset, in each case determined as of the date on which we acquired the asset.

SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This summary supplements and updates the discussion contained under the caption "Material U.S. Federal Income Tax Considerations" in the prospectus dated August 4, 2017, contained in our Registration Statement on Form S-3 filed with the SEC on August 4, 2017, and should be read in conjunction therewith, and is subject to the qualifications set forth therein. This summary is for general information purposes only and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular holders of our securities in light of their personal investment or tax circumstances.

Recent Tax Legislation

The recently enacted "Tax Cuts and Jobs Act" (the "TCJA"), generally applicable for tax years beginning after December 31, 2017, made significant changes to the Code, including a number of provisions of the Code that affect the taxation of businesses and their owners, including REITs and their stockholders, and, in certain cases, that modify the tax rules discussed in the accompanying prospectus. Among other changes, the TCJA made the following changes:

- For tax years beginning after December 31, 2017 and before January 1, 2026, (i) the U.S. federal income tax rates on ordinary income of individuals, trusts and estates have been generally reduced, and (ii) non-corporate taxpayers are permitted to take a deduction for certain pass-through business income, including dividends received from REITs that are not designated as capital gain dividends or qualified dividend income, subject to certain limitations,
- The maximum U.S. federal income tax rate for corporations has been reduced from 35% to 21%, and the alternative minimum tax has been eliminated for corporations, which would generally reduce the amount of U.S. federal income tax payable by our TRSs and by us to the extent we were subject to corporate U.S. federal income tax (for example, if

we distributed less than 100% of our taxable income or recognized built-in gains in assets acquired from C corporations). In addition, the maximum withholding rate on distributions by us to non-U.S. stockholders that are treated as attributable to gain from the sale or exchange of a U.S. real property interest is reduced from 35% to 21%,

- Certain new limitations on the deductibility of interest expense now apply, which limitations may affect the deductibility of interest paid or accrued by us or our TRSs,
- Certain new limitations on net operating losses now apply, which limitations may affect net operating losses generated by us or our TRSs,
- A U.S. tax-exempt stockholder that is subject to tax on its unrelated business taxable income ("UBTI") will be required to separately compute its taxable income and loss for each unrelated trade or business activity for purposes of determining its UBTI, and

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- New accounting rules generally require us to recognize income items for federal income tax purposes no later than when we take the item into account for financial statement purposes, which may accelerate our recognition of certain income items.

This summary does not purport to be a detailed discussion of the changes to U.S. federal income tax laws as a result of the enactment of the TCJA. Technical corrections or other amendments to the TCJA, or administrative guidance interpreting the TCJA, may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future changes to the law with respect to REITs or their stockholders. Investors should consult with their tax advisors regarding the effect of the TCJA based on their particular circumstances.

Insurance

We carry comprehensive liability, fire, extended coverage, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket insurance policy. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss and the cost of the coverage and industry practice. See Item 1A "Risk Factors" of this Report for the risks we face regarding insurance.

Competition

We compete with a number of developers, owners and operators of office and multifamily real estate, many of which own properties similar to ours in the same markets in which our properties are located. See Item 1A "Risk Factors" of this Report for the risks we face regarding competition.

Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas, fire and safety requirements, various environmental laws, the ADA and rent control laws. See Item 1A "Risk Factors" of this Report for the risks we face regarding laws and regulations.

Sustainability

In operating our buildings and running our business, we actively work to promote our operations in a sustainable and responsible manner. Our sustainability initiatives include items such as lighting, retrofitting, energy management systems, variable frequency drives in our motors, electricity co-generation, energy efficiency, recycling and water conservation. As a result of our efforts, over 95% of our eligible office space is ENERGY STAR certified by the EPA as having energy efficiency in the top 20% of buildings nationwide.

Segments

We operate two business segments: the acquisition, development, ownership and management of office real estate, and the acquisition, development, ownership and management of multifamily real estate. The services for our office segment include primarily rental of office space and other tenant services, including parking and storage space rental. The services for our multifamily segment include primarily rental of apartments and other tenant services, including parking and storage space rental. See Note 14 to our consolidated financial statements in Item 15 of this Report for more information regarding our segments.

Employees

As of December 31, 2017, we employed approximately 600 people.

Principal Executive Offices

Our principal executive offices are located in the building we own at 808 Wilshire Boulevard, Suite 200, Santa Monica, California 90401 (telephone 310-255-7700).

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Available Information

All reports that we file with the SEC will be available on the SEC website at www.sec.gov. We make available on our website at www.douglasemmett.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, free of charge, as soon as reasonably practicable after we file such reports with, or furnish them to, the SEC. None of the information on or hyperlinked from our website is incorporated into this Report.

For more information, please contact:

Stuart McElhinney
Vice President, Investor Relations
310-255-7751
smcelhinney@douglasemmett.com

Item 1A. Risk Factors

The following risk factors are what we believe to be the most significant risk factors that could adversely affect our business and operations, including, without limitation, our financial condition, REIT status, results of operations and cash flows, our ability to service our debt and pay dividends to our stockholders, our ability to capitalize on business opportunities as they arise, our ability to raise capital, and the market price of our common stock. This is not an exhaustive list, and additional risk factors could adversely affect our business and financial performance. We operate in a very competitive and rapidly changing environment and new risk factors emerge from time to time. It is therefore not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. This discussion of risk factors includes many forward-looking statements. For cautions about relying on forward-looking statements see “Forward Looking Statements” at the beginning of this Report.

Risks Related to Our Properties and Our Business

All of our properties are located in Los Angeles County, California and Honolulu, Hawaii, and we are therefore exposed to greater risk than if we owned a more geographically diverse portfolio. Our properties in Los Angeles County are concentrated in certain submarkets, exposing us to risks associated with those specific areas.

Because of the geographic concentration of our properties, we are susceptible to adverse economic and regulatory developments, as well as natural disasters, in the markets and submarkets where we operate, including, for example, economic slowdowns, industry slowdowns, business downsizing, business relocations, increases in real estate and other taxes, changes in regulation, earthquakes, floods, droughts and wildfires. California is also regarded as being more litigious, regulated and taxed than many other states.

