Hudson Pacific Properties, Inc.
Form 10-Q
November 06, 2017

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______
Commission File Number: 001-34789 (Hudson Pacific Properties, Inc.)
Commission File Number: 333-202799-01 (Hudson Pacific Properties, L.P.)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Hudson Pacific Properties, Inc. Yes x No o　　Hudson Pacific Properties, L.P. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Hudson Pacific Properties, Inc. Yes x No o　　Hudson Pacific Properties, L.P. Yes x No o

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

Hudson Pacific Properties, Inc.

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

Hudson Pacific Properties, L.P

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

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

Hudson Pacific Properties, Inc. o Hudson Pacific Properties, L.P. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Hudson Pacific Properties, Inc. Yes o No x	Hudson Pacific Properties, L.P. Yes o No x

The number of shares of common stock of Hudson Pacific Properties, Inc. outstanding at November 1, 2017 was 156,060,854.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2017 of Hudson Pacific Properties, Inc., a Maryland corporation, and Hudson Pacific Properties, L.P., a Maryland limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” or “our Company” refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

Hudson Pacific Properties, Inc. is a real estate investment trust, or REIT, and the sole general partner of our operating partnership. As of September 30, 2017, Hudson Pacific Properties, Inc. owned approximately 99.6% of the outstanding common units of partnership interest (including unvested restricted units) in our operating partnership, or common units. The remaining approximately 0.4% of outstanding common units at September 30, 2017 were owned by certain of our executive officers and directors, certain of their affiliates and other outside investors. As of December 31, 2016, certain affiliates of Blackstone Group L.P. (“Blackstone”) and Farallon Capital Management, LLC (“the Farallon Funds”) held an ownership interest in the Company and the operating partnership. Following a common stock offering and a common unit repurchase on January 10, 2017, Blackstone and the Farallon Funds informed us that they no longer owned common stock or common units in the Company or the operating partnership. As the sole general partner of our operating partnership, Hudson Pacific Properties, Inc. has the full, exclusive and complete responsibility for our operating partnership’s day-to-day management and control.

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

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

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

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

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

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

HUDSON PACIFIC PROPERTIES, INC. AND HUDSON PACIFIC PROPERTIES, L.P.
QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017
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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS OF HUDSON PACIFIC PROPERTIES, INC.

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

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investment in real estate, at cost	$ 6,558,898	$ 6,099,293
Accumulated depreciation and amortization	(504,141)	(387,181)
Investment in real estate, net	6,054,757	5,712,112
Cash and cash equivalents	87,723	83,015
Restricted cash	25,784	25,177
Accounts receivable, net	5,014	6,833
Straight-line rent receivables, net	97,184	82,109
Deferred leasing costs and lease intangible assets, net	257,831	294,209
Prepaid expenses and other assets, net	57,360	79,058
Assets associated with real estate held for sale	321,437	396,485
TOTAL ASSETS	$ 6,907,090	$ 6,678,998
LIABILITIES AND EQUITY		
Notes payable, net	$ 2,424,358	$ 2,473,323
Accounts payable and accrued liabilities	162,938	116,973
Lease intangible liabilities, net	55,335	73,569
Security deposits and prepaid rent	66,499	70,468
Derivative liabilities	819	1,303
Liabilities associated with real estate held for sale	224,032	230,435
TOTAL LIABILITIES	2,933,981	2,966,071
6.25% Series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
EQUITY		
Hudson Pacific Properties, Inc. stockholders’ equity:		
Common stock, $0.01 par value, 490,000,000 authorized, 155,302,800 shares and 136,492,235 shares outstanding at September 30, 2017 and December 31, 2016, respectively	1,553	1,364
Additional paid-in capital	3,619,940	3,109,394
Accumulated other comprehensive income	6,465	9,496
Accumulated income (deficit)	18,911	(16,971)
Total Hudson Pacific Properties, Inc. stockholders’ equity	3,646,869	3,103,283
Non-controlling interest—members in consolidated entities	302,111	304,608
Non-controlling interest—units in the operating partnership	13,952	294,859
TOTAL EQUITY	3,962,932	3,702,750
TOTAL LIABILITIES AND EQUITY	$ 6,907,090	$ 6,678,998

