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Douglas Emmett Inc
Form 10-K
February 27, 2014

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, 2013
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, 2nd Floor
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 or No

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 or No

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 or No

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 or No

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.

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes or No

The aggregate market value of the common stock, \$0.01 par value, held by non-affiliates of the registrant, as of June 28, 2013, was \$3.3 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 143,189,974 shares of its common stock, \$0.01 par value, outstanding as of February 21, 2014.

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 2014 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, 2013.

DOUGLAS EMMETT, INC.
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Forward Looking Statements.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934 as amended (Exchange Act). You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “may” or other similar expressions 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 presented in this Report, or those which we may make orally or in writing from time to time, are based on our beliefs and assumptions, as well as information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are 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 actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may 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 in Southern California and Honolulu; a general downturn in the economy, such as the recent global financial crisis; decreased rental rates or increased tenant incentive and vacancy rates; defaults on, early termination of, or non-renewal of leases by tenants; increased interest rates and operating costs; failure to generate sufficient cash flows to service our outstanding indebtedness; difficulties in raising capital for our unconsolidated institutional real estate funds; difficulties in identifying properties to acquire and completing acquisitions; failure to successfully operate acquired properties and operations; failure to maintain our status as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code); possible adverse changes in rent control laws and regulations; environmental uncertainties; risks related to natural disasters; lack or insufficient amount of insurance; inability to successfully expand into new markets and submarkets; risks associated with property development; conflicts of interest with our officers; changes in real estate zoning laws and increases in real property tax rates; and the consequences of any future terrorist attacks. For further discussion of these and other factors, see “Item 1A. Risk Factors” of 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.

PART I

Item 1. Business Overview

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT). We are one of the largest owners and operators of high-quality office and multifamily properties located in premier submarkets in California and Hawaii. We focus on owning, acquiring and operating a substantial share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities. We intend to increase our market share in our existing submarkets of Los Angeles County and Honolulu, and may selectively enter into other submarkets with similar characteristics where we believe we can gain significant market share.

Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, including our investments in our unconsolidated institutional real estate funds (Funds), we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. At December 31, 2013, we owned a consolidated portfolio of fifty-two office properties (including ancillary retail space) totaling approximately 13.3 million rentable square feet of space and nine multifamily properties containing 2,868 apartment units, as well as the fee interests in two parcels of land subject to ground leases. Alongside our consolidated portfolio, we also manage and own equity interests in our Funds which, at December 31, 2013, owned eight additional office properties totaling approximately 1.8 million square feet of space. We manage these eight properties alongside our consolidated portfolio; therefore we present our office portfolio statistics on a total portfolio basis, with a combined sixty Class A office properties totaling approximately 15.1 million square feet. All of these properties are concentrated in nine premier Los Angeles County submarkets – Brentwood, Olympic Corridor, Century City, Santa Monica, Beverly Hills, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank, as well as in Honolulu, Hawaii.

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

Concentration of High Quality Office and Multifamily Assets 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 rent is very small relative to their revenues and often not the paramount factor in their leasing decisions. In addition, our diverse base of office tenants operates in a variety of legal, medical, entertainment, technology, financial and other professional businesses, reducing our dependence on any one industry. In 2013, 2012 and 2011, no tenant provided more than 10% of our total rental revenue and tenant reimbursements.

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 about a 25% share of the Class A office space in our targeted submarkets.

Proactive Asset and Property Management. Finally, our fully integrated 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. We believe this provides a key competitive advantage in managing our office portfolio, which at December 31, 2013 consisted of 2,530 office leases, with a median size of approximately 2,400 square feet, and our 2,868 apartment units. 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. Our in-house leasing agents and legal specialists allow us to manage and lease a large property portfolio with a diverse group of smaller tenants, closing an average of

approximately three office leases each business day. Finally, our in-house construction company allows us to compress the time required for building out many smaller spaces, so that we can reduce the resulting structural vacancy.

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, the cost of the coverage and industry practice; however, our insurance coverage may not be sufficient to fully cover our losses. We do not carry insurance for certain losses, including, but not limited to, losses caused by riots or war. Some of our policies, like those covering losses due to terrorism, earthquakes and floods, are insured subject to limitations involving substantial self-insurance portions and significant deductibles and co-payments for such events. In addition, 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, terrorism or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. In addition, if certain of our properties were destroyed, we might not be able to rebuild them due to current zoning and land use regulations. Also, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage as the market value of our portfolio increases.

Competition

We compete with a number of developers, owners and operators of office and commercial 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 we currently charge our tenants, we may lose potential tenants and we may face pressure to reduce our rental rates below those we currently charge or to 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. In that case, our financial condition, results of operations, cash flows, per share trading price of our common stock and ability to satisfy our debt service obligations and to pay dividends to our stockholders may be adversely affected.

In addition, all of our multifamily properties are located in developed areas that include a number of other multifamily properties, as well as single-family homes, condominiums and other residential properties. The number of competitive multifamily and other residential properties in a particular area could have a materially adverse effect on our ability to lease units and on our rental rates.

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 Americans with Disabilities Act of 1990 (ADA) and rent control laws. Various environmental laws impose liability for release, disposal or exposure to various hazardous materials, including asbestos-containing materials, a substance known to be present in a number of our buildings. Such laws could impose liability on us even if we neither knew about nor were responsible for the contamination. Under the ADA, we must meet federal requirements related to access and use by disabled persons to the extent that our properties are "public accommodations". The costs of our on-going efforts to comply with these laws 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, 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.

The Cities of Los Angeles and Santa Monica have enacted rent control legislation, and portions of the Honolulu multifamily market are subject to low and moderate-income housing regulations. Such laws and regulations limit our ability to increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. In addition, any failure to comply with low and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. Although under current California law we are able to increase rents to market rates once a tenant vacates a rent-controlled unit, any subsequent increases in rental rates remain limited by Los Angeles and Santa Monica rent control regulations.

For more information about the potential impact of laws and regulations, see Item 1A “Risk Factors” of this Report.

Taxation of Douglas Emmett, Inc.

We believe that we qualify, and intend to continue to qualify, for taxation as a REIT under the Internal Revenue Code, although we cannot assure that this has happened or will happen. See Item 1A. "Risk Factors" of this Report. The following summary is qualified in its entirety by the applicable Internal Revenue 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.

The Internal Revenue 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 by transferable certificates of beneficial interest; (iii) which would be taxable, but for Sections 856 through 860 of the Internal Revenue Code, as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue 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 Internal Revenue Code provides that conditions (i) to (iv), inclusive, must be met during the entire taxable year and that condition (v) must 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 presently two gross income requirements. First, at least 75% of our gross income (excluding gross income from "prohibited transactions" as defined below) 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. Second, 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 and from other dividends, interest and 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 for sale to customers in the ordinary course of business.

At the close of each quarter of our taxable year, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets including shares of stock of other 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. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments 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 a non-REIT corporation, other than certain debt securities and interests in taxable REIT subsidiaries or qualified REIT subsidiaries, each as defined below. Fourth, not more than 25% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries.

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 Internal Revenue 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. The ownership of an interest in a partnership or limited liability company by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service (IRS) of the allocations of income and expense items of the partnership or limited liability company, which would affect the computation of taxable income of the REIT, and the status of the partnership or limited liability company as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes.

As of December 31, 2013, we owned an interest in a subsidiary which was intended to be treated as a qualified REIT subsidiary (QRS). The Internal Revenue 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. If any partnership, limited liability company, or subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership, subsidiary REIT, QRS or taxable REIT subsidiary, as the case may be) for federal income tax purposes, we would likely fail to satisfy the REIT asset tests described above and would therefore fail to qualify as a REIT, unless certain relief provisions apply. We believe that each of the partnerships, limited liability companies, and subsidiaries (other than taxable REIT subsidiaries) in which we own an interest will be treated for tax purposes as a partnership, disregarded entity (in the case of a 100% owned partnership or limited liability company), REIT or QRS, as applicable, although no assurance can be given that the IRS will not successfully challenge the status of any such organization.

As of December 31, 2013, we owned interests in certain corporations which have elected to be treated as taxable REIT subsidiaries. A REIT may own any percentage of the voting stock and value of the securities of a corporation which jointly elects with the REIT to be a taxable REIT subsidiary, provided certain requirements are met. A taxable REIT subsidiary 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 taxable REIT subsidiary may not manage or operate a hotel or healthcare facility. A taxable REIT subsidiary 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 taxable REIT subsidiary, or the taxable REIT subsidiary's agreements with the REIT's tenants, are not on arm's-length terms.

In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (i) 90% of our "real estate investment trust 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, minus (B) the sum of certain items of non-cash income. Such 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 gain 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 should fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our capital gain 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.

If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be required to pay tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to our stockholders in any year in which we fail to qualify will not be deductible by us nor will such distributions be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

We and our stockholders may be required to pay state or local tax in various state or local jurisdictions, including those in which we or they 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, on income from

prohibited transactions and on built-in gains from the sale of certain assets acquired from C corporations in tax-free transactions during a specified time period.

One of our Funds owns properties through an entity which is intended to also qualify as a REIT, and its failure to so qualify could have similar impacts on us.

Employees

As of December 31, 2013, we employed approximately 500 people.

Corporate Structure

We were 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. Our interest in our operating partnership entitles us to share in cash distributions, profits and losses of our operating partnership in proportion to our percentage ownership. As the sole stockholder of the general partner of our operating partnership, under its partnership agreement we generally have the exclusive power to manage and conduct its business, subject to certain limited approval and voting rights of the other limited partners.

Funds

We manage and own equity interests in two Funds, Douglas Emmett Fund X, LLC (Fund X), and Douglas Emmett Partnership X, LP (Partnership X), through which we and institutional investors own 8 buildings totaling 1.8 million square feet in our core markets. Our ownership interest entitles us to a pro rata share of any distributions based on our ownership (a weighted average of 60% at December 31, 2013 based on square footage), additional distributions based on the total invested capital and a carried interest if the investors' distributions exceed a hurdle rate. We also receive fees and reimbursement of expenses for managing our unconsolidated Funds' properties.

While the financial data in this Report does not include our Funds on a consolidated basis, much of the property level data in this Report includes the properties owned by our Funds, as we believe this presentation assists in understanding our business. For further information, see Note 18 to our consolidated financial statements in Item 15 of this Report.

Segments

We have two reportable segments: Office Properties and Multifamily Properties. Information related to our business segments for 2013, 2012 and 2011 is set forth in Note 16 to our consolidated financial statements in Item 15 of this Report.

Principal Executive Offices

Our principal executive offices are located in the building we own at 808 Wilshire Boulevard, Santa Monica, California 90401 (telephone 310-255-7700). We believe that our current facilities are adequate for our present and future operations.

Available Information

We make available free of charge 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, as soon as reasonably practicable after we file such reports with, or furnish them to, the Securities and Exchange Commission (SEC). None of the information on or hyperlinked from our website is incorporated into this Report.

Item 1A. Risk Factors

The following section includes what we believe to be the most significant factors that may adversely affect our business and operations. This is not an exhaustive list, and additional factors could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is 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, please refer to the section entitled “Forward Looking Statements” at the beginning of this Report immediately prior to Item 1.

Risks Related to Our Properties and Our Business

All of our properties (including the properties owned by our Funds) are located in Los Angeles County, California and Honolulu, Hawaii, and we are dependent on the Southern California and Honolulu economies. Therefore, we are susceptible to adverse local conditions and regulations, as well as natural disasters in those areas. Because all of our properties are located in Los Angeles County, California and Honolulu, Hawaii, we are exposed to greater economic risks than if we owned a more geographically dispersed portfolio. Further, within Los Angeles County, our properties are concentrated in certain submarkets, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the Los Angeles County and Honolulu economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, budget deficits, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as earthquakes, floods, wildfires and other events). In addition, California is also regarded as more litigious and more highly regulated and taxed than many other states, which may reduce demand for office space in California. Any adverse developments in the economy or real estate market in Los Angeles County and the surrounding region, or in Honolulu, or any decrease in demand for office space resulting from the California or Hawaii regulatory or business environment could adversely impact the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders. We cannot assure any level of growth in the Los Angeles County or Honolulu economies or of our company.

