

Edgar Filing: Douglas Emmett Inc - Form 10-K

Douglas Emmett Inc  
Form 10-K  
February 15, 2019  
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, 2018

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.)

1299 Ocean Avenue, Suite 1000, 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  
p or  
No 1

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  
1 or No  
p

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  
p or  
No 1

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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  
p or  
No 1

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. p

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated

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

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

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

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

The aggregate market value of the common stock, \$0.01 par value, held by non-affiliates of the registrant, as of June 29, 2018, was \$6.47 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 170,222,822 shares of its common stock, \$0.01 par value, outstanding as of February 8, 2019.

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 2019 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, 2018.

DOUGLAS EMMETT, INC.  
FORM 10-K

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Glossary

Abbreviations used in this Report:

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

VIE Variable Interest Entity(ies)

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Glossary

Defined terms used in this Report:

Annualized Rent	Annualized cash base rent (excluding tenant reimbursements, parking and other income) before abatements under leases commenced as of the reporting date. Annualized rent for our triple net office leases is calculated by adding expense reimbursements and estimates of normal building expenses paid by tenants to base rent. Annualized rent does not include lost rent recovered from insurance and rent for building management use.
Consolidated Portfolio	Includes the properties in our consolidated results, which includes the properties owned by our consolidated JVs. We calculate FFO in accordance with the standards established by NAREIT by excluding gains (or losses) on sales of investments in real estate, excluding gains (or losses) from changes in control of investments in real estate, real estate depreciation and amortization (other than amortization of right-of-use assets for which we are the lessee and amortization of deferred loan costs) from our net income (including adjusting for the effect of such items attributable to consolidated joint ventures and unconsolidated real estate funds, but not for noncontrolling interests included in our Operating Partnership). FFO is a non-GAAP supplemental financial measure that we report because it is useful to our investors. See Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for a discussion of FFO.
Funds From Operations (FFO)	We calculate NOI, a Non-GAAP measure, as revenue less operating expenses attributable to the properties that we own and operate. NOI is calculated by excluding the following from our net income: general and administrative expense, depreciation and amortization expense, other income, other expense, income, including depreciation, from unconsolidated real estate funds, interest expense, gains (or losses) on sales of investments in real estate and net income attributable to noncontrolling interests. NOI is a non-GAAP supplemental financial measure that we report because it is useful to our investors. See Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for a discussion of our Same Property NOI.
Net Operating Income (NOI)	The percentage leased, excluding signed leases not yet commenced, as of the reporting date.
Occupancy Rate	Management space is considered leased and occupied, while space taken out of service during a repositioning is excluded from both the numerator and denominator for calculating percentage leased and occupied.
Recurring Capital Expenditures	Building improvements required to maintain revenues once a property has been stabilized, and excludes capital expenditures for (i) acquired buildings being stabilized, (ii) newly developed space, (iii) upgrades to improve revenues or operating expenses, (iv) casualty damage or (v) bringing the property into compliance with governmental requirements.
Rentable Square Feet	Based on the BOMA remeasurement and consists of leased square feet (including square feet with respect to signed leases not commenced as of the reporting date), available square feet, building management use square feet and square feet of the BOMA adjustment on leased space.
Same Properties	Our wholly-owned properties that have been owned and operated by us in a consistent manner, and reported in our consolidated results during the entire span of both periods being compared. We exclude from our same property subset any properties (i) acquired during the comparative periods; (ii) sold, held for sale, contributed or otherwise removed from our consolidated financial statements during the comparative periods; or (iii) that underwent a major repositioning project that we believed significantly affected its results during the comparative periods.
Short-Term Leases	Represents leases that expired on or before the reporting date or had a term of less than one year, including hold over tenancies, month to month leases and other short term occupancies.
Total Portfolio	Includes our Consolidated Portfolio plus the properties owned by our Funds.





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Forward Looking Statements

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

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

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

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## PART I

## Item 1. Business Overview

## Business description

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

At December 31, 2018, we owned a Consolidated Portfolio consisting of (i) a 16.6 million square foot office portfolio, (ii) 3,595 multifamily apartment units and (iii) fee interests in two parcels of land from which we receive rent under ground leases. We also manage and own equity interests in our unconsolidated Funds which, at December 31, 2018, owned an additional 1.8 million square feet of office space. We manage our unconsolidated Funds alongside our Consolidated Portfolio, and we therefore present the statistics for our office portfolio on a Total Portfolio basis. For more information, see Item 2 "Properties" of this Report. As of December 31, 2018, our portfolio consisted of the following (not including the two parcels of land from which we receive rent under ground leases):

	Consolidated Portfolio	Total Portfolio
Office (includes ancillary retail space)		
Wholly-owned properties	53	53
Consolidated JV properties	10	10
Unconsolidated Fund properties	—	8
	63	71
Rentable square feet (in thousands)	16,617	18,455
Multifamily		
Wholly-owned properties	10	10
Units	3,595	3,595