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Office				
Rental	$139,157	$123,919	$406,275	$358,193
Tenant recoveries	24,982	22,657	67,421	64,493
Parking and other	8,035	5,521	22,146	16,103
Total Office revenues	172,174	152,097	495,842	438,789
Media & Entertainment				
Rental	11,012	7,102	26,802	19,987
Tenant recoveries	133	243	927	655
Other property-related revenue	6,561	5,005	14,964	12,784
Other	141	136	271	226
Total Media & Entertainment revenues	17,847	12,486	42,964	33,652
TOTAL REVENUES	190,021	164,583	538,806	472,441
OPERATING EXPENSES				
Office operating expenses	59,102	53,975	162,524	150,769
Media & Entertainment operating expenses	10,588	6,499	24,842	18,746
General and administrative	13,013	12,955	41,329	38,474
Depreciation and amortization	71,158	67,414	217,340	201,890
TOTAL OPERATING EXPENSES	153,861	140,843	446,035	409,879
INCOME FROM OPERATIONS	36,160	23,740	92,771	62,562
OTHER EXPENSE (INCOME)				
Interest expense	22,461	19,910	66,086	54,775
Interest income	(44)	(130)	(90)	(216)
Unrealized loss (gain) on ineffective portion of derivative instruments	37	(879)	82	1,630
Transaction-related expenses	598	315	598	376
Other income	(1,402)	(693)	(2,656)	(716)
TOTAL OTHER EXPENSES	21,650	18,523	64,020	55,849
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	14,510	5,217	28,751	6,713
Gains on sale of real estate	—	—	16,866	8,515
NET INCOME	14,510	5,217	45,617	15,228
Net income attributable to preferred units	(159)	(159)	(477)	(477)
Net income attributable to participating securities	(255)	(196)	(750)	(589)
Net income attributable to non-controlling interest in consolidated entities	(2,991)	(2,525)	(9,002)	(6,866)
Net income attributable to non-controlling interest in units in the operating partnership	(41)	(490)	(256)	(2,357)
Net income attributable to Hudson Pacific Properties, Inc. common stockholders	$11,064	$1,847	$35,132	$4,939
Basic and diluted per share amounts:				
Net income attributable to common stockholders—basic	$0.07	$0.02	$0.23	$0.05

Net income attributable to common stockholders—diluted	$ 0.07	$ 0.02	$ 0.23	$ 0.05
Weighted average shares of common stock outstanding—basic	155,302,800	115,083,622	152,874,952	99,862,583
Weighted average shares of common stock outstanding—diluted	156,093,736	116,262,622	153,648,888	100,979,583
Dividends declared per share	$ 0.25	$ 0.20	$ 0.75	$ 0.60

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

HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$14,510	$5,217	$45,617	$15,228
Other comprehensive income (loss): change in fair value of derivative instruments	507	3,087	611	(20,818)
Comprehensive income (loss)	15,017	8,304	46,228	(5,590)
Comprehensive income attributable to preferred units	(159)	(159)	(477)	(477)
Comprehensive income attributable to participating securities	(255)	(196)	(750)	(589)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,991)	(2,525)	(9,002)	(6,866)
Comprehensive (income) loss attributable to units in the operating partnership	(43)	(1,137)	(276)	5,903
Comprehensive income (loss) attributable to Hudson Pacific Properties, Inc. stockholders	$11,569	$4,287	$35,723	$(7,619)

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

	Hudson Pacific Properties, Inc. Stockholders' Equity							
	Shares of Common Stock	Stock Amount	Additional Paid-in Capital	Accumulated (Deficit) Income	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Units in the Operating Partnership	Non-controlling Interest—Members in Consolidated Entities	Total Equity
Balance at January 1, 2016	89,153,780	$891	$1,710,979	$(44,955)	$(1,081)	$1,800,578	$262,625	$3,729,037
Contributions	—	—	—	—	—	—	33,996	33,996
Distributions	—	—	—	—	—	—	(1,303)	(1,303)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	47,010,695	470	1,449,111	—	—	—	—	1,449,581
Issuance of unrestricted stock	590,520	6	—	—	—	—	—	6
Shares withheld to satisfy tax withholding	(262,760)	(3)	(8,424)	—	—	—	—	(8,427)
Declared dividend	—	—	(90,005)	—	—	(27,814)	—	(117,819)
Amortization of stock-based compensation	—	—	13,609	—	—	1,045	—	14,654
Net income	—	—	—	27,984	—	5,848	9,290	43,122
Change in fair value of derivatives	—	—	—	—	10,577	(4,635)	—	5,942
Redemption of common units in the operating partnership	—	—	34,124	—	—	(1,480,163)	—	(1,446,039)
Balance at December 31, 2016	136,492,235	1,364	3,109,394	(16,971)	9,496	294,859	304,608	3,702,750
Contributions	—	—	—	—	—	—	3,870	3,870
Distributions	—	—	—	—	—	—	(15,369)	(15,369)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	18,656,575	187	647,337	—	—	—	—	647,524
Issuance of unrestricted stock	274,251	3	(3)	—	—	—	—	—

Shares withheld to satisfy tax withholding	(120,261)	(1)	(4,202)	—	—	—	—	(4,203)
Declared dividend	—	—	(117,916)	—	—	(492)	—	(118,408)
Amortization of stock-based compensation	—	—	9,865	—	—	2,007	—	11,872
Net income	—	—	—	35,882	—	256	9,002	45,140
Change in fair value of derivatives	—	—	—	—	591	20	—	611
Redemption of common units in the operating partnership	—	—	(24,535)	—	(3,622)	(282,698)	—	(310,855)
Balance at September 30, 2017	155,302,800	$1,553	$3,619,940	$ 18,911	$ 6,465	$13,952	$ 302,111	$3,962,932