Our operating performance is subject to risks associated with the real estate industry. Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Certain events may decrease cash available for dividends, as well as the value of our properties. These events include, but are not limited to:

- adverse changes in international, national or local economic and demographic conditions, such as the recent global economic downturn;
- vacancies or our 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 buyers, sellers and tenants of properties;
- inability to collect rent from tenants;
- competition from other real estate investors with significant capital, including other real estate operating companies, publicly-traded REITs and institutional investment funds;
- reductions in the level of demand for commercial space and residential units, and changes in the relative popularity of properties;
- increases in the supply of office space and multifamily units;
- fluctuations in interest rates and the availability of credit, and the pronounced tightening of credit markets that has occurred in the recent liquidity crisis, which could adversely affect our ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all;
- increases in expenses and the possible inability to recover from our tenants the increased expenses, including, without limitation, insurance costs, labor costs (such as the unionization of our employees and our subcontractors' employees that provide services to our buildings could substantially increase our operating costs), energy prices, real estate assessments and other taxes, as well as costs of compliance with laws, regulations and governmental policies;
- the effects of rent controls, stabilization laws and other laws or covenants regulating rental rates; and
- 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.

In addition, periods of economic slowdown or recession, such as the recent global economic downturn, rising interest rates or declining demand for real estate, continued legislative uncertainty related to federal and state spending and tax

policy, or the public perception that any of these events may occur, could result in a general decline in rents and property values and an increased incidence of defaults under existing leases. If we cannot operate our properties effectively, or if we do not acquire desirable properties, and when appropriate dispose of properties, on favorable terms at appropriate times, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected. There can be no assurance that we can achieve our return objectives.

We have a substantial amount of indebtedness, which may affect our ability to pay dividends, may expose us to interest rate fluctuation risk and may expose us to the risk of default under our debt obligations. As of December 31, 2013, our total consolidated indebtedness was approximately \$3.24 billion, and we may incur significant additional debt for various purposes, including, without limitation, to fund future acquisition and development activities and operational needs.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the distributions currently contemplated or necessary to maintain our REIT qualification. Our substantial outstanding indebtedness, and the limitations and other constraints imposed on us by our debt agreements, especially in periods like the recent global financial downturn when credit is harder to obtain, could have other significant adverse consequences, including the following:

- our cash flows may be insufficient to meet our required principal and interest payments;
- 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 emerging acquisition opportunities or meet operational needs;
- 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 restrictive covenants in our loan documents, which would 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, these agreements may not effectively hedge interest rate fluctuation risk, and, upon the expiration of any hedge agreements we do have, we will be exposed to then-existing market rates of interest and future interest rate volatility with respect to indebtedness that is currently hedged;
- 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; and
- our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected. In addition, any foreclosure on our properties could create taxable income without accompanying cash proceeds, which could adversely affect our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code.

Financial downturns may adversely affect our business and performance. Our operations and performance depend on general economic conditions. The United States economy recently experienced a financial crisis and recession, with some financial and economic analysts predicting that the world economy may encounter a prolonged economic period characterized by high unemployment, limited availability of credit and decreased consumer and business spending.

The downturn had a negative impact on the global credit markets, which was stopped with significant economic stimulus. If this reoccurs or other factors affect the availability of credit to us, we might not be able to obtain mortgage loans to purchase additional properties or successfully refinance our properties as loans become due. Further, even if we are able to obtain the financing we need, it may be on terms that are not favorable to us, with increased financing costs and restrictive covenants, including restricting our ability to pay dividends and our Funds' ability to make distributions to its respective members, including us.

The economic downturn adversely affected, and any recurrence may continue to adversely affect, the businesses of many of our tenants. As a result, we may see increases in bankruptcies of our tenants and increased defaults by tenants, and we may experience higher vacancy rates and delays in re-leasing vacant space, which could negatively

impact our business and results of operations.

Overall, these factors resulted in uncertainty in the real estate markets. As a result, the valuation of real-estate related assets has been volatile and may continue to be volatile in the future. This volatility in the markets may make it more difficult for us to obtain adequate financing or realize gains on our investments, which could have an adverse effect on our business and results of operations.

The actual rents we receive for the properties in our portfolio may be less than our asking rents, and we experience lease roll-down from time to time. As a result of various factors, including competitive pricing pressure in our submarkets, adverse conditions in the Los Angeles County or Honolulu real estate market, a general economic downturn such as the recent global economic downturn, and the desirability of our properties compared to other properties in our submarkets, the rents we realize on new leases have been less than our in-place rents, and that trend could continue or even get worse. Significant rent reductions could result in a write-down of one or more of our consolidated properties, or our equity investments in our Funds, and/or adversely affect the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

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, wind, floods, landslides and fires. These adverse weather conditions and natural disasters could cause significant damage to the properties in our portfolio, the risk of which is enhanced by the concentration of our properties' locations. Our insurance 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 United States and the pricing thereof. As a result, we may be required to incur significant costs in the event of adverse weather conditions and natural disasters. 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.

Furthermore, we do not carry insurance for certain losses, including, but not limited to, losses caused by certain environmental conditions, asbestos, riots or war. In addition, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we 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. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

In addition, 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 land-use laws and policies. 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.

Terrorism and other factors affecting demand for our properties could harm our operating results. The strength and profitability of our business depends on demand for and the value of our properties. Possible future terrorist attacks or war may have a negative impact on our operations, even if they are not directed at our properties. In addition, the terrorist attacks can 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 and could have a negative impact on our operations.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems. 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 we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. 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 to 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 a material adverse effect on our results of operations, financial condition and cash flows by, for example:

- Disruption of the proper functioning of 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/or missed permitting deadlines;
- Preventing us from properly monitoring our compliance with the rules and regulations regarding our qualification as a REIT;
- Unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- Our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- 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; or
- Damage to our reputation among our tenants and investors generally.

We face intense competition, which may decrease or prevent increases of 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 we currently charge our tenants, we may lose existing or potential tenants, and we may be pressured to reduce our rental rates below those we currently charge or to 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. In that case, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, may be adversely affected.

In addition, all of our multifamily properties are located in developed areas that include a significant number of other multifamily properties, as well as single-family homes, condominiums and other residential properties. The number of competitive multifamily and other residential properties in a particular area could have a materially adverse effect on our ability to lease units and on our rental rates.

We may be unable to renew leases or lease vacant space. As of December 31, 2013, 7.8% of the square footage of the properties in our total office portfolio, including 7.8% of our consolidated office portfolio, was available for lease. As of December 31, 2013, 16.9% of leases (representing 12.0% of the square footage) in our total portfolio, including 16.9% of leases (representing 12.8% of the square footage) in our consolidated portfolio, were scheduled to expire in 2014. In addition, as of December 31, 2013, approximately 0.5% of the units in our multifamily portfolio were available for lease, and substantially all of the leases in our multifamily portfolio are originally renewable on an annual basis at the tenant's option and, if not renewed or terminated, automatically convert to month-to-month terms. Our leases may not be renewed, in which case we must find new tenants for that space. To attract new tenants or retain existing tenants, particularly in periods of contraction, 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 less than the current market rate or to terminate their leases prior to the expiration date thereof.

Furthermore, as part of our business strategy, we have focused and intend to continue to focus on securing smaller-sized tenants for our office portfolios. Smaller tenants may present greater credit risks and be more susceptible to economic downturns than larger tenants, and may be more likely to cancel or elect not to renew their leases. In addition, we intend to 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 you that any such vacancies will be filled following a property acquisition, or that any new tenancies will be established at or above market rates. If the rental rates for our properties decrease, other tenant incentives increase, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, would be adversely affected.

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 generally will occur upon disposition or refinance of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinance at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, such as the recent economic downturn, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Furthermore, certain properties may be adversely affected by contractual rights, such as rights of first offer.

Because we own real property, we are subject to extensive environmental regulation, 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. In addition, 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 such property as collateral. In addition, 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 you 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 we may find it difficult to sell any affected properties.

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 and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. 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 or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our failure to obtain required permits, licenses and zoning relief or to comply with applicable laws could have a materially adverse effect on our business, financial condition and results of operations.

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. Certain states and municipalities 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, such as the Cities of Los Angeles and Santa Monica, have enacted rent control legislation. All but one of the properties in our Los Angeles County multifamily portfolio are affected by these laws and regulations. In addition, we have agreed to provide low- and moderate-income housing in many of the units in our Honolulu multifamily portfolio in exchange for certain tax benefits. We presently expect to continue operating and acquiring properties in areas that either are subject to these types of laws or regulations or where legislation with respect to such laws or regulations may be enacted in the future. Such laws and regulations limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. Similarly, compliance procedures associated with rent control statutes and low- and moderate-income housing regulations could have a negative impact on our operating costs, and any failure to comply with low- and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. In addition, such low- and moderate-income housing regulations require us to rent a certain number of units at below-market rents, which has a negative impact on our ability to increase cash flows from our properties subject to such regulations. Furthermore, such regulations may negatively impact our ability to attract higher-paying tenants to such properties.

We may be unable to complete acquisitions that would grow our business, and even if consummated, we may fail to 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 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 with more capital, including other real estate operating companies, publicly-traded REITs and investment funds;
- we may acquire properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- competition from other potential acquirers may significantly increase the purchase price of a desired property; we may be unable to generate sufficient cash from operations, or obtain the necessary debt financing, equity financing, or private equity contributions to consummate an acquisition or, if obtainable, financing may not be on favorable terms;
- our cash flows may be insufficient to meet our required principal and interest payments;
- we may need to spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- agreements for the acquisition of office properties are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and we may spend significant time and money on potential acquisitions that we do not consummate;
- the process of acquiring or pursuing the acquisition of a new 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;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and we may acquire properties without any recourse, or with only 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.

If we cannot complete property acquisitions on favorable terms, or operate acquired properties to meet our goals or expectations, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected.

We may be unable to successfully expand our operations into new markets. If the opportunity arises, we may explore acquisitions of properties in new markets. Each of the risks applicable to our ability to acquire, integrate and operate properties in our current markets is also applicable to our ability to acquire and successfully 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. If we are unsuccessful in expanding into new markets, it could adversely affect the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

We are exposed to risks associated with property development. We may engage in development and redevelopment activities with respect to certain of our properties. To the extent that we do so, we will be subject to certain risks, including, without limitation:

- the availability and pricing of financing on favorable terms or at all;
- the availability and timely receipt of zoning and other regulatory approvals; and
- the cost and timely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages).

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

We are exposed to certain risks when we participate in joint ventures. We have and may in the future develop and acquire properties in joint ventures with other persons or entities. Our participation in joint ventures may subject us to risks, including for example:

- Disputes with joint venture partners might affect our ability to develop or operate a property;
- The refinancing of unconsolidated joint venture debt may require equity capital calls;
- We may be forced to fulfill the obligations of a joint venture or of joint venture partners who default on their obligations including those related to debt or interest rate swaps; and
- Conflicts of interests because our joint venture partners of varying interest such as different need for liquidity, different assessments of the market, different tax objectives or ownership of competing interests in properties in our markets.