Our operating performance is subject to risks associated with the real estate industry.

Real estate investments are subject to various risks, fluctuations and cycles in value and demand, many of which are beyond our control. These events include, but are not limited to:

- adverse changes in international, national or local economic conditions;
-

inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;

- adverse changes in financial conditions of actual or potential investors, buyers, sellers or tenants;
- inability to collect rent from tenants;
- competition from other real estate investors, including other real estate operating companies, publicly-traded REITs and institutional investment funds;
- reduced tenant demand for office space and residential units from matters such as (i) changes in space utilization, (ii) changes in the relative popularity of our properties, (iii) the type of space we provide or (iv) purchasing versus leasing;
- reduced demand for parking space due to the impact of technology such as self driving cars;
- increases in the supply of office space and residential units;

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- fluctuations in interest rates and the availability of credit, which could adversely affect our ability to obtain financing on favorable terms or at all;
- increases in expenses (or our reduced ability to recover expenses from our tenants), including insurance costs, labor costs (such as the unionization of our employees or the employees of any parties with whom we contract for services to our buildings), energy prices, real estate assessments and other taxes, as well as costs of compliance with laws, regulations and governmental policies;
- utility disruptions;
- the effects of rent controls, stabilization laws and other laws or covenants regulating rental rates;
- changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the ADA;
- legislative uncertainty related to federal and state spending and tax policy;
- difficulty in operating properties effectively;
- acquiring undesirable properties; and
- inability to dispose of properties at appropriate times or at favorable prices.

We have a substantial amount of debt, which exposes us to interest rate fluctuation risk and the risk of not being able to refinance our debt, which in turn could expose us to the risk of default under our debt obligations.

We have a substantial amount of debt and we may incur significant additional debt for various purposes, including, without limitation, to fund future property acquisitions and development activities, reposition properties and to fund our operations. See Note 7 to our consolidated financial statements in Item 15 of this Report for more detail regarding our consolidated debt. See "Off-Balance Sheet Arrangements" in Item 7 of this Report for more detail regarding our unconsolidated debt.

Our substantial indebtedness, and the limitations and other constraints imposed on us by our debt agreements, especially during economic downturns when credit is harder to obtain, could adversely affect us, including the following:

- our cash flows may be insufficient to meet our required principal and interest payments;
- servicing our borrowings may leave us with insufficient cash to operate our properties or to pay the distributions necessary to maintain our REIT qualification;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon acquisition opportunities;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our existing indebtedness;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may violate any restrictive covenants in our loan documents, which could entitle the lenders to accelerate our debt obligations;
- we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under our hedge agreements, the hedge agreements may not effectively hedge the interest rate fluctuation risk, and, upon the expiration of any hedge agreements we do have, we will be exposed to the then-existing market rates of interest and future interest rate volatility with respect to debt that is currently hedged; we could also be declared in default on our hedge agreements if we default on the underlying debt that we are hedging;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness; and
-

any foreclosure on our properties could also create taxable income without accompanying cash proceeds, which could adversely affect our ability to meet the REIT distribution requirements imposed by the Code.

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The rents we receive from new leases may be less than our asking rents, and we may experience rent roll-down from time to time.

As a result of various factors, such as competitive pricing pressure in our submarkets, adverse conditions in the Los Angeles County or Honolulu real estate market, general economic downturns, or the desirability of our properties compared to other properties in our submarkets, the rents we receive on new leases could be less than our in-place rents.

In order to successfully compete against other properties, we must spend money to maintain, repair, and renovate our properties, which reduces our cash flows.

If our properties are not as attractive to current and prospective tenants in terms of rent, services, condition, or location as properties owned by our competitors, we could lose tenants or suffer lower rental rates. As a result, we may from time to time be required to incur significant capital expenditures to maintain the competitiveness of our properties. There can be no assurances that any such expenditures would result in higher occupancy or rental rates, or deter existing tenants from relocating to properties owned by our competitors.

We face intense competition, which could adversely impact the occupancy and rental rates of our properties.

We compete with a number of developers, owners and operators of office and multifamily real estate, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates that we currently charge our tenants, or if they offer tenants significant rent or other concessions, we may lose existing or potential tenants and may not be able to replace them, and we may be pressured to reduce our rental rates below those we currently charge or offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire.

Potential losses, including from adverse weather conditions, natural disasters and title claims, may not be covered by insurance.

Our business operations in Los Angeles County, California and Honolulu, Hawaii are susceptible to, and could be significantly affected by, adverse weather conditions and natural disasters such as earthquakes, tsunamis, hurricanes, volcanoes, drought, wind, floods, landslides and fires. The likelihood of such disasters may be increased as a result of climate changes. Adverse weather conditions and natural disasters could cause significant damage to our properties or to the economies of the regions in which they are located, the risk of which is enhanced by the concentration of our properties' locations. Our insurance coverage may not be adequate to cover business interruption or losses resulting from adverse weather or natural disasters. In addition, our insurance policies include substantial self-insurance portions and significant deductibles and co-payments for such events, and we are subject to the availability of insurance in the US and the pricing thereof. As a result, we may incur significant costs in the event of adverse weather conditions and natural disasters.

Most of our properties are located in Southern California, an area subject to an increased risk of earthquakes. While we presently carry earthquake insurance on our properties, the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes. We may reduce or discontinue earthquake or any other insurance coverage on some or all of our properties in the future if the cost of premiums for any of these policies in our judgment exceeds the value of the coverage discounted for the risk of loss.

We do not carry insurance for certain losses, such as losses caused by certain environmental conditions, asbestos, riots or war. In addition, our title insurance policies generally only insure the value of a property at the time of purchase, and we have not and do not intend to increase our title insurance coverage as the market value of our portfolio increases. As a result, we may not have sufficient coverage against all losses that we may experience, including from adverse title claims.

If we experience a loss that is uninsured or which exceeds policy limits, we could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. If the damaged properties are encumbered, we may continue to be liable for the indebtedness, even if these properties were irreparably damaged.

If any of our properties were destroyed or damaged, then we might not be permitted to rebuild many of those properties to their existing height or size at their existing location under current zoning and land use regulations. In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications and otherwise may have to upgrade such property to meet current code requirements.