## Business Strategy

We employ a focused business strategy that we have developed and implemented over the past four decades: **Concentration of High Quality Office and Multifamily Properties in Premier Submarkets.**

First we select submarkets that are supply constrained, with high barriers to entry, key lifestyle amenities, proximity to high-end executive housing and a strong, diverse economic base. Virtually no entitled Class A office space is currently under construction in any of our targeted submarkets. Our submarkets are dominated by small, affluent tenants, whose rents are very small relative to their revenues and often not the paramount factor in their leasing decisions. At December 31, 2018, our office portfolio median size tenant was approximately 2,600 square feet. Our office tenants operate in diverse industries, including among others legal, financial services, entertainment, real estate, accounting and consulting, health services, retail, technology and insurance, reducing our dependence on any one industry. In 2016, 2017 and 2018, no tenant accounted for more than 10% of our total revenues.

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### **Disciplined Strategy of Acquiring Substantial Market Share.**

Once we select a submarket, we follow a disciplined strategy of gaining substantial market share to provide us with extensive local transactional market information, pricing power in lease and vendor negotiations and an enhanced ability to identify and negotiate investment opportunities. As a result, we average approximately a 39% share of the Class A office space in our submarkets based on the square feet of exposure in our total portfolio to each submarket. See "Office Portfolio Summary" in Item 2 "Properties" of this Report.

### **Proactive Asset and Property Management.**

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

### **Corporate Structure**

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

### **Funds and JVs**

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

three unconsolidated Funds through which we and institutional investors own eight office properties in our core markets totaling 1.8 million square feet and in which we own a weighted average of 62% at December 31, 2018 based on square footage. We are entitled to (i) priority distributions, (ii) distributions based on invested capital, (iii) a carried interest if the investors' distributions exceed a hurdle rate, (iv) fees for property management and other services and (v) reimbursement of certain costs.

three consolidated JVs through which we and institutional investors own ten office properties in our core markets totaling 2.8 million square feet and in which we own a weighted average of 28% at December 31, 2018 based on square footage. We are entitled to (i) distributions based on invested capital as well as (in the case of two of the JVs) additional distributions based on cash net operating income, (ii) fees for property management and other services and (iii) reimbursement of certain acquisition-related expenses and certain other costs.

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

### **Taxation**

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

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

There are two gross income requirements:

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

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

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

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

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



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

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

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

### Insurance

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

### Competition

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

### Regulation

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

### Sustainability

In operating our buildings and running our business, we actively work to promote our operations in a sustainable and responsible manner. Our sustainability initiatives include items such as lighting, retrofitting, energy management systems, variable frequency drives in our motors, electricity co-generation, energy efficiency, recycling and water conservation. As a result of our efforts, over 95% of our eligible office space is ENERGY STAR certified by the EPA as having energy efficiency in the top 25% of buildings nationwide. As of the date of this Report, the EPA is evaluating a new scoring system for the ENERGY STAR certification.

#### Segments

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

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### Employees

As of December 31, 2018, we employed approximately 670 people.

### Principal Executive Offices

Our principal executive offices are located in the building we own at 1299 Ocean Avenue, Suite 1000, Santa Monica, California 90401 (telephone 310-255-7700).

### Available Information

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

For more information, please contact:

Stuart McElhinney  
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310-255-7751  
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### Item 1A. Risk Factors

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

#### Risks Related to Our Properties and Our Business

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

Because of the geographic concentration of our properties, we are susceptible to adverse economic and regulatory developments, as well as natural disasters, in the markets and submarkets where we operate, including, for example, economic slowdowns, industry slowdowns, business downsizing, business relocations, increases in real estate and

other taxes, changes in regulation, earthquakes, floods, droughts and wildfires. California is also regarded as being more litigious, regulated and taxed than many other states.

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

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

- adverse changes in international, national or local economic conditions;
- inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;
- adverse changes in financial conditions of actual or potential investors, buyers, sellers or tenants;
- inability to collect rent from tenants;

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• competition from other real estate investors, including other real estate operating companies, publicly-traded REITs and institutional investment funds;

• reduced tenant demand for office space and residential units from matters such as (i) changes in space utilization, (ii) changes in the relative popularity of our properties, (iii) the type of space we provide or (iv) purchasing versus leasing;

• reduced demand for parking space due to the impact of technology such as self driving cars, and the increasing popularity of car ride sharing services;

• increases in the supply of office space and residential units;

• fluctuations in interest rates and the availability of credit, which could adversely affect our ability to obtain financing on favorable terms or at all;

• increases in expenses (or our reduced ability to recover expenses from our tenants), including insurance costs, labor costs (such as the unionization of our employees or the employees of any parties with whom we contract for services to our buildings), energy prices, real estate assessments and other taxes, as well as costs of compliance with laws, regulations and governmental policies;

• utility disruptions;

• the effects of rent controls, stabilization laws and other laws or covenants regulating rental rates;

• changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the ADA;

• legislative uncertainty related to federal and state spending and tax policy;

• difficulty in operating properties effectively;

• acquiring undesirable properties; and

• inability to dispose of properties at appropriate times or at favorable prices.