If we default on the leases to which some of our properties are subject, our business could be adversely affected. We have leasehold interests in certain of our properties. If we default under the terms of these leases, we may be liable for damages and could lose our leasehold interest in the property or our options to purchase the fee interest in such properties. If any of these events were to occur, our business and results of operations would be adversely affected.

The cash available for distribution to stockholders may not be sufficient to pay dividends at expected levels, nor can we assure you of our ability to make distributions in the future. We may elect to distribute the minimum amount to remain compliant with REIT requirements while retaining excess capital for future operations. We may use borrowed funds to make distributions or pay some of the required distributions in equity. Our annual distributions may exceed estimated cash available from operations. While we intend to fund the difference out of excess cash or by incurring additional debt, if necessary, our inability to make, or election to not make, the expected distributions could result in a decrease in the market price of our common stock.

Our property taxes could increase due to property tax rate changes or reassessment, which would impact our cash flows. Even as a REIT for federal income tax purposes, we are required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change 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”. The impact of 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. Therefore, the amount of property taxes we pay could increase substantially from what we have paid in the past. If the property taxes we pay increase, our cash flows would be impacted, and our ability to pay expected dividends to our stockholders could be adversely affected.

Risks Related to Our Organization and Structure

Tax consequences to holders of operating partnership units upon a sale or refinancing of our properties may cause the interests of our executive officers to differ from the interests of other 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 operating partnership 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 those holders will not receive a correspondingly greater distribution of cash proceeds, they 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.

Our executive officers will have significant influence over our affairs. At December 31, 2013, our executive officers owned approximately 4% of our outstanding common stock, but they would own approximately 23% assuming that they convert all of their interests in our operating partnership into common stock and exercise all of their options for common stock. As a result, our executive officers, to the extent they vote their shares in a similar manner, will have 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 Internal Revenue Code to distribute annually at least 90% of our “real estate investment trust” 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 gain or distribute 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, including any necessary acquisition financing, from operating cash flows. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage, and any additional equity that we issue will cause dilution to 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.

If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or pay dividends to our stockholders necessary to maintain our qualification as a REIT.

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

Our charter contains a 5.0% 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 no more than 5.0% in value of the outstanding shares of our stock and

no more than 5.0% 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. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership, direct or indirect, of more than 5.0% of the value or number of our outstanding shares of our common stock could jeopardize our status as a REIT. The ownership limit contained in our charter and the restrictions on ownership of our common stock 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.

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 holders of our common stock. 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.

Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us. Provisions in the partnership agreement for our operating partnership 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 operating partnership 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 long-term incentive plan units (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.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the Maryland General Corporation Law (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 then-prevailing 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, the partnership agreement for our operating partnership 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 have the right to terminate their employment and receive severance if there is a change of control. We have employment agreements with Jordan L. Kaplan, Kenneth M. Panzer, William Kamer and Theodore E. Guth, which provide that each executive may terminate his employment under certain conditions, including after a change of control, and receive severance 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.

Our fiduciary duties as sole stockholder of the general partner of our operating partnership could create conflicts of interest. We, as the sole stockholder of the general partner of our operating partnership, 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. In addition, those persons holding operating partnership units will 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 member of our executive officers or certain other key senior personnel could significantly harm our business. Our ability to maintain our competitive position is dependent to a large degree on the efforts and skills of our executive officers, including Dan A. Emmett, Jordan L. Kaplan, Kenneth M. Panzer and Theodore E. Guth. If we lose the services of any member of our executive officers, our business may be significantly impaired. In addition, many of our executives have strong industry reputations, which aid us in identifying acquisition and borrowing opportunities, having such opportunities brought to us, and negotiating with tenants and sellers of properties. The loss of the services of these key personnel could materially and adversely affect our operations because of diminished relationships with lenders, existing and prospective tenants, property sellers and industry personnel.

If we fail to maintain an effective system of integrated 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. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls that we believe require remediation. If we discover such weaknesses, we will make efforts to improve our internal controls in a timely manner. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and can only provide reasonable, not absolute, assurance that the objectives of the system are met. Any failure to maintain effective internal controls, or implement any necessary improvements in a timely manner, could have a materially adverse effect on our business and operating results, or cause us to not meet our reporting obligations, which could affect our ability to remain listed with the New York Stock Exchange. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

Changes in accounting pronouncements could adversely affect our operating results, in addition to 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 Financial Accounting Standards Board and the Securities and Exchange Commission, 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. Proposed changes include, but are not limited to, changes in lease accounting and the adoption of accounting standards likely to require the increased use of “fair-value” measures. These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants’ reported financial condition or results of operations or could affect our tenants’ preferences regarding leasing real estate.

Our board of directors may change significant corporate policies without stockholder approval. Our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, 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. In addition, our board of directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements. A change in these policies could have an adverse effect on the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

Compensation awards to our management may not be tied to or correspond with improved financial results or share price. The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results at our company or the share price of our common stock.

Tax Risks Related to Ownership of REIT Shares

Our failure to qualify as a REIT would result in higher taxes and reduce cash available for dividends. Since our 2006 taxable year, we have operated in a manner intended to allow us to qualify as a REIT for federal income tax purposes. To qualify as a REIT, we must satisfy certain highly technical and complex asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources; at least 75% of the value of our total assets must be represented by certain real estate assets including shares of stock of other 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; and we must make distributions to our stockholders aggregating annually at least 90% of our REIT taxable income, excluding capital gains. Our ability to satisfy these tests depends upon our analysis of and compliance with numerous factors, many of which are not susceptible to a precise determination and have only limited judicial and administrative interpretations, and which are not entirely within our control. The fact that we hold most of our assets through the operating partnership further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. In addition, legislation, new regulations, administrative interpretations or court decisions might 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 intend to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the IRS regarding our qualification as a REIT.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum 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, which in turn could have an adverse impact on the value of, and trading prices for, our common stock. Unless entitled to relief under certain Internal Revenue Code provisions, we also would 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 will 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 and profits. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock. 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 Internal Revenue 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.

One of our Funds owns properties through an entity which is intended to also qualify as a REIT, and the failure of that entity to so qualify could have similar impacts on us.

Even if we qualify as a REIT, we will be required to pay some taxes. 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 we distribute less than 100% of our REIT taxable income (including capital gains). In addition, any net taxable income earned directly by our taxable REIT subsidiaries, or through entities that are disregarded for federal income tax purposes as entities separate from our taxable REIT subsidiary, will be subject to federal and possibly state corporate income tax. We have elected to treat several subsidiaries as taxable REIT subsidiaries, and we may elect to treat other subsidiaries as taxable REIT subsidiaries in the future. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary 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 taxable REIT subsidiaries if the

economic arrangements between the REIT, the REIT's tenants, and the taxable REIT subsidiary 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 inventory held 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 and our affiliates 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. We generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain, in order to qualify as a REIT. To the extent that we do not distribute all of our net long-term capital gain or distribute 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 requirements of the Internal Revenue Code for REITs and to minimize or eliminate our corporate income tax obligation. However, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Internal Revenue Code. 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, or distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with REIT requirements. Further, amounts distributed will not be available to fund our operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our total portfolio of sixty-nine properties consists of fifty-two office properties that we directly own and operate, eight office properties that we operate and indirectly own through our equity interest in our Funds, and nine wholly-owned multifamily properties. We also own the fee interests in two parcels of land subject to ground leases. Our properties are located in the Brentwood, Olympic Corridor, Century City, Beverly Hills, Santa Monica, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank submarkets of Los Angeles County, California, and in Honolulu, Hawaii.

Office Portfolio

As of December 31, 2013, we owned 100% of all properties in our total office portfolio, except eight properties totaling 1.8 million square feet owned by our Funds and a 79,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest. The measurements below are based on Building Owners and Managers Association (BOMA) 1996 remeasurement. The following table sets forth submarket data with respect to our total office portfolio properties as of December 31, 2013:

Office Portfolio by Submarket	Number of Properties	Rentable Square Feet ⁽¹⁾	Percent of Square Feet of Our Total Portfolio	Submarket Rentable Square Feet ⁽²⁾	Our Market Share in Submarket
Beverly Hills	8	1,643,911	10.9	% 7,741,422	21.2 %
Brentwood	14	1,700,889	11.3	3,356,126	50.7
Burbank	1	420,949	2.8	6,733,458	6.3
Century City	3	916,060	6.1	10,064,599	9.1
Honolulu	4	1,716,708	11.4	5,088,599	33.7
Olympic Corridor	5	1,098,073	7.3	3,022,969	36.3
Santa Monica	8	972,795	6.4	8,700,348	11.2
Sherman Oaks/Encino	12	3,372,129	22.3	6,171,530	54.6
Warner Center/Woodland Hills	3	2,855,911	18.9	7,203,647	39.6
Westwood	2	396,808	2.6	4,443,398	8.9
Total	60	15,094,233	100.0	% 62,526,096	24.1

Based on Building Owners and Managers Association (BOMA) 1996 remeasurement. Total consists of 13,744,993 leased square feet (includes 267,944 square feet with respect to signed leases not commenced), 1,173,719 available square feet, 109,383 building management use square feet, and 66,138 square feet of BOMA 1996 adjustment on leased space.

(2)Source: CB Richard Ellis

Office Portfolio Occupancy and In-place Rents

The following table presents our total office portfolio occupancy and in-place rents as of December 31, 2013:

Office Portfolio by Submarket	Percent Leased ⁽¹⁾	Annualized Rent ⁽²⁾	Annualized Rent Per Leased Square Foot ⁽³⁾
Beverly Hills	95.7 %	\$62,970,420	\$41.88
Brentwood	92.0	54,913,679	36.65
Burbank	100.0	15,145,670	35.98
Century City	98.9	33,553,933	37.61
Honolulu	88.9	46,125,696	31.75
Olympic Corridor	92.8	30,813,205	30.79
Santa Monica ⁽⁴⁾	97.2	50,571,389	54.01
Sherman Oaks/Encino	94.0	98,238,825	31.64
Warner Center/Woodland Hills	85.1	65,198,413	28.26
Westwood	92.6	12,689,173	35.19
Total / Weighted Average	92.2	\$470,220,403	34.89

(1) Includes 267,944 square feet with respect to signed leases not yet commenced.

Represents annualized cash base rent (i.e. excludes tenant reimbursements, parking and other revenue) before

(2) abatements (excluding signed leases not yet commenced). For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.

(3) Represents annualized rent divided by leased square feet (excluding signed leases not commenced).

(4) Includes \$1,332,386 of annualized rent attributable to our corporate headquarters.

Office Tenant Diversification

Our total office portfolio currently consists of approximately 2,530 office leases in a variety of industries, including legal, financial services, entertainment, real estate and accounting and consulting. The following table sets forth information regarding tenants with 1.0% or more of annualized rent in our total office portfolio as of December 31, 2013:

Office Portfolio by Tenant	Number of Leases	Number of Properties	Lease Expiration ⁽¹⁾	Total Leased Square Feet	Percent of Rentable Square Feet	Annualized Rent ⁽²⁾	Percent of Annualized Rent
Time Warner ⁽³⁾	4	4	2015-2023	625,750	4.1 %	\$22,316,440	4.7 %
William Morris Endeavor	1	1	2027	180,967	1.2	9,308,348	2.0
The Macerich Partnership, L.P.	1	1	2018	90,832	0.6	4,803,882	1.0
Total	6	6		897,549	5.9 %	\$36,428,670	7.7 %

(1) Expiration dates are per leases and do not assume exercise of renewal, extension or termination options. For tenants with multiple leases, the ranges reflect all leases other than storage, ATM and similar leases.

(2) Represents annualized cash base rent (i.e. excludes tenant reimbursements, parking and other revenue) before abatements under leases commenced as of December 31, 2013 (does not include 267,944 square feet with respect

to signed leases not yet commenced). For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.