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

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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$45,617	$15,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	217,340	201,890
Amortization of deferred financing costs and loan premium, net	3,558	3,278
Amortization of stock-based compensation	11,237	9,931
Straight-line rents	(15,174)	(19,398)
Straight-line rent expenses	296	886
Amortization of above- and below-market leases, net	(14,326)	(13,804)
Amortization of above- and below-market ground lease, net	2,088	1,604
Amortization of lease incentive costs	1,140	1,017
Other non-cash adjustments[1]	598	682
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	1,649	12,521
Deferred leasing costs and lease intangibles	(23,270)	(34,610)
Prepaid expenses and other assets	(3,000)	(5,008)
Accounts payable and accrued liabilities	34,660	32,786
Security deposits and prepaid rent	(5,943)	2,364
Net cash provided by operating activities	239,604	200,852
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(224,797)	(183,286)
Property acquisitions	(257,734)	(307,919)
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	17,416	—
Deposit for property acquisitions	—	(13,130)
Proceed from repayment of notes receivable	—	28,892
Net cash used in investing activities	(384,479)	(219,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	270,000	957,000
Payments of notes payable	(321,892)	(808,006)
Proceeds from issuance of common stock, net	647,524	880,514
Payment for redemption of common units in the operating partnership	(310,855)	(876,213)
Distributions paid to common stockholders and unitholders	(118,408)	(88,469)
Distributions paid to preferred unitholders	(477)	(477)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(15,369)	(990)
Payments to satisfy tax withholding	(4,203)	(1,776)
Payments of loan costs	—	(2,661)
Net cash provided by financing activities	150,190	59,025

Net increase in cash and cash equivalents and restricted cash	5,315	39,896
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$113,507	$111,457
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$47,852	$53,474
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(6,740)	$(10,227)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

(1) Represents bad debt expense/recovery, amortization of discount and net origination fees on purchased and originated loans and unrealized loss/gain on ineffective portion of derivative instruments.

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

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ITEM 1. FINANCIAL STATEMENTS OF HUDSON PACIFIC PROPERTIES, L.P.

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

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investment in real estate, at cost	$ 6,558,898	$ 6,099,293
Accumulated depreciation and amortization	(504,141)	(387,181)
Investment in real estate, net	6,054,757	5,712,112
Cash and cash equivalents	87,723	83,015
Restricted cash	25,784	25,177
Accounts receivable, net	5,014	6,833
Straight-line rent receivables, net	97,184	82,109
Deferred leasing costs and lease intangible assets, net	257,831	294,209
Prepaid expenses and other assets, net	57,360	79,058
Assets associated with real estate held for sale	321,437	396,485
TOTAL ASSETS	$ 6,907,090	$ 6,678,998
LIABILITIES		
Notes payable, net	$ 2,424,358	$ 2,473,323
Accounts payable and accrued liabilities	162,938	116,973
Lease intangible liabilities, net	55,335	73,569
Security deposits and prepaid rent	66,499	70,468
Derivative liabilities	819	1,303
Liabilities associated with real estate held for sale	224,032	230,435
TOTAL LIABILITIES	2,933,981	2,966,071
6.25% Series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
CAPITAL		
Hudson Pacific Properties, L.P. partners' capital:		
Common units, 155,871,845 and 145,942,855 issued and outstanding at September 30, 2017 and December 31, 2016, respectively.	3,654,332	3,392,264
Accumulated other comprehensive income	6,489	5,878
Total Hudson Pacific Properties, L.P. partners' capital	3,660,821	3,398,142
Non-controlling interest—members in consolidated entities	302,111	304,608
TOTAL CAPITAL	3,962,932	3,702,750
TOTAL LIABILITIES AND CAPITAL	$ 6,907,090	$ 6,678,998