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

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

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

• our cash flows may be insufficient to meet our required principal and interest payments;

• servicing our borrowings may leave us with insufficient cash to operate our properties or to pay the distributions necessary to maintain our REIT qualification;

• we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon acquisition opportunities;

• we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our existing indebtedness;

• we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

• we may violate any restrictive covenants in our loan documents, which could entitle the lenders to accelerate our debt obligations;

• we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under our hedge agreements, the hedge agreements may not effectively hedge the interest rate fluctuation risk, and, upon the expiration

of any hedge agreements we do have, we will be exposed to the then-existing market rates of interest and future interest rate volatility with respect to debt that is currently hedged; we could also be declared in default on our hedge agreements if we default on the underlying debt that we are hedging;

we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;

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our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness; and  
any foreclosure on our properties could also create taxable income without accompanying cash proceeds, which could adversely affect our ability to meet the REIT distribution requirements imposed by the Code.  
our floating rate debt and related hedges are indexed to USD-LIBOR, any regulatory changes which impact the USD-LIBOR benchmark could impact our borrowing costs or the effectiveness of our hedges.

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

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

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

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

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

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

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

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

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

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



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

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

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

Terrorism and war could harm our business and operating results.

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

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

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

- Disruption to our networks and systems and thus our operations and/or those of our tenants or vendors;
- Misstated financial reports, violations of loan covenants, missed reporting deadlines and missed permitting deadlines;
- Inability to comply with laws and regulations;
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Unauthorized access to, destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could be used to compete against us or for disruptive, destructive or otherwise harmful purposes;

• Rendering us unable to maintain the building systems relied upon by our tenants;

• The requirement of significant management attention and resources to remedy any damages that result;

• Claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; and

• Damage to our reputation among our tenants, investors, or others.

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

We may be unable to renew our tenants' leases, in which case we must find new tenants. To attract new tenants or retain existing tenants, particularly in periods of recession, we may have to accept rental rates below our existing rental rates or offer substantial rent abatements, tenant improvements, early termination rights or below-market renewal options. Accordingly, portions of our office and multifamily properties may remain vacant for extended periods of time. In addition, some existing leases currently provide tenants with options to renew the terms of their leases at rates that are below the current market rates or to terminate their leases prior to the expiration date thereof. We actively pursue opportunities for what we believe to be well-located and high quality buildings that may be in a transitional phase due to current or impending vacancies. We cannot assure that any such vacancies will be filled following a property acquisition, or that new tenant leases will be executed at or above market rates. As of December 31, 2018, 8.3% of the square footage in our total office portfolio was available for lease and 9.3% was scheduled to expire in 2019. As of December 31, 2018, 1.0% of the units in our multifamily portfolio were available for lease, and substantially all of the leases in our multifamily portfolio must be renewed within the next year. For more information see Item 2 "Properties" of this Report.

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

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

Real estate investments are generally illiquid.

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

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

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

efforts to comply with these laws and regulations are substantial. Moreover, as we have not conducted a comprehensive audit or investigation of all of our properties to determine our compliance with applicable laws and regulations, we may be liable for investigation and remediation costs, penalties, and/or damages, which could be substantial and could adversely affect our ability to sell or rent our property or to borrow using such property as collateral.

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

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

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

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

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

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

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

- we may be unable to acquire desired properties because of competition from other real estate investors, including other real estate operating companies, publicly-traded REITs and investment funds;
- competition from other potential acquirers may significantly increase the purchase price of a desired property;
- we may acquire properties that are not accretive to our results upon acquisition or we may not successfully manage and lease them up to meet our expectations;
- we may be unable to generate sufficient cash from operations, or obtain the necessary debt or equity financing to consummate an acquisition or, if obtained, the financing may not be on favorable terms;
- cash flows from the acquired properties may be insufficient to service the related debt financing;

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- we may need to spend more than we budgeted to make necessary improvements or renovations to acquired properties;
- we may spend significant time and money on potential acquisitions that we do not close;
- the process of acquiring or pursuing the acquisition of a property may divert the attention of our senior management team from our existing business operations;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- occupancy and rental rates of acquired properties may be less than expected; and
- we may acquire properties without recourse, or with limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

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

We are exposed to risks associated with property development.

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

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

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

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

- We may not be able to exercise sole decision-making authority regarding the properties, partnership, JV or other entity, which would allow for impasses on decisions that could restrict our ability to sell or transfer our interests in such entity or such entity's ability to transfer or sell its assets;

Partners or co-venturers may default on their obligations including those related to capital contributions, debt financing or interest rate swaps, which could delay acquisition, construction or development of a property or increase our financial commitment to the partnership or JV;



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- Conflicts of interests with our partners or co-venturers as result of matters such as different needs for liquidity, assessments of the market or tax objectives; ownership of competing interests in other properties; and other business interests, policies or objectives that are competitive or inconsistent with ours;
- If any such jointly owned or managed entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pa