- (3) Includes a 10,000 square foot lease expiring in April 2015, a 150,000 square foot lease expiring in April 2016 (we have executed a lease with the existing subtenant in 101,000 square feet of this space which will commence on expiration of the current lease and continue until July 2023), a 421,000 square foot lease expiring in September 2019 and a 45,000 square foot lease expiring in December 2020.

Office Lease Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our total office portfolio based on annualized rent as of December 31, 2013:

Industry	Number of Leases	Annualized Rent as a Percent of Total	
Legal	508	18.9	%
Financial Services	328	13.9	
Entertainment	177	13.7	
Real Estate	193	8.9	
Accounting & Consulting	307	8.6	
Health Services	322	8.1	
Insurance	122	7.2	
Retail	191	6.8	
Technology	110	4.3	
Advertising	69	2.6	
Public Administration	68	2.3	
Educational Services	27	1.7	
Other	108	3.0	
Total	2,530	100.0	%

Office Lease Distribution

The following table sets forth information relating to the distribution of leases in our total office portfolio based on rentable square feet leased as of December 31, 2013:

Square Feet Under Lease	Number of Leases	Leases as a Percent of Total	Rentable Square Feet (1)	Square Feet as a Percent of Total	Annualized Rent (2)	Annualized Rent as a Percent of Total	
2,500 or less	1,294	51.1	% 1,778,018	11.8	% \$61,381,110	13.1	%
2,501-10,000	918	36.3	4,323,116	28.6	146,060,018	31.1	
10,001-20,000	211	8.3	2,864,062	19.0	101,330,628	21.5	
20,001-40,000	80	3.2	2,131,545	14.1	73,445,368	15.6	
40,001-100,000	22	0.9	1,364,748	9.1	51,827,429	11.0	
Greater than 100,000	5	0.2	1,015,560	6.7	36,175,850	7.7	
Subtotal	2,530	100.0	% 13,477,049	89.3	% \$470,220,403	100.0	%
Signed leases not commenced			267,944	1.8			
Available			1,173,719	7.8			
Building Management Use			109,383	0.7			
BOMA Adjustment (3)			66,138	0.4			
Total	2,530	100.0	% 15,094,233	100.0	% \$470,220,403	100.0	%

(1) Average tenant size is approximately 5,300 square feet. Median is approximately 2,400 square feet.

Represents annualized monthly cash base rent (i.e. excludes tenant reimbursements, parking and other revenue)

(2) before abatements under leases commenced as of December 31, 2013 (does not include 267,944 square feet with respect to signed leases not yet commenced). For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.

(3) Represents square footage adjustments for leases that do not reflect BOMA 1996 remeasurement.

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Office Lease Expirations

The following table sets forth a summary schedule of lease expirations for leases in place as of December 31, 2013, plus available space, in our total office portfolio assuming non-exercise of renewal options and early termination rights:

Year of Lease Expiration	Number of Leases Expiring	Rentable Square Feet	Expiring Square Feet as a Percent of Total	Annualized Rent ⁽¹⁾	Annualized Rent as a Percent of Total	Annualized Rent Per Leased Square Foot ⁽²⁾	Annualized Rent Per Leased Square Foot at Expiration ⁽³⁾
Short Term Space Leases	52	173,107	1.1	% \$4,769,138	1.0	% \$27.55	\$27.56
2014	428	1,803,879	12.0	% 64,135,175	13.6	% 35.55	35.84
2015	524	2,082,865	13.8	71,433,311	15.2	34.30	35.61
2016	474	2,027,372	13.4	68,788,818	14.6	33.93	36.05
2017	363	1,855,611	12.3	61,793,054	13.1	33.30	36.40
2018	297	1,500,769	10.0	55,734,008	11.8	37.14	41.49
2019	142	1,309,462	8.7	45,536,634	9.7	34.78	39.07
2020	97	831,153	5.5	28,512,523	6.1	34.30	40.71
2021	54	542,391	3.6	20,081,388	4.3	37.02	43.00
2022	30	260,547	1.7	8,812,190	1.9	33.82	42.92
2023	38	601,060	4.0	19,171,875	4.1	31.90	40.16
Thereafter	31	488,833	3.2	21,452,289	4.6	43.88	59.61
Subtotal	2,530	13,477,049	89.3	470,220,403	100.0	34.89	38.53
Signed leases not commenced		267,944	1.8				
Available		1,173,719	7.8				
Building management use		109,383	0.7				
BOMA adjustment ⁽⁴⁾		66,138	0.4				
Total/Weighted Average	2,530	15,094,233	100.0	% \$470,220,403	100.0	% \$34.89	\$38.53

Represents annualized monthly cash base rent (i.e. excludes tenant reimbursements, parking and other revenue) before abatements under leases commenced as of December 31, 2013 (does not include 267,944 square feet with respect to signed leases not yet commenced). For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.

(1) Represents annualized base rent divided by leased square feet.

(2) Represents annualized base rent at expiration divided by leased square feet.

(3) Represents the square footage adjustments for leases that do not reflect BOMA 1996 remeasurement.

Historical Office Tenant Improvements and Leasing Commissions

The following table sets forth certain historical information regarding tenant improvement and leasing commission costs for tenants at the properties in our total office portfolio:

	Year Ended December 31,		
	2013	2012	2011
Renewals ⁽¹⁾			
Number of leases	420	415	427
Square feet	1,647,095	1,645,755	1,916,602
Tenant improvement costs per square foot ⁽²⁾⁽³⁾	\$9.95	\$9.08	\$9.51
Leasing commission costs per square foot ⁽²⁾	\$6.29	\$6.30	\$5.72
Total tenant improvement and leasing commission costs ⁽²⁾	\$16.24	\$15.38	\$15.23
New leases ⁽⁴⁾			
Number of leases	304	293	322
Square feet	1,080,124	1,026,939	1,004,811
Tenant improvement costs per square foot ⁽²⁾⁽³⁾	\$19.22	\$18.38	\$19.37
Leasing commission costs per square foot ⁽²⁾	\$8.27	\$8.11	\$7.22
Total tenant improvement and leasing commission costs ⁽²⁾	\$27.49	\$26.49	\$26.59
Total			
Number of leases	724	708	749
Square feet	2,727,219	2,672,694	2,921,413
Tenant improvement costs per square foot ⁽²⁾⁽³⁾	\$13.62	\$12.65	\$12.90
Leasing commission costs per square foot ⁽²⁾	\$7.08	\$7.00	\$6.24
Total tenant improvement and leasing commission costs ⁽²⁾	\$20.70	\$19.65	\$19.14

(1) Includes retained tenants that have relocated or expanded into new space within our portfolio.

(2) Assumes all tenant improvement and leasing commissions are paid in the calendar year in which the lease is executed, which may be different than the year in which they were actually paid.

Tenant improvement costs are based on negotiated tenant improvement allowances set forth in leases, or, for any (3) lease in which a tenant improvement allowance was not specified, the aggregate cost originally budgeted, at the time the lease commenced.

(4) Excludes retained tenants that have relocated or expanded into new space within our portfolio.

Multifamily Portfolio

The following tables present data with respect to our wholly-owned multifamily portfolio, including occupancy and in-place rents, as of December 31, 2013:

Submarket	Number of Properties	Number of Units	Unit as a Percent of Total
Brentwood	5	950	33 %
Honolulu	2	1,098	38
Santa Monica	2	820	29
Total	9	2,868	100 %

Submarket	Percent Leased	Annualized Rent(1)	Monthly Rent per Lease Unit
Brentwood (2)	99.4 %	\$24,753,032	\$2,235
Honolulu	99.5	20,437,104	1,560
Santa Monica(3)	99.9	24,334,284	2,476
Total / Weighted Average	99.5	\$69,524,420	2,044

(1) Represents annualized monthly multifamily rental income under leases commenced as of December 31, 2013.

In calculating the percentage of units leased, we removed from the numerator and denominator 21 units at one (2) property which are temporarily unoccupied as a result of damage related to a fire, even though the lost rent from those units is being covered by insurance.

(3) Excludes 8,013 square feet of ancillary retail space, generating \$176,532 of annualized rent as of December 31, 2013.

Historical Capital Expenditures

The following table sets forth certain information regarding historical recurring capital expenditures in our consolidated office portfolio:

Office	Year Ended December 31,		
	2013	2012	2011
Recurring capital expenditures	\$3,089,080	\$2,741,468	\$2,746,628
Total Square Feet ⁽¹⁾	12,854,464	11,894,253	11,892,726
Recurring capital expenditures per square foot	\$0.24	\$0.23	\$0.23

Excludes square footage attributable to properties we acquired in the respective period and which did not have any recurring capital expenditures. For 2013, the excluded properties included a 225,000 square foot office property in Beverly Hills that we acquired in May 2013 and a 191,000 square foot office property in Encino that we acquired in August 2013. We did not acquire any properties in 2012 and 2011.

The following table sets forth certain information regarding historical recurring capital expenditures in our multifamily portfolio:

Multifamily	Year Ended December 31,		
	2013	2012	2011
Recurring capital expenditures ⁽¹⁾	\$1,015,692	\$1,245,197	\$1,440,962
Total units	2,868	2,868	2,868
Recurring capital expenditures per unit	\$354	\$434	\$502

Our multifamily portfolio contains a large number of units that, due to Santa Monica rent control laws, have had only insignificant rent increases since 1979. Historically, when a tenant has vacated one of these units, we have spent between \$34,000 and \$45,000 per unit, depending on apartment size, to bring the unit up to our standards.

We characterize these expenditures as non-recurring capital expenditures. Our make-ready costs associated with the turnover of our other units are included in recurring capital expenditures.

Item 3. Legal Proceedings

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a materially adverse effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Common Stock; Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "DEI". On December 31, 2013, the reported closing sale price per share of our common stock on the New York Stock Exchange was \$23.29. The following table shows our dividends declared, and the high and low sales prices for our common stock as reported by the New York Stock Exchange for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013				
Dividend declared	\$0.18	\$0.18	\$0.18	\$0.20
Common Stock Price				
High	\$25.32	\$28.18	\$26.53	\$25.54
Low	\$23.29	\$23.74	\$22.41	\$22.27
2012				
Dividend declared	\$0.15	\$0.15	\$0.15	\$0.18
Common Stock Price				
High	\$22.83	\$23.68	\$24.48	\$24.32
Low	\$18.46	\$21.10	\$22.94	\$21.71

Holders of Record

We had 20 holders of record of our common stock on February 21, 2014. Certain of our shares are held in "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Dividend Policy

We typically pay dividends to common stockholders quarterly at the discretion of the Board of Directors. Dividend amounts depend on our available cash flows, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the Board of Directors deems relevant.

Sales of Unregistered Securities

None

Repurchases of Equity Securities

During 2013, we redeemed 13,000 of our operating partnership units for a total purchase price of \$353,000 in cash, an average price of \$26.68 per unit.

Performance Graph

The information below shall not be deemed to be “soliciting material” or to be “filed” with the U.S. Securities and Exchange Commission or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K , or to the liabilities of Section 18 of the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

The following graph compares the cumulative total stockholder return on the common stock of Douglas Emmett, Inc. from December 31, 2008 to December 31, 2013 with the cumulative total return of the Standard & Poor’s 500 Index and an appropriate “peer group” index (assuming the investment of \$100 in our common stock and in each of the indexes on December 31, 2008 and that all dividends were reinvested into additional shares of common stock at the frequency with which dividends are paid on the common stock during the applicable fiscal year). The total return performance shown in this graph is not necessarily indicative of and is not intended to suggest future total return performance.