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Office				
Rental	$139,157	$123,919	$406,275	$358,193
Tenant recoveries	24,982	22,657	67,421	64,493
Parking and other	8,035	5,521	22,146	16,103
Total Office revenues	172,174	152,097	495,842	438,789
Media & Entertainment				
Rental	11,012	7,102	26,802	19,987
Tenant recoveries	133	243	927	655
Other property-related revenue	6,561	5,005	14,964	12,784
Other	141	136	271	226
Total Media & Entertainment revenues	17,847	12,486	42,964	33,652
TOTAL REVENUES	190,021	164,583	538,806	472,441
OPERATING EXPENSES				
Office operating expenses	59,102	53,975	162,524	150,769
Media & Entertainment operating expenses	10,588	6,499	24,842	18,746
General and administrative	13,013	12,955	41,329	38,474
Depreciation and amortization	71,158	67,414	217,340	201,890
TOTAL OPERATING EXPENSES	153,861	140,843	446,035	409,879
INCOME FROM OPERATIONS	36,160	23,740	92,771	62,562
OTHER EXPENSE (INCOME)				
Interest expense	22,461	19,910	66,086	54,775
Interest income	(44)	(130)	(90)	(216)
Unrealized loss (gain) on ineffective portion of derivative instruments	37	(879)	82	1,630
Transaction-related expenses	598	315	598	376
Other income	(1,402)	(693)	(2,656)	(716)
TOTAL OTHER EXPENSES	21,650	18,523	64,020	55,849
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	14,510	5,217	28,751	6,713
Gains on sale of real estate	—	—	16,866	8,515
NET INCOME	14,510	5,217	45,617	15,228
Net income attributable to non-controlling interest in consolidated entities	(2,991)	(2,525)	(9,002)	(6,866)
Net income attributable to Hudson Pacific Properties, L.P.	11,519	2,692	36,615	8,362
Net income attributable to preferred units	(159)	(159)	(477)	(477)
Net income attributable to participating securities	(255)	(196)	(750)	(589)
Net income available to Hudson Pacific Properties, L.P. common unitholders	$11,105	$2,337	$35,388	$7,296
Basic and diluted per unit amounts:				
Net income attributable to common unitholders—basic	$0.07	$0.02	$0.23	$0.05
Net income attributable to common unitholders—diluted	$0.07	$0.02	$0.23	$0.05

Weighted average shares of common units outstanding—basic	155,871,845	145,614,312	153,736,796	145,550,685
Weighted average shares of common units outstanding—diluted	156,662,781	146,793,312	154,510,732	146,667,685
Dividends declared per unit	$ 0.25	$ 0.20	$ 0.75	$ 0.60

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$14,510	$5,217	$45,617	$15,228
Other comprehensive income (loss): change in fair value of derivative instruments	507	3,087	611	(20,818)
Comprehensive income (loss)	15,017	8,304	46,228	(5,590)
Comprehensive income attributable to preferred units	(159)	(159)	(477)	(477)
Comprehensive income attributable to participating securities	(255)	(196)	(750)	(589)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,991)	(2,525)	(9,002)	(6,866)
Comprehensive income (loss) attributable to Hudson Pacific Properties, L.P. partners’ capital	$11,612	$5,424	$35,999	$(13,522)

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

	Hudson Pacific Properties, L.P. Partners' Capital				
	Number of Common Units	Common Units	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Members in Consolidated Entities	Total Capital
Balance at January 1, 2016	145,450,095	$3,466,476	$ (64)	$ 262,625	$3,729,037
Contributions	—	—	—	33,996	33,996
Distributions	—	—	—	(1,303)	(1,303)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	47,010,695	1,449,581	—	—	1,449,581
Issuance of unrestricted units	590,520	6	—	—	6
Units withheld to satisfy tax withholding	(262,760)	(8,427)	—	—	(8,427)
Declared distributions	—	(117,819)	—	—	(117,819)
Amortization of unit-based compensation	—	14,654	—	—	14,654
Net income	—	33,832	—	9,290	43,122
Change in fair value of derivative instruments	—	—	5,942	—	5,942
Redemption of common units	(46,845,695)	(1,446,039)	—	—	(1,446,039)
Balance at December 31, 2016	145,942,855	3,392,264	5,878	304,608	3,702,750
Contributions	—	—	—	3,870	3,870
Distributions	—	—	—	(15,369)	(15,369)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	18,656,575	647,524	—	—	647,524
Issuance of unrestricted units	274,251	—	—	—	—
Units withheld to satisfy tax withholding	(120,261)	(4,203)	—	—	(4,203)
Declared distributions	—	(118,408)	—	—	(118,408)
Amortization of unit-based compensation	—	11,872	—	—	11,872
Net income	—	36,138	—	9,002	45,140
Change in fair value of derivative instruments	—	—	611	—	611
Redemption of common units	(8,881,575)	(310,855)	—	—	(310,855)
Balance at September 30, 2017	155,871,845	$3,654,332	$ 6,489	$ 302,111	$3,962,932