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New regulations in the submarkets in which we operate could require us to make safety improvements to our buildings, for example requiring us to retrofit our buildings to better withstand earthquakes, and we could incur significant costs complying with those regulations.

Terrorism and war could harm our business and operating results.

The possibility of future terrorist attacks or war could have a negative impact on our operations, even if they are not directed at our properties and even if they never actually occur. Terrorist attacks can also substantially affect the availability and price of insurance coverage for certain types of damages or occurrences, and our insurance policies for terrorism include large deductibles and co-payments. The lack of sufficient insurance for these types of acts could expose us to significant losses.

Security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our IT networks and related systems could harm our business.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our efforts will be effective in preventing attempted security breaches or disruptions. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk. A security breach or other significant disruption involving our IT networks and related systems could have an adverse effect on our business, for example:

- Disruption to our networks and systems and thus our operations and/or those of our tenants or vendors;
- Misstated financial reports, violations of loan covenants, missed reporting deadlines and missed permitting deadlines;
- Inability to comply with laws and regulations;
- Unauthorized access to, destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could be used to compete against us or for disruptive, destructive or otherwise harmful purposes;
- Rendering us unable to maintain the building systems relied upon by our tenants;
- The requirement of significant management attention and resources to remedy any damages that result;
- Claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; and
- Damage to our reputation among our tenants, investors, or others.

We may be unable to renew leases or lease vacant space.

We may be unable to renew our tenants' leases, in which case we must find new tenants. To attract new tenants or retain existing tenants, particularly in periods of recession, we may have to accept rental rates below our existing rental rates or offer substantial rent abatements, tenant improvements, early termination rights or below-market renewal options. Accordingly, portions of our office and multifamily properties may remain vacant for extended periods of time. In addition, some existing leases currently provide tenants with options to renew the terms of their leases at rates that are below the current market rates or to terminate their leases prior to the expiration date thereof. We actively pursue opportunities for what we believe to be well-located and high quality buildings that may be in a transitional phase due to current or impending vacancies. We cannot assure that any such vacancies will be filled following a property acquisition, or that new tenant leases will be executed at or above market rates. As of December 31, 2017, 8.6% of the square footage in our total office portfolio was available for lease and 10.1% was scheduled to expire in 2018. As of December 31, 2017, 1.2% of the units in our multifamily portfolio were available for lease, and substantially all of the leases in our multifamily portfolio must be renewed within the next year. For more information see Item 2 “Properties” of this Report.

Our business strategy for our office portfolio focuses on leasing to smaller-sized tenants which may present greater credit risks.

Our business strategy for our office portfolio focuses on leasing to smaller-sized tenants, which may present greater credit risks because they are more susceptible to economic downturns than larger tenants, and may be more likely to cancel or not renew their leases.

Real estate investments are generally illiquid.

Our real estate investments are relatively difficult to sell quickly. Return of capital and realization of gains, if any, from an investment will generally occur upon disposition or refinancing of the underlying property. We may not be able to realize our investment objectives by sale or be able to refinance at attractive prices within any given period of time. We may also not be able to complete any exit strategy. Any number of factors could increase these risks, such as (i) weak market conditions, (ii) the lack of an established market for a property, (iii) changes in the financial condition or prospects of prospective buyers, (iv) changes in local, national or international economic conditions, and (v) changes in laws, regulations or fiscal policies. Furthermore, certain properties may be adversely affected by contractual rights, such as rights of first offer or ground leases.

We may incur significant costs complying with laws, regulations and covenants that are applicable to our properties.

The properties in our portfolio are subject to various covenants, federal, state and local laws, ordinances, regulatory requirements, including permitting and licensing requirements, various environmental laws, the ADA and rent control laws. Such laws and regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. There can be no assurance that existing laws and regulations will not adversely affect us or the timing or cost of any future acquisitions, developments or renovations, or that additional regulations that increase such delays or result in additional costs will not be adopted. Under the ADA, our properties must meet federal requirements related to access and use by disabled persons to the extent that such properties are "public accommodations". The costs of our on-going efforts to comply with these laws and regulations are substantial. Moreover, as we have not conducted a comprehensive audit or investigation of all of our properties to determine our compliance with applicable laws and regulations, we may be liable for investigation and remediation costs, penalties, and/or damages, which could be substantial and could adversely affect our ability to sell or rent our property or to borrow using such property as collateral.

Because we own real property, we are subject to extensive environmental regulations, which creates uncertainty regarding future environmental expenditures and liabilities.

Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under various provisions of these laws, an owner or operator of real estate may be liable for costs related to soil or groundwater contamination on, in, or migrating to or from its property. Persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site. Such laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. The presence of, or contamination resulting from, any of these substances, or the failure to properly remediate them, may adversely affect our ability to sell or rent our property or to borrow using the property as collateral. Persons exposed to hazardous or toxic substances may sue for personal injury damages, for example, some laws impose liability for release of or exposure to asbestos-containing materials, a substance known to be present in a number of our buildings. In other cases, some of our properties have been (or may have been) impacted by contamination from past operations or from off-site sources. As a result, in connection with our current or former ownership, operation, management and development of real properties, we may be potentially liable for investigation and cleanup costs, penalties, and damages under environmental laws.

Although most of our properties have been subjected to preliminary environmental assessments, known as Phase I assessments, by independent environmental consultants that identify certain liabilities, Phase I assessments are limited in scope, and may not include or identify all potential environmental liabilities or risks associated with the property. Unless required by applicable laws or regulations, we may not further investigate, remedy or ameliorate the liabilities disclosed in the Phase I assessments. We cannot assure that these or other environmental studies identified all potential environmental liabilities, or that we will not incur material environmental liabilities in the future. If we do incur material environmental liabilities in the future, we may face significant remediation costs and may find it difficult to sell any affected properties. See Note 17 to our consolidated financial statements in Item 15 of this Report for more detail regarding our buildings that contain asbestos.

Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents and pass through new or increased operating costs to our tenants.