Item 6. Selected Financial Data

The following table of summary financial and operating data as of, and for the years ended, December 31, 2013, 2012, 2011, 2010 and 2009 should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements included elsewhere in this Report:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data (in thousands):					
Total office revenues	\$514,600	\$505,276	\$505,077	\$502,700	\$502,767
Total multifamily revenues	76,936	73,723	70,260	68,144	68,293
Total revenues	591,536	578,999	575,337	570,844	571,060
Operating income	178,691	175,810	152,474	140,027	148,358
Income (Loss) attributable to common stockholders	45,311	22,942	1,451	(26,423)	(27,064)
Per Share Data:					
Income (Loss) per share - basic	\$0.32	\$0.16	\$0.01	\$(0.22)	\$(0.22)
Income (Loss) per share - diluted	\$0.31	\$0.16	\$0.01	\$(0.22)	\$(0.22)
Weighted average common shares outstanding (in thousands):					
Basic	142,556	139,791	126,187	122,715	121,553
Diluted	174,802	173,120	159,966	122,715	121,553
Dividends declared per common share	\$0.74	\$0.63	\$0.49	\$0.40	\$0.40
	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data (in thousands):					
Total assets	\$5,847,789	\$6,103,807	\$6,231,602	\$6,279,289	\$6,059,932
Secured notes payable	3,241,140	3,441,140	3,624,156	3,668,133	3,273,459
Other Data:					
Number of consolidated properties ⁽¹⁾	61	59	59	59	58

(1) All properties are wholly-owned by our operating partnership, except one property owned by a consolidated joint venture in which we held a two-thirds interest .

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward-looking statements, please refer to the section entitled "Forward Looking Statements" at the beginning of this Report immediately prior to Item 1.

Executive Summary

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 in Los Angeles County, California and in Honolulu, Hawaii. We focus on owning and acquiring a substantial share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities.

Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, including our investments in unconsolidated Funds, we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. As of December 31, 2013:

Our consolidated portfolio of properties included fifty-two Class A office properties (including ancillary retail space) totaling approximately 13.3 million rentable square feet and nine multifamily properties containing 2,868 apartment units, as well as the fee interests in two parcels of land subject to ground leases.

Our total office portfolio consisted of sixty office properties aggregating approximately 15.1 million rentable square feet, consisting of both our consolidated office properties and the eight Class A office properties owned by our Funds (in which we own a weighted average of 60% based on square footage).

Our consolidated office portfolio was 92.2% leased and 90.6% occupied and our total office portfolio was 92.2% leased and 90.4% occupied.

Our multifamily properties were 99.5% leased and 98.7% occupied.

Approximately 85.7% of the annualized rent of our consolidated portfolio was derived from our office properties and the remaining 14.3% from our multifamily properties.

Approximately 86.3% of the annualized rent of our consolidated portfolio was derived from our Los Angeles County office and multifamily properties and the remaining 13.7% from our Honolulu, Hawaii office and multifamily properties.

Financings, Acquisitions, Dispositions, Development and Repositionings

Financings:

During the fourth quarter of 2013, we closed a revolving credit facility of \$300.0 million with a floating rate of LIBOR+1.40%, and a maturity of December 2017. See Note 6 to our consolidated financial statements in Item 15 of this Report.

During 2013, we also paid off a \$240.0 million loan that was scheduled to mature on April 2015. We repaid \$90.0 million of this loan during the first quarter of 2013 using a portion of our cash on hand, and repaid the remaining \$150.0 million in the fourth quarter using \$110.0 million from cash on hand and \$40.0 million from our revolving credit facility. See Note 6 to our consolidated financial statements in Item 15 of this Report.

On April 30, 2013, one of our unconsolidated Funds closed a \$325.0 million loan which matures on May 1, 2018 with a floating interest rate that we effectively fixed at 2.35% per annum until May 1, 2017. The proceeds of that loan, plus \$40.0 million of additional cash, were used to pay down its outstanding debt of \$365.0 million that was scheduled to mature in August 2013.

Acquisitions:

During the first quarter of 2013, we purchased an additional 3.3% interest in Fund X and an additional 0.9% interest in Partnership X, for an aggregate of approximately \$8.0 million in cash.

On May 15, 2013, we used a portion of our cash on hand to purchase a 225,000 square foot Class A office building located at 8484 Wilshire Blvd. in Beverly Hills for a contract price of \$89.0 million, or approximately \$395 per square foot.

On August 15, 2013, we purchased a 191,000 square foot Class A office building located at 16501 Ventura Blvd. in Encino for a contract price of \$61.0 million, or approximately \$319 per square foot.

Dispositions: We had no property dispositions during 2013.

Development: We are working on two multifamily projects, one in Brentwood in Los Angeles, and one in Honolulu. Each development is on land which we already own. We expect to break ground on an additional 452 apartments at our Moanalua Hillside Apartments in Honolulu by the middle of this year. Construction should take approximately 18 months and cost approximately \$100.0 million, which includes the cost of upgrading the existing 696 apartments and building a brand new community center. In Los Angeles, we are seeking to build a high rise apartment project. Because development in our markets, particularly West LA, remains a long and uncertain process, even if successful, we would not expect to break ground in Los Angeles before at least mid 2015.

Repositionings: We often strategically purchase properties with large vacancies or expected near-term lease roll-over and use our knowledge of the property and submarket to reposition the property for the optimal use and tenant mix. The work we undertake to reposition a building typically takes months or even years, and could involve a range of improvements from a complete structural renovation to a targeted remodeling of selected spaces. We generally select a property for repositioning at the time we purchase it, although repositioning efforts can also occur at properties we already own. During the repositioning, the affected property may display depressed rental revenue and occupancy levels which impacts our results and, therefore, comparisons of our performance from period to period. We are currently repositioning a 79,000 square foot office property in Honolulu in which we own a two-thirds interest.

Results of Operations and Basis of Presentation

The accompanying consolidated financial statements as of December 31, 2013 and 2012 and for the three years ended December 31, 2013, 2012 and 2011 are the consolidated financial statements of Douglas Emmett, Inc. and our subsidiaries including our operating partnership. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements. The comparability of our results of operations during this period

was affected by a number of acquisitions: two properties that we acquired in 2013, one property acquired by one of our Funds during 2011, and additional interests that we acquired in our Funds in 2012 and 2013. See Notes 3 and 18 to our consolidated financial statements in Item 15 of this Report.

Funds From Operations

Many investors use Funds From Operations (FFO) as one performance yardstick to compare our operating performance with that of other REITs. FFO represents net income (loss), computed in accordance with GAAP, excluding gains (or losses) from sales of depreciable operating property, impairments of depreciable operating property and investments, real estate depreciation and amortization (other than amortization of deferred financing costs), and after adjustments for unconsolidated partnerships and joint ventures. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (NAREIT), adjusted to treat debt interest rate swaps as terminated for all purposes in the quarter of termination.

Like any metric, FFO is not perfect as a measure of our performance, because it excludes depreciation and amortization, and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations. Other REITs may not calculate FFO in accordance with the NAREIT definition or may not adjust that definition to treat debt interest rate swaps as terminated for all purposes in the quarter of termination and, accordingly, our FFO may not be comparable to those other REITs' FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends. FFO should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP.

For the reasons described below, our FFO (adjusted for our terminated swaps) increased by \$24.7 million, or 10.5%, to \$260.1 million for 2013 compared to \$235.4 million for 2012. The increase was primarily due to (i) an increase in operating income from our office portfolio due to properties that we acquired in the second and third quarters of 2013, (ii) an increase in operating income from our multifamily portfolio due to increases in rental rates, (iii) an increase in our share of the FFO of our unconsolidated funds due to lower interest expense of one of our Funds as a result of a debt refinancing, as well as (iv) a decrease in interest expense as a result of the maturing of \$340.0 million in notional amount of interest rate swaps in the first quarter of 2013. FFO (adjusted for our terminated swaps) increased by \$14.2 million or 6.4% to \$235.4 million for 2012 compared to \$221.2 million for 2011, primarily as a result of a \$10.1 million swap termination fee paid in 2011.

The table below (in thousands) reconciles our FFO to net income attributable to common stockholders computed in accordance with GAAP:

	Year Ended December 31,		
	2013	2012	2011
Funds From Operations (FFO)			
Net income attributable to common stockholders	\$45,311	\$22,942	\$1,451
Depreciation and amortization of real estate assets	191,351	184,849	205,696
Net income attributable to noncontrolling interests	7,526	5,403	807
Less: adjustments attributable to consolidated joint venture and unconsolidated investment in real estate funds	15,894	13,311	11,675
FFO (before adjustments for terminated swaps)	260,082	226,505	219,629
Swap termination fee	—	—	(10,120)
Amortization of accumulated other comprehensive income as a result of terminated swaps ⁽¹⁾	—	8,855	11,701
FFO (after adjustments for terminated swaps)	\$260,082	\$235,360	\$221,210

We terminated certain interest rate swaps in November 2010 and December 2011 in connection with the refinancing of related loans. In calculating FFO, we make an adjustment to treat interest rate swaps as terminated for all purposes in the quarter of termination. In contrast, under GAAP, terminated swaps can continue to impact net income over their original lives as if they were still outstanding. In calculating FFO, we recognize the full (1) expense in the period the swaps are terminated and offset the subsequent amortization expense contained in GAAP net income by an equivalent amount in this table. For 2012 and 2011, GAAP net income was reduced by amortization expense as a result of swaps terminated in December 2011 and November 2010. We had no swap terminations in 2013 or 2012.

Rental Rate Trends

Office Rental Rates: The table below presents the average effective annual rental rate per leased square foot and the annualized lease transaction costs for leases executed in our total office portfolio:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Historical straight-line rents: ⁽¹⁾					
Average rental rate ⁽²⁾	\$34.72	\$32.86	\$32.76	\$32.33	\$35.11
Annualized lease transaction costs ⁽³⁾	\$4.16	\$4.06	\$3.64	\$3.68	\$3.33

Because straight-line rent takes into account the full economic value of each lease, including accommodations and rent escalations, we believe that it may provide a better comparison than ending cash rents, which include the (1) impact of the annual escalations over the entire term of the lease. However, care should be taken in any comparison, as the averages are affected in each period by factors such as buildings, submarkets, types of space and term involved in the leases executed during the period.

(2) Represents the weighted average straight-line annualized base rent (i.e., excludes tenant reimbursements, parking and other revenue) per leased square foot for leases entered into within our total office portfolio. For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.

(3) Represents the weighted average leasing commissions and tenant improvement allowances under all office leases within our total office portfolio that were entered into during the applicable period, divided by the number of years of the lease.

Net changes in our office rental rates did not have a significant impact on our revenues in recent periods, as the negative effect of rent roll downs, which affect approximately 11% to 14% of our office portfolio each year, were generally offset by the positive impact of the annual 3% rent escalations which have been contained in virtually all of our continuing in-place office leases. In recent periods, we are executing an increasing number of leases in West Los Angeles and Encino/Sherman Oaks incorporating annual rent escalations in excess of 3%. Over the next four quarters, we expect to see expiring cash rents as presented in the table below:

	Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Expiring cash rents:				
Expiring square feet ⁽¹⁾	285,078	538,318	371,045	609,438
Expiring rent per square foot ⁽²⁾	\$39.75	\$34.35	\$36.68	\$34.83

(1) Includes scheduled expirations for our total office portfolio, including our consolidated portfolio of fifty-two properties totaling 13.3 million square feet, as well as eight properties totaling 1.8 million square feet owned by our Funds. Expiring square footage reflects all existing leases that are scheduled to expire in the respective quarter shown above, excluding the square footage under leases where the existing tenant renewed the lease prior to December 31, 2013. These numbers (i) include leases for space where someone other than the existing tenant (for example, a subtenant) had executed a lease for the space prior to December 31, 2013 but that had not commenced as of that date but (ii) do not include exercises of early termination options (unless exercised prior to December 31, 2013) or defaults occurring after December 31, 2013. We also exclude short term leases, such as month to month leases and other short term leases, from this table, because they are not included in our changes in rental rate data, have rental rates that may not be reflective of market conditions, and can distort the data trends, particularly in the immediately following quarter. The variations in this number from quarter to quarter primarily reflects the mix of buildings/submarkets involved, although it is also impacted by the varying terms and square footage of the

individual leases involved.