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

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$45,617	$15,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	217,340	201,890
Amortization of deferred financing costs and loan premium, net	3,558	3,278
Amortization of unit-based compensation	11,237	9,931
Straight-line rents	(15,174)	(19,398)
Straight-line rent expenses	296	886
Amortization of above- and below-market leases, net	(14,326)	(13,804)
Amortization of above- and below-market ground lease, net	2,088	1,604
Amortization of lease incentive costs	1,140	1,017
Other non-cash adjustments[1]	598	682
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	1,649	12,521
Deferred leasing costs and lease intangibles	(23,270)	(34,610)
Prepaid expenses and other assets	(3,000)	(5,008)
Accounts payable and accrued liabilities	34,660	32,786
Security deposits and prepaid rent	(5,943)	2,364
Net cash provided by operating activities	239,604	200,852
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(224,797)	(183,286)
Property acquisitions	(257,734)	(307,919)
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	17,416	—
Deposit for property acquisitions	—	(13,130)
Proceed from repayment of notes receivable	—	28,892
Net cash used in investing activities	(384,479)	(219,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	270,000	957,000
Payments of notes payable	(321,892)	(808,006)
Proceeds from issuance of common units, net	647,524	880,514
Payment for redemption of common units	(310,855)	(876,213)
Distributions paid to common unitholders	(118,408)	(88,469)
Distributions paid to preferred unitholders	(477)	(477)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(15,369)	(990)
Payments to satisfy tax withholding	(4,203)	(1,776)
Payments of loan costs	—	(2,661)

Net cash provided by financing activities	150,190	59,025
Net increase in cash and cash equivalents and restricted cash	5,315	39,896
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$113,507	$111,457
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$47,852	$53,474
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(6,740)	$(10,227)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

(1) Represents bad debt expense/recovery, amortization of discount and net origination fees on purchased and originated loans and unrealized loss/gain on ineffective portion of derivative instruments.

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

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

1. Organization

Hudson Pacific Properties, Inc. is a Maryland corporation formed on November 9, 2009 as a fully integrated, self-administered and self-managed real estate investment trust ("REIT"). Through its controlling interest in the operating partnership and its subsidiaries, Hudson Pacific Properties, Inc. owns, manages, leases, acquires and develops real estate, consisting primarily of office and media and entertainment properties. Unless otherwise indicated or unless the context requires otherwise, all references in these financial statements to "the Company" refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to "our operating partnership" or "the operating partnership" refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

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

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

	Number of Properties	Square Feet (unaudited)
Office properties:		
Northern California[1]	29	9,600,289
Southern California[2]	16	2,817,509
Pacific Northwest[3]	8	1,496,620
Total Office properties	53	13,914,418
Media & Entertainment properties:		
Southern California[2]	3	1,249,927
Total Media & Entertainment properties	3	1,249,927
Total[4]	56	15,164,345

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company and the operating partnership are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to the

Securities and Exchange Commission ("SEC") rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented.

The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2017. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the 2016 Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. and the notes thereto.

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

Certain amounts in the consolidated financial statements for the prior period have been reclassified to conform to the current period presentation. Included in the reclassified amounts are properties held for sale. These amounts relate to 3402 Pico Boulevard, which was sold on March 21, 2017, and Pinnacle I and Pinnacle II, which are expected to be sold during the fourth quarter of 2017.

Principles of Consolidation

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

The Company consolidates all VIEs of which the Company is considered the primary beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. As of September 30, 2017, the Company has determined that four joint ventures and our operating partnership met the definition of a VIE. Three of the joint ventures are consolidated entities and one joint venture is a non-consolidated entity.

Consolidated Entities

As of September 30, 2017, the operating partnership has determined that three of its joint ventures met the definition of a VIE and are consolidated:

Property	Ownership interest	
Pinnacle I[(1)]	65.0	%
Pinnacle II[(1)]	65.0	%
1455 Market Street	55.0	%
Hill7	55.0	%

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(1) A single joint venture owns both Pinnacle I and Pinnacle II. The Company entered into an agreement on September 14, 2017 to sell its ownership interest in Pinnacle I and Pinnacle II. The sale is expected to close in the fourth quarter of 2017.

As of September 30, 2017, the Company has determined that our operating partnership met the definition of a VIE and is consolidated. Substantially all of the assets and liabilities of the Company are related to these VIEs.

Non-consolidated Entities

On June 15, 2017, the Company purchased the remaining interest in land at its 11601 Wilshire property. Refer to Note 3 for details. As a result of the purchase, the Company is no longer accounting for the interest in land as a non-consolidated entity.

As of September 30, 2017, the Company has determined it is not the primary beneficiary of one joint venture that meets the definition of a VIE. Due to its significant influence over the non-consolidated entity, the Company accounts for it using the equity method of accounting. Under the equity method, the Company initially records the investment at cost and subsequently adjusts for equity in earnings or losses and cash contributions and distributions. The Company’s net equity investment is reflected within prepaid expenses and other assets on the Consolidated Balance Sheets which represents the

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

Company's maximum exposure for loss. The Company's share of net income or loss from the entity is included within other income on the Consolidated Statements of Operations. The Company owns 21% of the non-consolidated entity.