We presently expect to continue operating and acquiring properties in areas that have adopted laws and regulations imposing restrictions on the timing or amount of rent increases or have imposed regulations relating to low- and moderate-income housing. Currently, neither California nor Hawaii have state mandated rent control, but various municipalities within Southern California, including the cities of Los Angeles and Santa Monica where our properties are located, have enacted rent control legislation. Additionally, portions of the Honolulu multifamily market are subject to low- and moderate-income housing regulations and all but one of the properties in our Los Angeles County multifamily portfolio are affected by these laws and regulations. Under current California law we are able to increase rents to market rates once a tenant vacates a rent-controlled unit, however increases in rental rates for renewing tenants are limited by Los Angeles and Santa Monica rent control regulations. We have agreed to rent specified percentages of the units at some of our Honolulu multifamily properties to persons with income below specified levels in exchange for certain tax benefits. These laws and regulations can (i) limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses, (ii) negatively impact our ability to attract higher-paying tenants, (iii) require us to incur costs for reporting and compliance, and (iv) make it more difficult for us to dispose of properties in certain circumstances. Any failure to comply with these regulations could result in fines, penalties and/or the loss of certain tax benefits and the forfeiture of rents.

We may be unable to complete acquisitions that would grow our business, or successfully integrate and operate acquired properties.

Our planned growth strategy includes the disciplined acquisition of properties as opportunities arise. Our ability to acquire properties on favorable terms and to successfully integrate and operate them is subject to significant risks, including the following:

- we may be unable to acquire desired properties because of competition from other real estate investors, including other real estate operating companies, publicly-traded REITs and investment funds;
- competition from other potential acquirers may significantly increase the purchase price of a desired property;
- we may acquire properties that are not accretive to our results upon acquisition or we may not successfully manage and lease them up to meet our expectations;
- we may be unable to generate sufficient cash from operations, or obtain the necessary debt or equity financing to consummate an acquisition or, if obtained, the financing may not be on favorable terms;
- cash flows from the acquired properties may be insufficient to service the related debt financing;
- we may need to spend more than we budgeted to make necessary improvements or renovations to acquired properties;
- we may spend significant time and money on potential acquisitions that we do not close;
- the process of acquiring or pursuing the acquisition of a property may divert the attention of our senior management team from our existing business operations;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- occupancy and rental rates of acquired properties may be less than expected; and
- we may acquire properties without recourse, or with limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

We may be unable to successfully expand our operations into new markets and submarkets.

If the opportunity arises, we may explore acquisitions of properties in new markets. The risks applicable to our ability to acquire, integrate and operate properties in our current markets is also applicable to our ability to acquire, integrate and operate properties in new markets. In addition to these risks, we will not possess the same level of familiarity with the dynamics and market conditions of any new markets that we may enter, which could adversely affect our ability to expand into those markets. We may be unable to build a significant market share or achieve a desired return on our investments in new markets.

We are exposed to risks associated with property development.

We engage in development and redevelopment activities with respect to certain of our properties. To the extent that we do so, we are subject to certain risks, including the following:

- We may not complete a development or redevelopment project on schedule or within budgeted amounts (as a result of risks beyond our control, such as weather, labor conditions, material shortages and price increases);
- We may be unable to lease the developed or redeveloped properties at budgeted rental rates or lease up the property within budgeted time frames;
- We may devote time and expend funds on development or redevelopment of properties that we may not complete;
- We may encounter delays or refusals in obtaining all necessary zoning, land use, and other required entitlements, and building, occupancy and other required governmental permits and authorizations;
- We may encounter delays, refusals and unforeseen cost increases resulting from third-party litigation or objections;
- We may fail to obtain the financial results expected from properties we develop or redevelop; and
- We have developed and redeveloped properties in the past, however only in a limited manner in recent years, which could adversely affect our ability to develop or redevelop properties or to achieve our expected returns.

We are exposed to certain risks when we enter into JVs or issue securities of our subsidiaries, including our Operating Partnership.

We have and may in the future develop or acquire properties with, or raise capital from, third parties through partnerships, JVs or other entities, or through acquiring or disposing of non-controlling interests in, or sharing responsibility for managing the affairs of, a property, partnership, JV or other entity. This may subject us to risks that may not be present with other methods of ownership, including for example the following:

- We may not be able to exercise sole decision-making authority regarding the properties, partnership, JV or other entity, which would allow for impasses on decisions that could restrict our ability to sell or transfer our interests in such entity or such entity's ability to transfer or sell its assets;
- Partners or co-venturers may default on their obligations including those related to capital contributions, debt financing or interest rate swaps, which could delay acquisition, construction or development of a property or increase our financial commitment to the partnership or JV;
- Conflicts of interests with our partners or co-venturers as result of matters such as different needs for liquidity, assessments of the market or tax objectives; ownership of competing interests in other properties; and other business interests, policies or objectives that are competitive or inconsistent with ours;
- If any such jointly owned or managed entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may suffer significantly, including having to dispose of our interest in such entity (if that is possible) or even losing our status as a REIT;
- Our assumptions regarding the tax impact of any structure or transaction could prove to be incorrect, and we could be exposed to significant taxable income, property tax reassessments or other liabilities, including any liability to third parties that we may assume as part of such transaction or otherwise;
- Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses, affect our ability to develop or operate a property and/or prevent our officers and/or directors from focusing their time and effort on our business;
- We may, in certain circumstances, be liable for the actions of our third-party partners or co-venturers; and
- We may not be able to raise capital as needed from institutional investors or sovereign wealth funds, or on terms that are favorable.

If we default on the ground lease to which one of our properties is subject, our business could be adversely affected.

Some of our properties may be subject to a ground lease. If we default under the terms of such a lease, we may be liable for damages and could lose our ownership interest in the property.

We may not have sufficient cash available for distribution to stockholders at expected levels in the future.

Our distributions could exceed our cash generated from operations. If necessary, we may fund the difference from our existing cash balances or additional borrowings. If our available cash were to decline significantly below our taxable income, we could lose our REIT status unless we could borrow to make such distributions or make any required distributions in common stock.

Our property taxes could increase due to property tax rate changes or reassessments, which would adversely impact our cash flows.