Represents annualized base rent (i.e., excludes tenant reimbursements, parking and other revenue) per leased square foot at expiration. The amount reflects total cash base rent before abatements. For our Burbank and (2) Honolulu office properties, we calculate annualized base rent for triple net leases by adding expense reimbursements to base rent. Expiring rent per square foot on a quarterly basis is impacted by a number of variables, including variations in the submarkets or buildings involved.

Multifamily Rental Rates: With respect to our residential properties, our average rent on leases to new tenants during the fourth quarter of 2013 was 4.1% higher than the rent for the same unit at the time it became vacant. The table below presents the average effective annual rental rate per leased unit for leases executed in our residential portfolio:

	Year Ended December 31,				
Average annual rental rate - new tenants:	2013	2012	2011	2010	2009
Rental rate	\$27,392	\$26,308	\$24,502	\$22,497	\$22,776

Occupancy Rates: The tables below present the occupancy rates for our total office portfolio and multifamily portfolio:

	December 31,					
Occupancy Rates ⁽¹⁾ as of:	2013	2012	2011	2010	2009	
Office Portfolio	90.4	% 89.6	% 87.5	% 86.9	% 89.0	%
Multifamily Portfolio	98.7	% 98.7	% 98.4	% 98.4	% 98.0	%

	Year Ended December 31,					
Average Occupancy Rates ⁽¹⁾⁽²⁾ for:	2013	2012	2011	2010	2009	
Office Portfolio	89.7	% 88.3	% 87.0	% 88.0	% 90.3	%
Multifamily Portfolio	98.6	% 98.5	% 98.2	% 98.3	% 97.9	%

(1) Occupancy rates include the negative impact of property acquisitions, most of whose occupancy rates at the time of acquisition are well below that of our existing portfolio.

Average occupancy rates are calculated by averaging the occupancy rates on the first and last day of the quarter, (2) and for periods longer than a quarter, by taking the average of the occupancy rates for all the quarters contained in the respective period.

Comparison of year ended December 31, 2013 to year ended December 31, 2012

Revenues

Office Rental Revenue: Rental revenue includes rental revenues from our office properties, percentage rent on the retail space contained within our office properties and lease termination income. Total office rental revenue increased by \$3.3 million, or 0.8%, to \$394.7 million for 2013 compared to \$391.4 million for 2012. The increase was primarily due to rental revenue of \$6.4 million from properties that we acquired in the second and third quarters of 2013, partly offset by lower revenues from net accretion of above- and below-market leases which declined by \$3.0 million in 2013 as the result of the ongoing expiration of leases that were in place at the time of our initial public offering (IPO).

Office Tenant Recoveries: Total office tenant recoveries increased by \$1.1 million, or 2.4%, to \$45.1 million for 2013, compared to \$44.1 million for 2012. The increase was primarily due to an increase of \$847 thousand in recoveries from the properties that we owned during both comparable periods, as well as recoveries of \$203 thousand from properties that we acquired in the second and third quarters of 2013. The increase in recoveries for our comparable properties primarily reflects higher recoverable operating expenses, as well as an increase in recoveries related to prior year reconciliations.

Office Parking and Other Income: Total office parking and other income increased by \$5.0 million, or 7.1%, to \$74.7 million for 2013 compared to \$69.7 million for 2012. The increase was primarily due to an increase of \$4.0 million in parking and other income from properties that we owned during both comparable periods, as well as revenue of \$1.0 million from properties that we acquired in the second and third quarters of 2013. The increase in parking and other income for our comparable properties reflects higher parking cash revenue primarily due to increases in rates as well as higher utilization.

Multifamily Revenue: Total multifamily revenue increased by \$3.2 million, or 4.4%, to \$76.9 million for 2013 compared to \$73.7 million for 2012. The increase is primarily due to increases in rental rates.

Operating Expenses

Office Rental Expenses: Total office rental expense increased by \$4.2 million, or 2.5%, to \$175.0 million for 2013 compared to \$170.7 million for 2012. The increase was primarily due to office rental expenses of \$3.1 million from properties that we acquired in the second and in the third quarters of 2013, as well as an increase in office rental expenses of \$1.1 million from properties that we owned during both comparable periods. The increase in office rental expenses for our comparable properties primarily reflects higher property taxes, utilities expense and scheduled services.

Multifamily Rental Expenses: Total multifamily rental expense increased by \$0.3 million, or 1.3%, to \$19.9 million for 2013 compared to \$19.7 million for 2012. The increase was primarily due to higher property taxes and utilities expense.

General and Administrative Expenses: General and administrative expenses decreased by \$1.3 million, or 4.8%, to \$26.6 million for 2013, compared to \$27.9 million for 2012. The decrease is primarily due to a decrease in employee equity compensation expense as well as a decrease in accruals for legal contingencies.

Depreciation and Amortization: Depreciation and amortization expense increased by \$6.5 million, or 3.5%, to \$191.4 million for 2013 compared to \$184.8 million for 2012. The increase was primarily due to depreciation and amortization of \$4.0 million from properties that we owned during both comparable periods, as well as depreciation and amortization of \$2.5 million from properties that we acquired in the second and third quarters of 2013. The

increase in depreciation and amortization for our comparable properties reflects accelerated depreciation of tenant improvements as a result of a tenant bankruptcy at one of our office properties in Honolulu, as well as accelerated depreciation of a building for a property that we plan on redeveloping in 2015 in Los Angeles.

Non-Operating Income and Expenses

Other Income and Other Expenses: Other income increased by \$3.6 million, or 126.9%, to \$6.4 million for 2013, compared to \$2.8 million for 2012, and other expenses increased by \$2.3 million, or 123.0% to \$4.2 million for 2013, compared to \$1.9 million for 2012. This change primarily reflects the inclusion of the revenues and expenses of a health club at one of our office properties in Honolulu in other income and other expenses, respectively, commencing in the second quarter of 2013. In 2012 and the first quarter of 2013, the club was operated by a third party tenant, which paid us rent which was included in office revenues. Since that tenant rejected the lease after going bankrupt, a subsidiary of our consolidated joint venture has been operating the club while the building is being repositioned. In 2013, other income also included \$431,000 of initial insurance proceeds that we received related to a fire at one of our residential properties.

Income (Loss), including Depreciation, from Unconsolidated Real Estate Funds: This amount represents our equity interest in the operating results from our Funds, including the operating income net of historical cost-basis depreciation, for the full year. Our share of the income (loss), including depreciation, from our Funds improved by \$4.8 million to income of \$3.1 million for 2013 compared to a loss of \$1.7 million for 2012. The difference was primarily due to lower interest expense of one of our Funds, as a result of the refinancing of debt with lower principal and a lower effective interest rate, at the beginning of the second quarter of 2013. See Note 18 to our consolidated financial statements in Item 15 of this Report.

Interest Expense: Interest expense decreased by \$16.1 million, or 11.0%, to \$130.5 million for 2013, compared to \$146.7 million for 2012. The decrease was primarily due to lower cash interest expense of \$8.3 million as a result of the expiration of certain interest rate swaps in the first quarter of 2013, as well as decrease in non-cash amortization of \$8.8 million related to interest rate swaps that were terminated in 2012, partially offset by reduced amortization of loan premium of \$1.1 million. See Notes 6 and 8 to our consolidated financial statements in Item 15 of this Report.

Acquisition Expenses: Our 2013 results included \$607,000 of acquisition expenses related to both completed and terminated acquisitions. For 2013, the acquired properties included a 225,000 square foot office property in Beverly Hills acquired in May 2013 and a 191,000 square foot office property in Encino acquired in August 2013. See Note 3 to our consolidated financial statements in Item 15 of this Report. We did not acquire any properties in 2012.

Comparison of year ended December 31, 2012 to year ended December 31, 2011

Revenues

Office Rental Revenue: Total office rental revenue decreased by \$2.8 million, or 0.7%, to \$391.4 million for 2012 compared to \$394.2 million for 2011. The decrease primarily reflects lower non-cash revenue from above- and below-market leases. Net accretion from above- and below- market leases declined by \$2.3 million to \$14.6 million for the year ended December 31, 2012, compared to \$16.9 million for the year ended December 31, 2011, largely as the result of the ongoing expiration of leases that were in place at the time of our IPO.

Office Tenant Recoveries: Total office tenant recoveries remained relatively unchanged at \$44.1 million for 2012, compared to \$43.9 million for 2011.

Office Parking and Other Income: Total office parking and other income increased by \$2.8 million, or 4.2%, to \$69.7 million for 2012 compared to \$67.0 million for 2011. The increase was primarily due to increases in rates as well as higher occupancy.

Multifamily Revenue: Total multifamily revenue increased by \$3.5 million, or 4.9%, to \$73.7 million for 2012 compared to \$70.3 million for 2011. The increase is primarily due to increases in rental rates.

Operating Expenses

Office Rental Expenses: Total office rental expense increased by \$1.9 million, or 1.1%, to \$170.7 million for 2012 compared to \$168.9 million for 2011. The increase is primarily due to modest increases in utilities expense, insurance and taxes, and payroll, partly offset by lower repairs and maintenance expenses and legal expenses.

Multifamily Rental Expenses: Total multifamily rental expense increased by \$0.7 million, or 3.5%, to \$19.7 million for 2012 compared to \$19.0 million for 2011. The increase is primarily due to increases in scheduled services and utilities expense.

General and Administrative Expenses: General and administrative expenses decreased by \$1.3 million, or 4.6%, to \$27.9 million for 2012, compared to \$29.3 million for 2011, primarily as a result of a decrease in accruals for contingencies.

Depreciation and Amortization: Depreciation and amortization expense decreased by \$20.8 million, or 10.1%, to \$184.8 million for 2012 compared to \$205.7 million for 2011. The decrease is primarily due to the completion of the depreciation of certain tenant-related assets acquired at the time of our IPO in 2006.

Non-Operating Income and Expenses

Loss, including Depreciation, from Unconsolidated Real Estate Funds: This amount represents our equity interest in the operating results from our Funds, including the operating income net of historical cost-basis depreciation, for the full year. Our share of the loss, including depreciation, from our Funds decreased by \$1.2 million, or 40.4%, to \$1.7 million for 2012 compared to \$2.9 million for 2011, which was primarily due to reduced interest expense and lower amortization expense.

Interest Expense: Interest expense decreased by \$1.8 million, or 1.2%, to \$146.7 million for 2012, compared to \$148.5 million for 2011. The decrease primarily reflects lower debt balances, lower non-cash amortization from interest rate swaps, and lower mark to market adjustments for swaps not designated as hedges, partly offset by lower

amortization of non-cash loan premium. See Notes 6 and 8 to our consolidated financial statements in Item 15 of this Report.

Liquidity and Capital Resources

Available Borrowings, Cash Balances and Capital Resources

We have typically financed our capital needs through short-term lines of credit and long-term secured mortgages. We had total indebtedness of \$3.24 billion at December 31, 2013. See Note 6 to our consolidated financial statements in Item 15 of this Report. To mitigate the impact of fluctuations in short-term interest rates on our cash flows from operations, some of our long-term secured mortgages carry fixed interest rates, and we generally enter into interest rate swap or interest rate cap agreements with respect to our mortgages with floating interest rates. These swaps generally expire between one and two years before the maturity date of the related loan, during which time we can refinance the loan without any interest penalty. As of December 31, 2013, approximately \$2.97 billion, or 91.7%, of our debt had an annual interest rate that was effectively fixed, with an average rate of 4.1% per annum (on an actual / 360-day basis). For information concerning the estimated impact of changes in market interest rates on our annual earnings, please see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk".