Use of Estimates

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

Recently Issued Accounting Pronouncements

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

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This guidance removes step two from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.	The Company early adopted this guidance during the second quarter of 2017 and applied it prospectively. The adoption did not have an impact on the Company's consolidated financial statements.
ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)	The guidance in this ASU is based on two SEC staff announcements made at the September 2016 and November 2016 EITF meetings. In the September meeting, the SEC announced that a registrant should disclose the potential material effects of the ASUs related to revenues, leases and credit losses on financial instruments. As a result of the November meeting, the ASU conforms Accounting Standards Codification ("ASC") 323 to the guidance issued in ASU 2014-01 related to investments in	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. With the adoption, the Company provided updates on its implementation of the ASUs related to revenue, leases and credit losses on financial instruments. Please refer to sections below for updates on the implementation of revenue and lease ASUs. The ASU related to credit losses on financial instruments could have a material impact on trade receivables and the Company is currently assessing the

	qualified affordable housing projects.	impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements.
ASU 2016-19, Technical Corrections and Improvements	The technical corrections make minor change to certain aspects of the FASB ASC, including changes to resolve differences between current and pre-Codification guidance, updates to wording, references to avoid misapplication and textual simplifications to increase the Codification's utility and understandability and minor amendments to guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company's consolidated financial statements.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This guidance requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company revised the Consolidated Statement of Cash Flows and disclosed the reconciliation to the related captions in the Consolidated Balance Sheets in Note 19.

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

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control	This guidance outlines how a single decisionmaker of a VIE should treat indirect interests held through other related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE.	The Company adopted this guidance during the first quarter of 2017 and applied it retrospectively. The adoption did not have a material impact on the Company’s consolidated financial statements and did not change the consolidation conclusion.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU clarifies how certain transactions should be classified in the statement of cash flows, including debt prepayment costs, contingent consideration payments made after a business combination and distributions received from equity method investments. The ASU provides two approaches to determine the classification of cash distributions received from equity method investments: (i) the “cumulative earnings” approach, under which distributions up to the amount of cumulative equity in earnings recognized will be classified as cash inflows from operating activities, and those in excess of that amount will be classified as cash inflows from investing activities and (ii) the “nature of the distribution” approach, under which distributions will be classified based on the nature of the underlying activity that generated cash distributions. The guidance requires a Company to elect either the “cumulative earnings” approach or the “nature of the distribution” approach at the time of adoption.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company elected the “nature of the distribution” approach related to the distributions received from its equity method investments. The adoption did not have an impact on the Company’s Consolidated Statements of Cash Flows.
ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting	The guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance also requires an investor that has an available-for-sale security that subsequently qualifies for the equity method to recognize in net income the unrealized holding gains or losses in accumulated other comprehensive income related to that security when it begins applying the equity method. It is required to apply this guidance prospectively.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.
ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge	The guidance states that the novation of a derivative contract (e.g., a change in the counterparty) in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. The hedge accounting relationship could continue uninterrupted if all of the other hedge accounting criteria are met,	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated

Accounting Relationships	including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. Either a prospective or a modified retrospective approach can be applied.	financial statements.

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

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

The Company has compiled an inventory of sources of revenues and have preliminarily identified three revenue streams. Two of these revenue streams will be accounted for under ASC 606 when it becomes effective on January 1, 2018. The remaining revenue stream, which is integral to the Company’s leasing revenues, will be accounted for under ASC 606, effective with the adoption of ASC 842, Leases (“ASC 842”), on January 1, 2019. The Company is in the process of evaluating the impact on its consolidated financial statements but expects that the recognition of revenues will not be impacted by this standard. The Company plans to adopt ASC 606 on January 1, 2018 using the modified retrospective approach.

Update on ASC 842 implementation

On February 25, 2016, the FASB issued ASU 2016-02 to amend the accounting guidance for leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a lease agreement (i.e., lessees and lessors).

ASC 842 provides practical expedience that allow entities to not (i) reassess whether any expired or existing contracts are or contain leases; (ii) reassess the lease classification for any expired or existing leases; (iii) reassess initial direct costs for any existing leases. This ASU is effective for annual reporting periods (including interim periods) beginning after December 15, 2018. A modified retrospective approach must be applied for leases that exist or are entered into after the beginning of the earliest comparative period presented in the consolidated financial statements.

The Company plans to adopt the standard on January 1, 2019 and expects to adopt using the practical expedience elections.

Lessor Accounting

The Company recognized rental revenues and tenant recoveries of $175.3 million and $501.4 million for the three and nine months ended September 30, 2017. This ASU requires companies to identify lease and non-lease components of a lease agreement. Lease components relate to the right to use the leased asset and non-lease components relate to payments for goods or services that are transferred separately from the right to use the underlying asset. Total lease consideration is allocated to lease and non-lease components on a relative standalone basis. The recognition of revenues related to lease components will be governed by ASC 842 while revenue related to non-lease components will be subject to ASC 606.

Under current accounting standards, the Company recognizes rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred. The reimbursements are recognized and presented gross, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and bear the associated credit risk.

The Company has not completed its analysis of this ASU but expects that lessors will continue to recognize the lease revenue component using an approach that is substantially equivalent to existing guidance. The Company expects that tenant recoveries will be separated into lease and non-lease components.