We are required to pay property taxes for our properties, which could increase as property tax rates increase or as our properties are assessed or reassessed by taxing authorities. In California, under current law, reassessment occurs primarily as a result of a "change in ownership". A potential reassessment may take a considerable amount of time, during which the property taxing authorities make a determination of the occurrence of a "change of ownership", as well as the actual reassessed value. In addition, from time to time, there have been proposals to base property taxes on commercial properties on their current market value, without any limit based on purchase price. If any similar proposal were adopted, the property taxes we pay could increase substantially.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable or if we are unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

From time to time we may dispose of properties in transactions that are intended to qualify as tax deferred exchanges under Section 1031 of the Code (Section 1031 Exchanges). It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. In such cases, our taxable income would increase as would the amount of distributions we are required to make to satisfy our REIT distribution requirements. This could increase the dividend income to our stockholders by reducing any return of capital they receive. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow in order to pay additional dividends or taxes, and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. If a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any reports we distributed to our stockholders. It is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

We face risks associated with contractual counterparties being designated "Prohibited Persons" by the Office of Foreign Assets Control.

The OFAC of the US Department of the Treasury maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons"). The OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons. Some of our agreements require us and the other party to comply with the OFAC requirements. If a party with whom we contract is placed on the OFAC list we may be required by the OFAC regulations to terminate the agreement, which could result in a losses or a damage claim by the other party that the termination was wrongful.

Risks Related to Our Organization and Structure

Tax consequences to holders of OP Units upon a sale or refinancing of our properties may cause the interests of our executive officers to differ from the interests of our stockholders.

Some of our properties were contributed to us in exchange for units of our Operating Partnership. As a result of the unrealized built-in gain attributable to such properties at the time of their contribution, some holders of OP Units, including our executive officers, may suffer different and more adverse tax consequences than holders of our common stock upon the sale or refinancing of the properties owned by our Operating Partnership, including disproportionately greater allocations of items of taxable income and gain upon a realization event. As a result, those holders may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of certain properties, or whether to sell or refinance such properties at all.

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Our executive officers have significant influence over our affairs.

At December 31, 2017, our executive officers owned 5% of our outstanding common stock, but they would own 15% if they converted all of their OP Units into common stock. As a result, our executive officers, to the extent that they vote their shares in a similar manner, will have significant influence over our affairs and could exercise such influence in a manner that is not in the best interests of our other stockholders, including by attempting to delay, defer or prevent a change of control transaction that might otherwise be in the best interests of our stockholders.

Our growth depends on external sources of capital which are outside of our control.

In order to qualify as a REIT, we are required under the Code to distribute annually at least 90% of our “REIT taxable income", determined without regard to the dividends paid deduction and by excluding any net capital gain. To the extent that we do not distribute all of our net long-term capital gains or at least 90% of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. Because of these distribution requirements, we may not be able to fund future capital needs from our operating cash flows, including acquisitions, development and debt refinancing. Consequently, we expect to rely on third-party sources to fund some of our capital needs and we may not be able to obtain financing on favorable terms or at all. Any additional borrowings will increase our leverage, and any additional equity that we issue will dilute our common stock. Our access to third-party sources of capital depends on many factors, some of which include:

- general market conditions;
- the market’s perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flows and cash dividends; and
- the market price per share of our common stock.

We face risks associated with short-term liquid investments.

From time to time, we have significant cash balances that we invest in a variety of short-term money market fund investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments are not insured against loss of principal and there is no guarantee that our investments in these funds will be redeemable at par value. If we cannot liquidate our investments or redeem them at par we could incur losses and experience liquidity issues.

Our charter, the partnership agreement of our Operating Partnership, and Maryland law contain provisions that may delay or prevent a change of control transaction.

(i) Our charter contains a five percent ownership limit.

Our charter, subject to certain exceptions, contains restrictions on ownership that limit, and authorizes our directors to take such actions as are necessary and desirable to limit, any person to actual or constructive ownership of not more than five percent of the value or number, whichever is more restrictive, of the outstanding shares of our common stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. The ownership limit contained in our charter may delay or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

(ii) Our board of directors may create and issue a class or series of preferred stock without stockholder approval.

Our board of directors is empowered under our charter to amend our charter to increase or decrease the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue, to designate and issue from time to time one or more classes or series of preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock without stockholder approval. Our board of directors may determine the relative rights, preferences and privileges of any class or series of preferred stock issued. As a result, we may issue series or classes of preferred stock with preferences, dividends, powers and rights, voting or otherwise, senior to the rights of our common stock holders. The issuance of preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

(iii) Certain provisions in the partnership agreement of our Operating Partnership may delay or prevent an unsolicited acquisition of us.

Provisions in our Operating Partnership agreement may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our OP Units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

Any potential change of control transaction may be further limited as a result of provisions of the partnership unit designation for certain LTIP Units, which require us to preserve the rights of LTIP unit holders and may restrict us from amending the partnership agreement for our Operating Partnership in a manner that would have an adverse effect on the rights of LTIP unit holders.

(iv) Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the MGCL may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the market price of our common stock, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and
- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by resolution of our board of directors, and in the case of the control share provisions of the MGCL, pursuant to a provision in our bylaws. However, our board of directors may by resolution elect to repeal the foregoing opt-outs from the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Our charter, bylaws, our Operating Partnership agreement and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Under their employment agreements, certain of our executive officers will receive severance if they are terminated without cause or resign for good reason.

We have employment agreements with Jordan L. Kaplan, Kenneth M. Panzer and Kevin A. Crummy, which provide each executive with severance if they are terminated without cause or resign for good reason (including following a change of control), based on two or three times (depending on the officer) his annual total of salary, bonus and incentive compensation such as LTIP Units, options or outperformance grants. In addition, these executive officers would not be restricted from competing with us after their departure.

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Our fiduciary duties as the sole stockholder of the general partner of our Operating Partnership could create conflicts of interest.

