Hudson Pacific Properties, Inc.
Form 10-K
March 03, 2014
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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 001-34789

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

Maryland (State or other jurisdiction of incorporation or organization)	27-1430478 (I.R.S. Employer Identification Number)
11601 Wilshire Blvd., Sixth Floor Los Angeles, California (Address of principal executive offices)	90025 (Zip Code)

Registrant’s telephone number, including area code: (310) 445-5700
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange
8.375% Series B Cumulative Redeemable Preferred Stock, $.01 par value	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 x No o
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 o No x
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 x No o
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
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. x
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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of June 28, 2013, the aggregate market value of Common Stock held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers, directors and funds affiliated with Farallon Capital Management, LLC are "affiliates" of the registrant) was $920.5 million based upon the last sales price on June 28, 2013 for the registrant's Common Stock.
As of February 26, 2014, the number of shares of Common Stock outstanding was 67,027,472.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the proxy statement for the registrant's 2014 Annual Meeting of Stockholders to be held May 20, 2014 are incorporated by reference in Part III of this Form 10-K Report. The 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.

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HUDSON PACIFIC PROPERTIES, INC.

ANNUAL REPORT ON FORM 10-K

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PART I
Item 1. Business

Company Overview

Hudson Pacific Properties, Inc. (which may be referred to in this Form 10-K as “we,” “us,” “our,” or “our company”) is a full-service, vertically integrated real estate investment trust, or REIT, focused on owning, operating and acquiring high-quality office and media and entertainment properties in select growth markets primarily in Northern and Southern California. Our investment strategy is focused on high barrier-to-entry, in-fill locations with favorable, long-term supply demand characteristics. These markets include Los Angeles, Orange County, San Diego, San Francisco, Silicon Valley, the East Bay and the Pacific Northwest, which we refer to as our target markets. As of December 31, 2013, our portfolio of operating properties included properties totaling approximately 6.2 million square feet strategically located in many of our target markets.

We were formed as a Maryland corporation in 2009 to succeed the business of Hudson Capital, LLC, a Los Angeles-based real estate investment firm founded by Victor J. Coleman, our Chief Executive Officer. On June 29, 2010, we completed our initial public offering. We own our interests in all of our properties and conduct substantially all of our business through our operating partnership, Hudson Pacific Properties, L.P., a Maryland limited partnership, of which we serve as the sole general partner. As of December 31, 2013, we owned approximately 96.0% of the outstanding common units of partnership interest in our operating partnership, or common units. The remaining approximately 4.0% of common units outstanding are owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors, including funds affiliated with Farallon Capital Management, LLC.

Business and Growth Strategies

We focus our investment strategy on office and media and entertainment properties located in high barrier-to-entry submarkets with growth potential as well as on underperforming properties that provide opportunities to implement a value-add strategy to increase occupancy rates and cash flow. This strategy includes active management, aggressive leasing efforts, focused capital improvement programs, the reduction and containment of operating costs and an emphasis on tenant satisfaction. We believe our senior management team’s experience in the California and Pacific Northwest markets positions us to improve cash flow in our portfolio, as well as any newly acquired properties.
Our Competitive Position
We believe the following competitive strengths distinguish us from other real estate owners and operators and will enable us to capitalize on opportunities in the market to successfully expand and operate our portfolio.

- Experienced Management Team with a Proven Track Record of Acquiring and Operating Assets and Managing a Public Office REIT. Our senior management team has an average of over 20 years of experience in the commercial real estate industry, with a focus primarily on owning, acquiring, developing, operating, financing and selling office properties in California and the Pacific Northwest.

- Committed and Incentivized Management Team. Our senior management team is dedicated to our successful operation and growth, with no competing real estate business interests outside of our company. Additionally, as of December 31, 2013 our senior management team owned approximately 2.8% of our common stock on a fully diluted basis, thereby aligning management’s interests with those of our stockholders.

- California and Pacific Northwest Focus with Local and Regional Expertise. We are primarily focused on acquiring and managing office properties in Northern and Southern California and the Pacific Northwest, where our senior management has significant expertise and relationships. Our markets are supply-constrained as a result of the scarcity of available land, high construction costs and restrictive entitlement processes. We believe our experience, in-depth market knowledge and meaningful industry relationships with brokers, tenants, landlords, lenders and other market participants enhance our ability to identify and capitalize on attractive acquisition opportunities, particularly those that arise in California and the Pacific Northwest.