At December 31, 2013, our net debt (consisting of our \$3.24 billion of borrowings under secured loans less our cash and cash equivalents of \$44.2 million) represented 44.0% of our total enterprise value of \$7.27 billion. Total enterprise value includes our consolidated debt and the value of our common stock, the minority units in our operating partnership and other convertible equity instruments, each based on our common stock closing price on December 31, 2013 (the last business day of the year) on the New York Stock Exchange of \$23.29 per share.

We expect to meet our operating liquidity requirements through cash on hand, cash generated by operations, and if necessary, our revolving credit facility. At December 31, 2013, our revolving credit facility had an unused balance of \$260.0 million. See Note 6. At December 31, 2013, we have begun work on two multifamily projects, one in Brentwood in Los Angeles, and one in Honolulu, please see "Financings, Acquisitions, Dispositions, Development and Repositionings" above. At December 31, 2013, we did not have any material commitments for acquisitions. During 2014, we expect to exercise an option that we have to purchase the ground under one of our buildings for approximately \$27.5 million. Excluding any other potential acquisitions and debt refinancings, we anticipate that our cash on hand, cash generated by operations, and our revolving credit facility will be sufficient to meet our liquidity requirements for at least the next 12 months.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, development and repositioning of properties, non-recurring capital expenditures and refinancing of indebtedness. We do not expect that we will have sufficient funds on hand to cover all of these long-term cash requirements. The nature of our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our income on an annual basis, may cause us to have substantial liquidity needs over the long term. We will seek to satisfy our additional long-term liquidity needs through long-term secured and unsecured indebtedness, the issuance of debt and equity securities, including units in our operating partnership, property dispositions and joint venture transactions. We have an At-the-Market, or ATM, program which would allow us to sell up to an additional \$300.0 million of common stock, none of which has been sold as of December 31, 2013.

For a description of our financing transactions during the year ended December 31, 2013, please see "Financings, Acquisitions, Dispositions, Development and Repositionings" above.

Commitments

The table below presents our principal obligations and commitments, excluding periodic interest payments, as of December 31, 2013:

Contractual Obligations	Payment due by period (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Long-term debt obligations ⁽¹⁾	\$3,241,140	\$20,381	\$216,342	\$2,197,277	\$807,140
Minimum lease payments ⁽²⁾	53,508	733	1,466	1,466	49,843
Purchase commitments related to capital expenditures associated with tenant improvements and repositioning and other purchase obligations	3,859	3,859	—	—	—
Total	\$3,298,507	\$24,973	\$217,808	\$2,198,743	\$856,983

(1) For detail of the interest rates that determine our periodic interest payments related to our long-term debt obligations, see Note 6 to our consolidated financial statements in Item 15 of this Report.

(2) For detail of the minimum lease payments, see Note 14 to our consolidated financial statements in Item 15 of this Report.

Off-Balance Sheet Arrangements

We manage our Funds through which we and other institutional investors acquired a total of eight properties. The investment period for these Funds ended on October 7, 2012, and no further properties will be purchased by them. We have no further capital commitments to our Funds. The capital that we invested in our Funds was invested on a pari passu basis with the other investors. In addition, we also receive certain additional distributions based on invested capital and on any profits that exceed certain specified cash returns to the investors. See Note 18 to our consolidated financial statements in Item 15 of this Report.

We do not expect to receive additional significant liquidity from our investments in our Funds until the disposition of their properties, which may not be for many years. Certain of our wholly-owned affiliates provide property management and other services with respect to the real estate owned by our Funds for which we are paid fees and/or reimbursed for our costs.

We do not have any debt outstanding in connection with our interest in our Funds. Each of our Funds has its own debt, secured by the properties that it owns. The table below summarizes the debt of our Funds. The amounts represent 100% (not our pro-rata share) of amounts related to the Funds, at December 31, 2013:

Type of Debt	Principal Balance (in millions)	Maturity Date	Interest Rate
Fixed rate term loan ⁽¹⁾	\$53.2	4/1/2016	5.67%
Variable rate term loan ⁽²⁾	325.0	5/1/2018	2.35%
	\$378.2		

(1) The loan was assumed by one of our Funds upon acquisition of the property securing the loan, and requires monthly payments of principal and interest. Interest on this loan is fixed.

The loan is secured by six properties in a collateralized pool, requires monthly payments of interest only, and the outstanding principal is due upon maturity. The interest on this loan is effectively fixed by an interest rate swap which matures on May 1, 2017. We made certain environmental and other limited indemnities and guarantees

(2) covering customary non-recourse carve outs under this loan, and also guaranteed the related swap, although we have an indemnity from that Fund for any amounts that we would be required to pay under these agreements. As of December 31, 2013, the maximum future payments under the swap agreement were approximately \$6.6 million. As of December 31, 2013, all obligations under the loan and swap agreements have been performed by the Fund in accordance with the terms of those agreements.

Cash Flows

Our cash and cash equivalents were \$44.2 million and \$373.2 million at December 31, 2013 and 2012, respectively.

Comparison of year ended December 31, 2013 to year ended December 31, 2012

Our cash flows from operating activities are primarily dependent upon the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants, and the level of operating expenses and other general and administrative costs. Net cash provided by operating activities increased by \$33.6 million to \$244.0 million for 2013 compared to \$210.4 million for 2012. The increase was primarily due to (i) an increase in cash revenues from our office and multifamily portfolios of \$12.2 million, due to properties that we acquired in the second and third quarters of 2013 in our office portfolio, and increases in rental rates for our multifamily portfolio, (ii) a decrease in cash operating expenses of \$13.1 million primarily as a result of working capital fluctuations, as well as (iii) a decrease in cash interest expense of \$7.7 million as a result of \$340.0 million in notional amount of interest rate swaps that matured in the first quarter of 2013.

Our net cash used in investing activities is generally used to fund property acquisitions, development and redevelopment projects, and recurring and non-recurring capital expenditures. Net cash used in investing activities increased by \$155.5 million to \$247.0 million for 2013 compared to \$91.5 million for 2012. The increase was primarily due to properties that we acquired in the second and third quarters of 2013 in our office portfolio. See Note 3 to our consolidated financial statements in Item 1 of this Report.

Our net cash related to financing activities is generally impacted by our borrowings and capital activities, net of dividends and distributions paid to common stockholders and noncontrolling interests, respectively. Net cash used in financing activities increased by \$173.3 million to \$326.0 million for 2013, compared to \$152.6 million for 2012. The increase was primarily due to (i) an increase in dividends and distributions paid to common stockholders and noncontrolling interests of \$22.4 million and \$2.9 million, respectively, (ii) higher net repayments of debt of \$18.0 million in 2013, and (iii) net proceeds of \$128.3 million from the issuance of common stock under our ATM program in 2012, with no issuances of common stock in 2013.

Critical Accounting Policies

Our discussion and analysis of our historical financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires us to make estimates of certain items and judgments as to certain future events (for example with respect to the allocation of the purchase price of acquired property among land, buildings, improvements, equipment, and any related intangible assets and liabilities). These determinations, even though inherently subjective and subject to change, affect the reported amounts of our assets, liabilities, revenues and expenses. While we believe that our estimates are based on reasonable assumptions and judgments at the time they are made, some of our assumptions, estimates and judgments, will inevitably prove to be incorrect. As a result, actual outcomes will likely differ from our estimates, and those differences—positive or negative—could be material. Some of our estimates are subject to adjustment as we believe appropriate, based on revised estimates, and reconciliation to the actual results when available. For a discussion of recently issued accounting literature, see Note 2 to our consolidated financial statements in Item 15 of this Report.

Investment in Real Estate

We determine the fair values of our tangible assets on an “as-if-vacant” basis. We use our estimates of future cash flows and other valuation techniques to allocate the purchase price of each acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market ground leases, and acquired above- and below-market tenant leases. The estimated fair value of acquired in-place at-market leases are the estimated costs to lease the property to the occupancy level of the property at the date of acquisition, including the fair value of leasing commissions and legal costs. Additionally, we evaluate the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period. Above-market and below-market in-place lease values are recorded as an asset or liability based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease. Each of these estimates requires a great deal of judgment, and some of the estimates involve complex calculations. These allocation assessments have a direct impact on our results of operations because, for example, there would be less depreciation if we allocate more value to land. Similarly, if we allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time, since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the remaining terms of the leases. We may change our initial valuations until finalized no later than 12 months from the acquisition date.

Interest, insurance, property taxes and other costs incurred during the period of construction of real estate facilities are capitalized. Cost capitalization of development and redevelopment activities begins during the predevelopment period, which we define as activities that are necessary to the development of the property. We cease capitalization upon substantial completion of the project, but no later than one year from cessation of major construction activity. We also cease capitalization when activities necessary to prepare the property for its intended use have been suspended.

Impairment of Long-Lived Assets

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of that asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. We consider factors such as future operating income, trends and prospects, as well as the

effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of an investment in real estate or in one of our Funds, we record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the property or equity investment. These losses have a direct impact on our net income, because recording an impairment loss results in an immediate negative adjustment to net income. We record assets that we have determined to dispose at the lower of the carrying amount or our estimate of fair value, less costs to sell. The evaluation of anticipated cash flows and other values is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If our strategy changes or market conditions otherwise dictate an earlier sale date, we may recognize an impairment loss, which could be material.

Income Taxes

As a REIT, we are permitted to deduct distributions paid to our stockholders, eliminating the federal taxation of income represented by such distributions at the corporate level. REITs are subject to a number of organizational and operational requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

Revenue Recognition

Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; services are rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All real property leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the term of the lease. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees are included in rental revenues and are recognized when the related lease is canceled and we have no continuing obligation to provide the leased space to the former tenant.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. In addition, we record a capital asset for leasehold improvements constructed by us that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that we measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

Monitoring of Rents and Other Receivables

We maintain an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. We generally do not require collateral or other security from our tenants, other than security deposits or letters of credit. If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted.

Stock-Based Compensation

We have awarded stock-based compensation to certain employees and members of our Board of Directors in the form of stock options and LTIP units. We recognize the estimated fair value of the awards over the requisite vesting period. We utilize a Black-Scholes model to calculate the fair value of options, which uses assumptions related to the stock, including volatility and dividend yield, as well as assumptions related to the stock award itself, such as the expected term and estimated forfeiture rate. Option valuation models require the input of somewhat subjective assumptions for

which we have relied on observations of both historical trends and implied estimates as determined by independent third parties. For LTIP units, the fair value is based on the market value of our common stock on the date of grant and a discount for post-vesting restrictions estimated by a third-party consultant.

Financial Instruments

We determine the estimated fair values of financial instruments using available market information and valuation methods which we believe to be appropriate. Considerable judgment can be necessary to interpret market data and develop estimated fair values. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

Interest Rate Agreements

We manage our interest rate risk associated with our floating-rate borrowings by entering into interest rate swap and interest rate cap contracts. When we enter into a floating-rate term loan, we generally enter into an interest rate swap agreement for the equivalent principal amount, for a period covering the majority of the loan term, which effectively converts our floating-rate debt to a fixed-rate basis during that time. In limited instances, we make use of interest rate caps to limit our exposure to interest rate increases on our underlying floating-rate debt. We use derivative instruments for the sole purpose of hedging our interest rate risk associated with our floating-rate borrowings, we do not use derivative instruments for speculative purposes. We do not use any other derivative instruments.