As the sole stockholder of the general partner of our Operating Partnership, we have fiduciary duties to the other limited partners in our Operating Partnership, the discharge of which may conflict with the interests of our stockholders. The limited partners of our Operating Partnership have agreed that, in the event of a conflict in the fiduciary duties owed by us to our stockholders and, in our capacity as general partner of our Operating Partnership, to such limited partners, we are under no obligation to give priority to the interests of such limited partners. The limited partners have the right to vote on certain amendments to the Operating Partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we are unable to modify the rights of limited partners to receive distributions as set forth in the Operating Partnership agreement in a manner that adversely affects their rights without their consent, even though such modification might be in the best interest of our stockholders.

The loss of any of our executive officers or key senior personnel could significantly harm our business.

Our ability to maintain our competitive position is largely dependent on the skill and effort of our executive officers and key senior personnel, who have strong industry reputations, assist us in identifying acquisition and borrowing opportunities, having such opportunities brought to us, and negotiating with tenants and sellers of properties. If we lose the services of any of our executive officers or key senior personnel our business could be adversely affected.

Our board of directors may change significant corporate policies without stockholder approval.

Our investment, financing, borrowing, dividend, operating and other policies are determined by our board of directors. These policies may be amended or revised at any time and from time to time at the discretion of our board of directors without a vote of our stockholders. Our board of directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements.

Compensation awards to our management may not be tied to or correspond with improved financial results or the market price of our common stock.

The compensation committee of our board of directors is responsible for overseeing our compensation and incentive compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. Compensation awards may not be tied to or correspond with improved financial results or the market price of our common stock. See Note 12 to our consolidated financial statements in Item 15 of this Report for more information regarding our stock-based compensation.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results.

An effective system of internal control over financial reporting is necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. There can be no guarantee that our internal controls over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including material weaknesses, in our internal control over financial reporting that may occur in the future could result in material misstatements in our financial reporting, which could result in restatements of our financial statements. Failure to maintain effective internal controls could cause us to not meet our reporting obligations, which could affect our ability to remain listed with the NYSE or result in SEC enforcement actions, and could cause investors to lose confidence in our reported financial information.

Litigation could have an adverse effect on our business.

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. An unfavorable resolution of litigation could adversely affect us. Even when there is a favorable outcome, litigation may result in substantial expenses and significantly divert the attention of our management with a similar adverse effect on us.

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New accounting pronouncements could adversely affect our operating results or the reported financial performance of our tenants.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Uncertainties posed by various initiatives of accounting standard-setting by the FASB and the SEC, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations, credit ratings and preferences regarding leasing real estate. See "New Accounting Pronouncements" in Note 2 to our consolidated financial statements in Item 15 of this Report.

Tax Risks Related to Ownership of REIT Shares

Prospective investors should consult with their tax advisors regarding the effects of recently enacted tax legislation and other legislative, regulatory and administrative developments.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was signed into law. The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA are uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders. Investors should consult their tax advisors regarding the implications of the TCJA on their investment in our common stock.

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for dividends.

We have elected to be taxed as a REIT under the Code, commencing with our initial taxable year ended December 31, 2006. To qualify as a REIT, we must satisfy on a continuing basis certain technical and complex income, asset, organizational, distribution, stockholder ownership and other requirements. See Item 1 "Business Overview" of this Report for more information regarding these tests. Our ability to satisfy these tests depends upon our analysis of and compliance with numerous factors, many of which are not subject to a precise determination and have only limited judicial and administrative interpretations, and which are not entirely within our control. Holding most of our assets through our Operating Partnership further complicates the application of the REIT requirements and a technical or inadvertent mistake could jeopardize our REIT status. Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT. Although we believe that we will continue to qualify as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT.

If we were to fail to qualify as a REIT in any taxable year, and certain relief provisions did not apply, we would be subject to federal income tax on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders. Unless entitled to relief under certain Code provisions, we would also be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. In addition, if we fail to qualify as a REIT, we would not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as dividend income to the extent of our current and accumulated earnings. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Code in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of $50,000 or more for each such failure.

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As a result of the above factors, our failure to qualify as a REIT could impair our ability to raise capital and expand our business, substantially reduce distributions to stockholders, result in us incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes, and adversely affect the market price of our common stock. One of our Funds, and two of our consolidated JVs, also own properties through one or more entities which are intended to qualify as REITs, and we may in the future use other structures that include REITs. The failure of any such entities to qualify as a REIT could have a similar impact on us.

If the Operating Partnership, or any of its subsidiaries, were treated as a regular corporation for federal income tax purposes, we could cease to qualify as a REIT.

Although we believe that the Operating Partnership and other subsidiary partnerships, limited liability companies, REIT subsidiaries, QRS and other subsidiaries (other than the TRS) in which we own a direct or indirect interest will be treated for tax purposes as a partnership, disregarded entity (e.g., in the case of a 100% owned limited liability company), REIT or QRS, as applicable, no assurance can be given that the IRS will not successfully challenge the tax classification of any such entity, or that a court would not sustain such a challenge. If the IRS were successful in treating the Operating Partnership or other subsidiaries as entities taxable as a corporation (including a "publicly traded partnership" taxed as a corporation) for federal income tax purposes, we would likely fail to qualify as a REIT and it would significantly reduce the amount of cash available for distribution by such subsidiaries to us.

Even if we qualify as a REIT, we will be required to pay some taxes which reduces cash available for dividends.

Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent that we distribute less than 100% of our REIT taxable income (including capital gains). In addition, any net taxable income earned directly by our TRS, or through entities that are disregarded for federal income tax purposes as entities separate from our TRS, will be subject to federal and possibly state corporate income tax. We have elected to treat several subsidiaries as TRS, and we may elect to treat other subsidiaries as TRS in the future. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a TRS will be subject to an appropriate level of federal income taxation. For example, a TRS is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% tax on some payments that it receives or on some deductions taken by its TRS if the economic arrangements between the REIT, the REIT's tenants, and the TRS are not comparable to similar arrangements between unrelated parties. In addition, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities treat REITs the same as they are treated for federal income tax purposes. Moreover, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held primarily for sale to customers in the ordinary course of our business, such characterization is a factual determination and we cannot guarantee that the IRS would agree with our characterization of our properties. To the extent that we are required to pay federal, state and local taxes, we will have less cash available for distributions to our stockholders.