The ASU also requires lessors to capitalize only those costs that are defined as initial direct costs. Under the current accounting standards, the Company capitalizes initial direct and indirect leasing costs. During the three and nine months ended September 30, 2017, the Company capitalized $1.8 million and $5.0 million of indirect leasing costs, respectively. Under this new ASU, these costs will be expensed as incurred.

Lessee Accounting

As of September 30, 2017, the future undiscounted minimum lease payments under the Company’s ground leases totaled $456.3 million. This guidance requires lessees to record a lease liability at lease inception, with a corresponding right-of-use asset, except for short-term leases. The Company continues to evaluate the amount of right-of-use asset and lease liability that will need to be recorded with respect to its ground leases where it is the lessee.

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

Other recently issued ASUs

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

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. Therefore, a cumulative effect adjustment related to elimination of ineffectiveness measurement is required to be recorded to the opening balance of retained earnings as of the beginning of the fiscal year of adoption for cash flow hedge. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This guidance must be applied using a modified retrospective approach.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2018	The Company is currently evaluating the impact of this standard on its consolidated financial statements and notes to the consolidated financial statements. The Company expects that the adoption would impact derivative instruments that have portions of ineffectiveness. The Company plans to early adopt this guidance during the first quarter in 2018 and apply it using the modified retrospective approach.
ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. This guidance must be applied prospectively.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2017	The Company does not currently expect a material impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements. The Company plans to adopt this guidance during the first quarter in 2018.
ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition	The guidance updates the definition of an in substance nonfinancial asset and clarifies the scope of ASC 610-20 on the sale or transfer of nonfinancial assets to noncustomers, including partial sales. It also clarifies the derecognition guidance for nonfinancial assets to	Effective for annual reporting periods (including interim periods)	The Company currently expects that the adoption of this ASU could have a material impact on its consolidated financial statements; however, such impact will not be known until the Company disposes of

Guidance and Accounting for Partial Sales of Nonfinancial Assets	conform with the new revenue recognition standard. Either a full or modified retrospective approach can be applied.	beginning after December 15, 2017	any of its investments in real estate properties, which would all be sales of nonfinancial assets. The Company plans to adopt this guidance during the first quarter in 2018 and apply it using the modified retrospective approach.

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

3. Investment in Real Estate

Real estate held for investment

The following table summarizes the Company’s investment in real estate, at cost as of:

	September 30, 2017	December 31, 2016
Land	$ 1,369,320	$ 1,221,450
Building and improvements	4,526,416	4,217,232
Tenant improvements	389,284	361,108
Furniture and fixtures	8,217	4,264
Property under development	265,661	295,239
Investment in real estate, at cost[(1)]	$ 6,558,898	$ 6,099,293

(1) Excludes balances related to properties that have been classified as held for sale.

Acquisitions

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

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

The Company assesses fair value based on Level 2 and Level 3 inputs within the fair value framework, which includes estimated cash flow projections that utilize appropriate discount, capitalization rates, renewal probability and available market information, which includes market rental rate and market rent growth rates. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions.

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

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

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

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

(1) Represents purchase price before certain credits, prorations and closing costs.
(2) The property consists of stages, production office and support space on 15 acres near Sunset Gower Studios and Sunset Bronson Studios. The purchase price above does not include equipment purchased by the Company for $2.8 million, which was transacted separately from the studio acquisition. In April 2017, the Company drew $150.0 million under the unsecured revolving credit facility to fund the acquisition.
(3) On July 1, 2016 the Company purchased a partial interest in land held as a tenancy in common in conjunction with its acquisition of the 11601 Wilshire property. The land interest held as a tenancy in common was accounted for as an equity method investment. On June 15, 2017, the Company purchased the remaining interest, which was fair valued and allocated to land and building.
(4) This parcel is adjacent to the Sunset Las Palmas Studios property.

The Company's acquisitions did not meet the definition of a business and were therefore accounted for as asset acquisitions. In accordance with asset acquisitions, the purchase price includes capitalized acquisition costs. The following table represents the Company's final aggregate purchase price accounting, as of the respective acquisition dates, for each of the Company's acquisitions completed in the nine months ended September 30, 2017:

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

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

Dispositions

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

Property	Date of Disposition	Square Feet (unaudited)	Sales Price[1]

			(in millions)
222 Kearny Street	2/14/2017	148,797	$ 51.8
3402 Pico Boulevard	3/21/2017	50,687	35.0
Total dispositions		199,484	$ 86.8

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

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

Held for Sale

The Company had four properties classified as held for sale as of December 31, 2016. Two properties were disposed of during the first quarter of 2017. The Company entered into an agreement on September 14, 2017 to sell its ownership interest in the consolidated joint venture that owns Pinnacle I and Pinnacle II to certain affiliates of Blackstone for $350.0 million, before credits, prorations and closing costs, including the assumption of $216.0 million of secured notes payable. The sale of Pinnacle I and Pinnacle II is expected to close in the fourth quarter of 2017.