- Long-Standing Relationships that Provide Access to an Extensive Pipeline of Investment and Leasing Opportunities. We have an extensive network of long-standing relationships with real estate developers, individual and institutional real estate owners, national and regional lenders, brokers, tenants and other participants in the California and Pacific Northwest real estate markets. These relationships have historically provided us with access to attractive acquisition opportunities, including opportunities with limited or no prior marketing by sellers. We believe they will continue to provide us access to an ongoing pipeline of attractive acquisition opportunities and additional

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growth capital, both of which may not be available to our competitors. Additionally, we focus on establishing strong relationships with our tenants in order to understand their long-term business needs, which we believe enhances our ability to retain quality tenants, facilitates our leasing efforts and maximizes cash flows from our properties.

- Growth-Oriented, Flexible and Conservative Capital Structure. We have remained well-capitalized since our initial public offering, including through six offerings (including two public offerings of our 8.375% Series B Cumulative Preferred Stock, four public offerings of our common stock and one private placement of our common stock) and continuous offering under our At-the-Market, or ATM, program for an aggregate total proceeds, after underwriters' discounts, of approximately $888.3 million (before transaction costs) as of December 31, 2013. Available cash on hand and our unsecured credit facility provide us with a significant amount of capital to pursue acquisitions and execute our growth strategy, while maintaining a flexible and conservative capital structure. As of December 31, 2013, we had total borrowing capacity of approximately $250.0 million under our unsecured revolving credit facility, $155.0 million of which had been drawn. Based on the closing price of our common stock of $22.13 on February 26, 2014, we had a debt-to-market capitalization ratio (counting series A preferred units as debt) of approximately 32.1%. We believe our access to capital and flexible and conservative capital structure provide us with an advantage over many of our private and public competitors as we look to take advantage of growth opportunities.

- Irreplaceable Media and Entertainment Assets in a Premier California Submarket. Our Sunset Gower and Sunset Bronson media and entertainment properties are located on Sunset Boulevard, just off of the Hollywood Freeway in the heart of Hollywood. These facilities, which are situated on approximately 15.7 and 10.6 acres, respectively, were originally built in the 1920s as the headquarters of Columbia Pictures and Warner Brothers and represent a unique and irreplaceable assemblage of land in densely populated Los Angeles. We are the largest owner and operator of independent media and entertainment properties in Los Angeles and possess large, modern sound stages and plentiful office space with state-of-the-art telecommunications and data network infrastructure. Our properties are important facilities for major film and television companies and independent producers, most of which outsource a portion of their productions to independent media and entertainment properties. We believe our media and entertainment properties are attractively located and benefit from high barriers to entry, with a limited supply of readily developable land. In addition, there are substantial costs associated with acquiring and developing suitable land and extensive knowledge required to develop and operate such facilities. As a result of these high barriers to entry, there is effectively no new supply of media and entertainment space in the urban core of Los Angeles. We believe the limited supply of media and entertainment properties, coupled with the continued demand for such properties in Los Angeles, which remains the center of the entertainment industry in the United States, will help ensure that these assets remain critical to the industry.

We have access to and are actively pursuing a pipeline of potential acquisitions consistent with our investment strategy. We believe our significant expertise in operating in the California and Pacific Northwest office sector and extensive, long-term relationships with real estate owners, developers and lenders, coupled with our conservative capital structure and access to capital, will allow us to capitalize on the current market opportunity.

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 and some of which have greater financial resources than we do. In operating and managing our portfolio, we compete for tenants based on a number of factors, including location, rental rates, security, flexibility and expertise to design space to meet prospective tenants' needs and the manner in which the property is operated, maintained and marketed. As leases at our properties expire, we may encounter significant competition to renew or re-let space in light of the large number of competing properties within the markets in which we operate. As a result, we may be required to provide rent concessions or abatements, incur charges for tenant improvements and other inducements, including early termination rights or below-market renewal options, or we may not be able to timely lease vacant space. In that case, our financial condition, results of operations, cash flow and per share trading price of our securities may be adversely affected.

We also face competition when pursuing acquisition and disposition opportunities. Our competitors may be able to pay higher property acquisition prices, may have private access to opportunities not available to us and may otherwise be in a better position to acquire a property. Competition may also have the effect of reducing the number of suitable acquisition opportunities available to us, increase the price required to consummate an acquisition opportunity and generally reduce the demand for commercial office space in our markets. Likewise, competition with sellers of similar properties to locate suitable purchasers may result in us receiving lower proceeds from a sale or in us not being able to dispose of a property at a time of our choosing due to the lack of an acceptable return.

For further discussion of the potential impact of competitive conditions on our business, see Item 1A: Risk Factors below.