For derivative instruments designated as cash flow hedges for accounting purposes, gain or loss recognition are generally matched to the earnings effect of the related hedged item or transaction, with any resulting hedge ineffectiveness recorded as interest expense. Hedge ineffectiveness is determined by comparing the changes in the fair value or cash flows of the derivative to the changes in the fair value or cash flows of the related hedged item or transaction. All other changes in the fair value of these derivatives are recorded in accumulated other comprehensive income (loss) (AOCI), which is a component of equity outside of earnings. Amounts reported in AOCI related to our derivatives are then reclassified to interest expense as interest payments are made on the hedged item or transaction. Amounts reported in AOCI related to our Funds' derivatives are reclassified to income (loss) including depreciation, from unconsolidated real estate funds, as interest payments are made by our Funds on their hedged items or transactions. Changes in fair value of derivatives not designated as hedges for accounting purposes are recognized as interest expense.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We only enter into contracts with major financial institutions based on their credit rating and other factors. For a description of our debt and interest rate contracts, please see Notes 6 and 8, respectively, to our consolidated financial statements included in Item 15 of this Report.

At December 31, 2013, \$1.15 billion (35.3%) of our debt was fixed rate debt, \$1.83 billion (56.4%) of our debt was floating rate debt hedged with derivative instruments that swapped to fixed interest rates, and \$268.1 million (8.3%) was unhedged floating rate debt. Based on the level of unhedged floating rate debt outstanding at December 31, 2013, a 50 basis point change in the London Interbank Offered Rate (LIBOR) would result in an annual impact to our earnings (through interest expense) of approximately \$1.4 million. We calculate interest sensitivity by multiplying the amount of unhedged floating rate debt by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of our floating rate debt.

By using derivative instruments to hedge exposure to changes in interest rates, we expose ourselves to credit risk and the potential inability of our counterparties to perform under the terms of the agreements. We attempt to minimize this credit risk by contracting with high-quality bank financial counterparties.

Item 8. Financial Statements and Supplementary Data

All information required by this item is listed in the Index to Financial Statements in Part IV, Item 15(a)(1).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

As of December 31, 2013, the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon appear at pages [F-1](#) and [F-3](#), respectively, and are incorporated herein by reference.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference to the information set forth under the captions “Election of Directors (Proposal 1) – Information Concerning Nominees,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance” and “Board Meetings and Committees” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2013.

Item 11. Executive Compensation

Information required by this item is incorporated by reference to the information set forth under the captions “Executive Compensation,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized for Issuance Under Equity Compensation Plan

The following table provides information as of December 31, 2013 with respect to shares of our common stock that may be issued under our existing stock incentive plan (in thousands, except exercise price):

Plan Category	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	12,540	\$18.10	18,867

For a description of our 2006 Omnibus Stock Incentive Plan, as amended, please see Note 11 to our consolidated financial statements contained in Item 15 of this Report. We did not have any other equity compensation plans as of December 31, 2013.

The remaining information required by this item is incorporated by reference to the information set forth under the caption “Voting Securities and Principal Stockholders—Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2013.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is incorporated by reference to the information set forth under the captions “Transactions With Related Persons,” “Election of Directors (Proposal 1) – Information Concerning Nominees” and “Corporate Governance” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2013.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated by reference to the information set forth under the caption “Independent Registered Public Accounting Firm” in our Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2013.

PART IV

Item 15. Exhibits and Financial Statement Schedule
(a) and (c) Financial Statements and Financial Statement Schedule

Index to Financial Statements Page No.

The following financial statements and the Reports of Ernst & Young, LLP, Independent Registered Public Accounting Firm, are included in Part IV of this Report on the pages indicated:

1. Consolidated Financial Statements of Douglas Emmett, Inc.

Report of Management on Internal Control Over Financial Reporting	<u>F-1</u>
Report of Independent Registered Public Accounting Firm	<u>F-2</u>
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	<u>F-3</u>
Consolidated Balance Sheets as of December 31, 2013 and 2012	<u>F-4</u>
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011	<u>F-5</u>
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011	<u>F-6</u>
Consolidated Statements of Equity for the years ended December 31, 2013, 2012 and 2011	<u>F-7</u>
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	<u>F-8</u>
Notes to Consolidated Financial Statements	<u>F-9</u>
Schedule III - Consolidated Real Estate and Accumulated Depreciation as of December 31, 2013	<u>F-32</u>

2. Consolidated Financial Statements of Douglas Emmett Fund X, LLC

Report of Independent Registered Public Accounting Firm	<u>F-35</u>
Consolidated Balance Sheets as of December 31, 2013 (unaudited) and 2012 (unaudited)	<u>F-36</u>
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013 (unaudited), 2012 (unaudited), and 2011	<u>F-37</u>
Consolidated Statements of Equity for the years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011	<u>F-38</u>
Consolidated Statements of Cash Flows for the years ended December 31, 2013 (unaudited), 2012 (unaudited) and 2011	<u>F-39</u>
Notes to Consolidated Financial Statements	<u>F-40</u>

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

(b) Exhibits

3.1	Articles of Amendment and Restatement of Douglas Emmett, Inc. ⁽⁴⁾
3.2	Bylaws of Douglas Emmett, Inc. ⁽⁴⁾
3.3	Certificate of Correction to Articles of Amendment and Restatement of Douglas Emmett, Inc. ⁽⁵⁾
4.1	Form of Certificate of Common Stock of Douglas Emmett, Inc. ⁽³⁾
10.1	Form of Agreement of Limited Partnership of Douglas Emmett Properties, LP. ⁽³⁾
10.2	Registration Rights Agreement among Douglas Emmett, Inc. and the Initial Holders named therein. ⁽¹⁾ +

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- 10.3 Form of Indemnification Agreement between Douglas Emmett, Inc. and its directors and officers. ⁽²⁾ +
- 10.4 Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan. ⁽⁶⁾ +
- 10.5 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan Non-Qualified Stock Option Agreement. ⁽²⁾ +
- 10.6 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan LTIP Unit Award Agreement. ⁽³⁾ +
- 10.7 Form of Douglas Emmett Properties, LP Partnership Unit Designation – LTIP Units ⁽³⁾ +

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- 10.8 Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan Amendment No. 1. ⁽⁷⁾ +
10.9 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan LTIP Unit Award Agreement (for independent directors) . ⁽⁸⁾ +
10.10 Employment agreement dated December 6, 2010 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and Jordan L. Kaplan. ⁽⁹⁾ +
10.11 Employment agreement dated December 6, 2010 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and Kenneth Panzer. ⁽⁹⁾ +
10.12 Employment agreement dated January 1, 2011 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and Theodore Guth.⁽¹⁰⁾ +
21.1 List of Subsidiaries of the Registrant.
23.1 Consent of Independent Registered Public Accounting Firm.
31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽¹¹⁾
32.2 Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ⁽¹¹⁾
The following financial information from Douglas Emmett Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i)
101 Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements.

Footnotes to Exhibits

- + Denotes management contract or compensatory plan, contract or arrangement
(1) Filed with Registration Statement on Form S-11 (Registration No. 333-135082) filed June 16, 2006 and incorporated herein by this reference.
(2) Filed with Registrant's Amendment No. 2 to Form S-11 filed September 20, 2006 and incorporated herein by this reference.
(3) Filed with Registrant's Amendment No. 3 to Form S-11 filed October 3, 2006 and incorporated herein by this reference.
(4) Filed with Registrant's Amendment No. 6 to Form S-11 filed October 19, 2006 and incorporated herein by this reference.
(5) Filed with Registrant's Current Report on Form 8-K filed October 30, 2006 and incorporated herein by this reference. SEC file number: 001-33106
(6) Filed with Registrant's Registration Statement on Form S-8 (File No. 333-148268) filed December 21, 2007 and incorporated herein by this reference.
(7) Filed August 6, 2009 with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 and incorporated herein by this reference. SEC file number: 001-33106
(8) Filed February 26, 2010 with Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and incorporated herein by this reference. SEC file number: 001-33106
(9) Filed February 25, 2011 with Registrants Annual Report on Form 10-K for the year ended December 31, 2010 and incorporated herein by this reference. SEC file number: 001-33106
(10) Filed May 6, 2011 with Registrants Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by this reference. SEC file number: 001-33106
(11) In accordance with SEC Release No. 33-8212, this exhibit is being furnished, and is not being filed as part of this Report or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOUGLAS EMMETT, INC.

Dated:
February 27, 2014

By: /s/ JORDAN L. KAPLAN
Jordan L. Kaplan
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title
/s/ JORDAN L. KAPLAN Jordan L. Kaplan	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ THEODORE E. GUTH Theodore E. Guth	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ DAN A. EMMETT Dan A. Emmett	Chairman of the Board
/s/ KENNETH M. PANZER Kenneth M. Panzer	Chief Operating Officer and Director
/s/ CHRISTOPHER H. ANDERSON Christopher H. Anderson	Director
/s/ LESLIE E. BIDER Leslie E. Bider	Director
/s/ DR. DAVID T. FEINBERG Dr. David T. Feinberg	Director
/s/ THOMAS E. O'HERN Thomas E. O'Hern	Director
/s/ WILLIAM E. SIMON, JR. William E. Simon, Jr.	Director

Each of the above signatures is affixed as of February 27, 2014.

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Report of Management on Internal Control over Financial Reporting

The management of Douglas Emmett, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Our system of internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of our financial statements for external reporting purposes in accordance with United States generally accepted accounting principles. Our management, including the undersigned Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In conducting its assessment, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control—Integrated Framework (1992 Framework). Based on this assessment, management concluded that, as of December 31, 2013, our internal control over financial reporting was effective based on those criteria.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures, or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, as stated in their report appearing on page [F-3](#), which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2013.

/s/ JORDAN L. KAPLAN
Jordan L. Kaplan
Chief Executive Officer

/s/ THEODORE E. GUTH
Theodore E. Guth
Chief Financial Officer

February 27, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Douglas Emmett, Inc.

We have audited the accompanying consolidated balance sheets of Douglas Emmett, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Douglas Emmett, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Douglas Emmett, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 27, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Douglas Emmett, Inc.

We have audited Douglas Emmett, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Douglas Emmett, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Douglas Emmett, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Douglas Emmett, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2013, and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 27, 2014

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Douglas Emmett, Inc.
 Consolidated Balance Sheets
 (in thousands, except share data)

	December 31, 2013	December 31, 2012
Assets		
Investment in real estate:		
Land	\$867,284	\$851,679
Buildings and improvements	5,386,446	5,244,738
Tenant improvements and lease intangibles	759,003	690,120
Investment in real estate, gross	7,012,733	6,786,537
Less: accumulated depreciation	(1,495,819) (1,304,468
Investment in real estate, net	5,516,914	5,482,069
Cash and cash equivalents	44,206	373,203
Tenant receivables, net	1,760	1,331
Deferred rent receivables, net	69,662	63,192
Acquired lease intangible assets, net	3,744	4,707
Investment in unconsolidated real estate funds	182,896	149,478
Other assets	28,607	29,827
Total assets	\$5,847,789	\$6,103,807
Liabilities		
Secured notes payable	\$3,241,140	\$3,441,140
Interest payable, accounts payable and deferred revenue	52,763	45,171
Security deposits	35,470	34,284
Acquired lease intangible liabilities, net	59,543	67,035
Interest rate contracts	63,144	100,294
Dividends payable	28,521	25,424
Total liabilities	3,480,581	3,713,348
Equity		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value 750,000,000 authorized, 142,605,390 and 141,245,896 outstanding at December 31, 2013 and December 31, 2012, respectively	1,426	1,412
Additional paid-in capital		