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

The following table summarizes the components of assets and liabilities associated with real estate held for sale as of:

	September 30, 2017	December 31, 2016
ASSETS		
Investment in real estate, net	$ 302,992	$ 371,422
Accounts receivable, net	11	357
Straight-line rent receivables, net	5,220	5,949
Deferred leasing costs and lease intangible assets, net	13,204	17,798
Prepaid expenses and other assets, net	10	959
Assets associated with real estate held for sale	$ 321,437	$ 396,485
LIABILITIES		
Notes payable, net	$ 214,818	$ 214,687
Accounts payable and accrued liabilities	3,229	6,517
Lease intangible liabilities, net	5,316	6,588
Security deposits and prepaid rent	669	2,643
Liabilities associated with real estate held for sale	$ 224,032	$ 230,435

Impairment of Long-Lived Assets

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

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

4. Deferred Leasing Costs and Lease Intangibles, net

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

	September 30, 2017	December 31, 2016
Above-market leases	$ 19,622	$ 23,430
Accumulated amortization	(14,299)	(12,989)
Above-market leases, net	5,323	10,441
Deferred leasing costs and in-place lease intangibles	316,695	350,747
Accumulated amortization	(128,598)	(133,511)
Deferred leasing costs and in-place lease intangibles, net	188,097	217,236
Below-market ground leases	71,210	71,423
Accumulated amortization	(6,799)	(4,891)
Below-market ground leases, net	64,411	66,532
Deferred leasing costs and lease intangible assets, net(1)	$ 257,831	$ 294,209
Below-market leases	$ 111,443	$ 128,817
Accumulated amortization	(57,081)	(56,254)
Below-market leases, net	54,362	72,563
Above-market ground leases	1,095	1,095
Accumulated amortization	(122)	(89)
Above-market ground leases, net	973	1,006
Lease intangible liabilities, net(1)	$ 55,335	$ 73,569

(1) Excludes balances related to properties that have been classified as held for sale.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Above-market leases(1)	$1,855	$2,809	$5,122	$10,223
Below-market leases(1)	5,776	7,311	19,448	24,027
Deferred leasing costs and in-place lease intangibles(2)	17,376	20,742	57,813	65,408
Above-market ground leases(3)	11	11	33	33
Below-market ground leases(3)	629	545	2,121	1,637

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

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

5. Accounts Receivable, net

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

	September 30, 2017	December 31, 2016
Accounts receivable	$ 6,643	$ 8,660
Allowance for doubtful accounts	(1,629)	(1,827)
Accounts receivable, net[1]	$ 5,014	$ 6,833

(1) Excludes balances related to properties that have been classified as held for sale.

6. Straight-line Rent Receivables, net

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

	September 30, 2017	December 31, 2016
Straight-line rent receivables	$ 97,191	$ 82,245
Allowance for doubtful accounts	(7)	(136)
Straight-line rent receivables, net[1]	$ 97,184	$ 82,109

(1) Excludes balances related to properties that have been classified as held for sale.

7. Prepaid Expenses and Other Assets, net

The following table summarizes the Company's prepaid expenses and other assets, net as of:

	September 30, 2017	December 31, 2016
Investment in unconsolidated entities	$ 14,093	$ 37,228
Goodwill	8,754	8,754
Derivative assets	6,250	5,935
Other	28,263	27,141
Prepaid expenses and other assets, net	$ 57,360	$ 79,058

(1) Excludes balances related to properties that have been classified as held for sale.

No goodwill impairment indicators have been noted during the nine months ended September 30, 2017.

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

8. Notes Payable, net

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

	September 30, 2017	December 31, 2016	Interest Rate[1]	Contractual Maturity Date	
UNSECURED NOTES PAYABLE					
Unsecured Revolving Credit Facility[2]	$ 250,000	$ 300,000	LIBOR + 1.15% to 1.85%	4/1/2019	[3]
5-Year Term Loan due April 2020[2][4]	450,000	450,000	LIBOR + 1.30% to 2.20%	4/1/2020	
5-Year Term Loan due November 2020[2]	175,000	175,000	LIBOR + 1.30% to 2.20%	11/17/2020	
7-Year Term Loan due April 2022[2][5]	350,000	350,000	LIBOR + 1.60% to 2.55%	4/1/2022	
7-Year Term Loan due November 2022[2][6]	125,000	125,000	LIBOR + 1.60% to 2.55%	11/17/2022	
Series A Notes	110,000	110,000	4.34%	1/2/2023	
Series E Notes	50,000	50,000	3.66%	9/15/2023	
Series B Notes	259,000	259,000	4.69%	12/16/2025	
Series D Notes	150,000	150,000	3.98%		