REIT distribution requirements could adversely affect our liquidity.

To qualify as a REIT, we generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gains. To the extent that we do not distribute all of our net long-term capital gains or at least 90% of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. We intend to make distributions to our stockholders to comply with the Code requirements for REITs and to minimize or eliminate our corporate income tax obligation. Certain types of assets generate substantial mismatches between taxable income and available cash. Such assets include rental real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to sell assets in adverse market conditions, borrow on unfavorable terms, distribute amounts that could otherwise be used to fund our operations, capital expenditures, acquisitions or repayment of debt, or cause us to forego otherwise attractive opportunities.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum federal tax rate (not including the Medicare Contribution Tax on unearned income) applicable to income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for the 20% rate. However, under the TCJA, individuals, trusts, and estates generally may deduct up to 20% of ordinary REIT dividends. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends.

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REIT stockholders can receive taxable income without cash distributions.

Under certain circumstances, REITs are permitted to pay required dividends in shares of their stock rather than in cash. If we were to avail ourselves of that option, our stockholders could be required to pay taxes on such stock distributions without the benefit of cash distributions to pay the resulting taxes.

Legislative or other actions affecting REITs could have a negative effect on our investors or us, including our ability to maintain our qualification as a REIT or the federal income tax consequences of such qualification.

Federal income tax laws are constantly under review by persons involved in the legislative process, the IRS and the U.S. Department of the Treasury. Changes to the laws could adversely affect us and our investors. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT, the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in us. Changes to laws relating to the tax treatment of other entities, or an investment in other entities, could make an investment in such other entities more attractive relative to an investment in a REIT.

Non-U.S. investors may be subject to FIRPTA, which would impose tax on certain distributions and on the sale of common stock if we are unable to qualify as a “domestically controlled” REIT or if our stock is not considered to be regularly traded on an established securities market.

A non-U.S. investor disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests or USRPIs is generally subject to a tax, known as FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is a “domestically controlled qualified investment entity.” A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% of the value of its shares is held directly or indirectly by non-U.S. holders. In the event that we do not constitute a domestically controlled qualified investment entity, a non-U.S. investor’s sale of our common stock nonetheless will generally not be subject to tax under FIRPTA as a sale of a USRPI, provided that (1) the stock owned is of a class that is “regularly traded” as defined by applicable Treasury regulations, on an established securities market, and (2) the selling non-U.S. investor held 10% or less of our outstanding common stock at all times during a specified testing period. If we were to fail to so qualify as a domestically controlled qualified investment entity and our common stock were to fail to be “regularly traded,” a gain realized by a non-U.S. investor on a sale of our common stock would be subject to FIRPTA tax and applicable withholding. No assurance can be given that we will be a domestically controlled qualified investment entity. Additionally, any distributions we make to our non-U.S. stockholders that are attributable to gain from the sale of any USRPI will also generally be subject to FIRPTA tax and applicable withholdings, unless the recipient non-U.S. stockholder has not owned more than 10% of our common stock at any time during the year preceding the distribution and our common stock is treated as being “regularly traded”.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We present property level data for our Total Portfolio, except that we present historical capital expenditures for our Consolidated Portfolio.

Office Portfolio Summary as of December 31, 2017

Submarket	Number of Properties	Rentable Square Feet	Percent of Square Feet of Our Total Portfolio		Submarket Rentable Square Feet[1]	Our Market Share in Submarket[2]	
Beverly Hills[3]	11	2,190,450	11.9	%	7,294,498	27.1	%
Brentwood	15	2,059,393	11.2		3,446,845	59.7	
Burbank	1	420,949	2.3		6,919,450	6.1	
Century City	3	948,362	5.2		10,064,599	9.4	
Honolulu	4	1,752,753	9.5		5,088,599	34.4	
Olympic Corridor	5	1,139,058	6.2		3,408,039	33.4	
Santa Monica	11	1,424,715	7.8		9,985,872	14.3	
Sherman Oaks/Encino	12	3,476,387	18.9		6,179,829	56.3	
Warner Center/Woodland Hills	3	2,829,802	15.4		7,049,002	40.1	
Westwood	6	2,126,962	11.6		4,721,523	45.0	
Total / Weighted Average	71	18,368,831	100.0	%	64,158,256	28.3	%

(1) Source is the 2017 fourth quarter CBRE Marketview report.
(2) Calculated by dividing Rentable Square Feet by the applicable Submarket Rentable Square Feet.
(3) Includes a 216,000 square foot property located just outside the Beverly Hills city limits. To calculate our percentage of the submarket, we have eliminated the property from the numerator and the denominator for consistency with third party data.

Office Portfolio Percentage Leased and In-place Rents as of December 31, 2017

Submarket	Percent Leased[1]		Annualized Rent[2]	Annualized Rent Per Leased Square Foot[2]
Beverly Hills	94.5	%	$95,219,751	$ 48.31
Brentwood	91.4		76,851,458	42.27
Burbank	100.0		16,773,977	39.85
Century City	96.0		38,535,579	45.16

Honolulu	88.2		49,387,255	33.51
Olympic Corridor	93.9		36,201,013	36.17
Santa Monica	97.7		86,244,081	66.82
Sherman Oaks/Encino	90.3		107,636,909	35.69
Warner Center/Woodland Hills	86.7		68,617,835	28.79
Westwood	90.0		87,277,528	47.25
Total / Weighted Average	91.4	%	$662,745,386	$ 41.23

(1) Includes 304,524 square feet with respect to signed leases not yet commenced at December 31, 2017.
(2) Excludes signed leases not yet commenced at December 31, 2017.

Office Lease Diversification as of December 31, 2017

Portfolio Tenant Size

	Median	Average
Square feet	2,600	5,500

	Office Leases		Rentable Square Feet		Annualized Rent	
Square Feet Under Lease	Number	Percent	Amount	Percent	Amount	Percent
2,500 or less	1,435	49.1 %	1,990,217	12.4 %	$80,989,194	12.2 %
2,501-10,000	1,117	38.2	5,491,428	34.2	222,059,782	33.5
10,001-20,000	237	8.1	3,250,301	20.2	133,945,197	20.2
20,001-40,000	102	3.5	2,800,584	17.4	114,787,147	17.3
40,001-100,000	30	1.0	1,687,015	10.5	76,192,452	11.5
Greater than 100,000	4	0.1	855,762	5.3	34,771,614	5.3
Total for all leases	2,925	100.0%	16,075,307	100.0%	$662,745,386	100.0%

Largest Office Tenants as of December 31, 2017

The table below presents tenants paying 1% or more of our aggregate Annualized Rent:

Tenant	Number of Leases	Number of Properties	Lease Expiration(1)	Total Leased Square Feet	Percent of Rentable Square Feet	Annualized Rent	Percent of Annualized Rent
Time Warner(2)	3	3	2019-2021	433,252	2.4 %	$17,198,129	2.6 %
UCLA(3)	24	11	2017-2027	268,368	1.5	12,826,744	1.9
William Morris Endeavor(4)	1	1	2027	195,131	1.1	10,737,401	1.6
Morgan Stanley(5)	5	5	2022-2027	144,848	0.8	8,260,106	1.2
Equinox Fitness(6)	5	5	2019-2033	180,087	1.0	7,330,624	1.1
Total	38	25		1,221,686	6.8 %	$56,353,004	8.4 %

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(1) Expiration dates are per lease (expiration dates do not reflect storage and similar leases).

(2) Square footage expires as follows: 421,000 square feet in 2019, 2,000 square feet in 2020, and 10,000 square feet in 2021.

(3) Square footage expires as follows: 3,000 square feet in 2017, 14,000 square feet in 2018, 13,000 square feet in 2019, 41,000 square feet in 2020, 41,000 square feet in 2021, 55,000 square feet in 2022, 34,000 square feet in 2023, and 67,000 square feet in 2027. Tenant has options to terminate 31,000 square feet in 2020, 15,000 square feet in 2023, and 51,000 square feet in 2025.

(4) Tenant has an option to terminate 2,000 square feet in 2020 and 193,000 square feet in 2022.

(5) Square footage expires as follows: 15,000 square feet in 2022, 30,000 square feet in 2023, 26,000 square feet in 2025, and 74,000 square feet in 2027. Tenant has options to terminate 30,000 square feet in 2021, 26,000 square

feet in 2022, and 16,000 square feet in 2024.

(6) Square footage expires as follows: 33,000 square feet in 2019, 42,000 square feet in 2020, 31,000 square feet in 2027, 44,000 square feet in 2028, and 30,000 square feet in 2033.

Office Industry Diversification as of December 31, 2017

Industry	Number of Leases	Annualized Rent as a Percent of Total
Legal	569	18.3 %
Financial Services	382	14.7
Entertainment	210	12.3
Accounting & Consulting	372	10.9
Real Estate	279	10.7
Health Services	375	8.1
Retail	200	5.9
Technology	129	5.0
Insurance	106	4.3
Educational Services	49	3.2
Public Administration	89	2.4
Advertising	67	1.9
Manufacturing & Distribution	50	1.2
Other	48	1.1
Total	2,925	100.0 %

Office Lease Expirations as of December 31, 2017 (assuming non-exercise of renewal options and early termination rights)

Year of Lease Expiration	Number of Leases	Rentable Square Feet	Expiring Square Feet as a Percent of Total	Annualized Rent at December 31, 2017	Annualized Rent as a Percent of Total	Annualized Rent Per Leased Square Foot(1)	Annualized Rent Per Leased Square Foot at Expiration(2)
Short Term Leases	85	357,885	1.9 %	$12,413,733	1.9 %	$ 34.69	$ 34.69
2018	552	1,861,063	10.1	75,618,387	11.4	40.63	41.16
2019	524	2,440,215	13.3	97,194,420	14.7	39.83	41.29
2020	571	2,587,459	14.1	103,710,646	15.6	40.08	43.04
2021	400	2,286,889	12.5	93,577,868	14.1	40.92	45.22
2022	329	1,786,417	9.7	71,831,654	10.8	40.21	46.32
2023	195	1,747,501	9.5	73,942,070	11.2	42.31	57.04
2024	98	783,018	4.3	32,244,707	4.9	41.18	51.10
2025	62	644,824	3.5	29,355,060	4.4	45.52	58.55
2026	36	459,494	2.5	21,087,256	3.2	45.89	60.11
2027	52	841,101	4.6	39,083,785	5.9	46.47	61.46
Thereafter	21	279,441	1.5	12,685,800	1.9	45.40	63.95
Subtotal	2,925	16,075,307	87.5 %	$662,745,386	100.0 %	41.23	47.40
Signed leases not commenced		304,524	1.7				
Available		1,569,928	8.5				

Building management use		149,557	0.8						
BOMA adjustment [3]		269,515	1.5						
Total/Weighted Average	2,925	18,368,831	100.0 %	$662,745,386	100.0	%	$ 41.23	$ 47.40	

(1) Represents annualized rent at December 31, 2017 divided by leased square feet.
(2) Represents annualized rent at expiration divided by leased square feet.
(3) Represents the square footage adjustments for leases that do not reflect BOMA remeasurement.

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Historical Office Tenant Improvements and Leasing Commissions

	Year Ended December 31,		
	2017	2016	2015
Renewals			
Number of leases	482	419	419
Square feet	2,213,716	1,687,430	1,756,373
Tenant improvement costs per square foot [(1)(2)]	$11.47	$ 13.49	$ 9.64
Leasing commission costs per square foot [(1)]	7.77	7.75	7.20
Total costs per square foot [(1)]	$19.24	$ 21.24	$ 16.84
New leases			
Number of leases	337	307	303
Square feet	1,189,808	1,100,800	912,453
Tenant improvement costs per square foot [(1)(2)]	$28.22	$ 26.52	$ 23.72
Leasing commission costs per square foot [(1)]	12.26	10.34	9.44
Total costs per square foot [(1)]	$40.48	$ 36.86	$ 33.15
Total			
Number of leases	819	726	722
Square feet	3,403,524	2,788,230	