Segment and Geographic Financial Information

We report our results of operations through two segments: (i) office properties and (ii) media and entertainment properties. The office properties reporting segment includes 24 properties totaling approximately 5.3 million square feet strategically located in many of our target markets, while the media and entertainment reporting segment includes two properties, the Sunset Gower property (including 6050 and 6060 Sunset) and the Sunset Bronson property, totaling approximately 0.9 million square feet located in the heart of Hollywood, California. For financial information about our two reportable segments, see Note 13 to our consolidated financial statements.

All of our business is conducted in the State of California and the Pacific Northwest. For information about our revenues and long-lived assets and other financial information, see our consolidated financial statements included in this report and Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations "—Results of Operations."

Employees

At December 31, 2013, we had 130 employees. At December 31, 2013, two of our employees were subject to collective bargaining agreements. Both of these employees are on-site employees at the Sunset Bronson property. We believe that relations with our employees are good.

Principal Executive Offices

Our principal executive offices are located at 11601 Wilshire Blvd., Sixth Floor, Los Angeles, California 90025 (telephone 310.445.5700). We believe that our current facilities are adequate for our present operations.

Regulation

General

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of the properties in our portfolio has the necessary permits and approvals to operate its business.

Americans With Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act, or ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We have developed and undertaken continuous capital improvement programs at certain properties in the past. These capital improvement programs will continue to progress and certain ADA upgrades will continue to be integrated into the planned improvements, specifically at the media and entertainment properties where we are able to utilize in-house construction crews to minimize costs for required ADA-related improvements. However, some of our properties may currently be in noncompliance with the ADA. Such noncompliance could result in the incurrence of additional costs to attain compliance, the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Environmental Matters

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under, or migrating from such property, including costs to investigate and clean up such contamination and liability for natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines, or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Some of our properties contain, have contained, or are adjacent to or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. Similarly, some of our properties were used in the past for commercial or industrial purposes, or are currently used for commercial purposes, that involve or involved the use of petroleum products or other hazardous or toxic substances, or are adjacent to or near properties that have been or are used for similar commercial or industrial purposes. As a result, some of our properties have been or may be impacted by contamination arising from the release of such hazardous substances or petroleum products. Where we have deemed appropriate, we have taken steps to address identified contamination or mitigate risks associated with such contamination; however, we are unable to ensure that further actions will not be necessary. As a result of the foregoing, we could potentially incur material liabilities.

Independent environmental consultants have conducted Phase I Environmental Site Assessments at all of the properties in our portfolio using the American Society for Testing and Materials (ASTM) Practice E 1527-05. A Phase I Environmental Site Assessment is a report prepared for real estate holdings that identifies potential or existing environmental contamination liabilities. Site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or asbestos or lead surveys. None of the recent site assessments identified any known past or present contamination that we believe would have a material adverse effect on our business, assets or operations. However, the assessments are limited in scope and may have failed to identify all environmental conditions or concerns. A prior owner or operator of a property or historic operations at our properties may have created a material environmental condition that is not known to us or the independent consultants preparing the site assessments. Material environmental conditions may have arisen after the review was completed or may arise in the future, and future laws, ordinances or regulations may impose material additional environmental liability.

Environmental laws also govern the presence, maintenance and removal of asbestos-containing building materials, or ACBM, or lead-based paint, or LBP, and may impose fines and penalties for failure to comply with these requirements or expose us to third party liability (e.g., liability for personal injury associated with exposure to asbestos). Such laws require that owners or operators of buildings containing ACBM and LBP (and employers in such buildings) properly manage and maintain the asbestos and lead, adequately notify or train those who may come into contact with asbestos or lead, and undertake special precautions, including removal or other abatement, if asbestos or lead would be disturbed during renovation or demolition of a building. Some of our properties contain ACBM and/or LBP and we could be liable for such damages, fines or penalties.

In addition, the properties in our portfolio also are subject to various federal, state, and local environmental and health and safety requirements, such as state and local fire requirements. Moreover, some of our tenants routinely handle and use hazardous or regulated substances and waste as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities. Environmental liabilities could affect a tenant’s ability to make rental payments to us. In addition, changes in laws could increase the potential liability for noncompliance. We sometimes require our tenants to comply with environmental and health and safety laws and regulations and to indemnify us for any related liabilities. But in the event of the bankruptcy or inability of any of our tenants to satisfy such obligations, we may be required to satisfy such obligations. In addition, we may be held directly liable for any such damages or claims regardless of whether we knew of, or were responsible for, the presence or disposal of hazardous or toxic substances or waste and irrespective of tenant lease provisions. The costs associated with such liability could be substantial and could have a material adverse effect on us.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could

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expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury occurs. We are not presently aware of any material adverse indoor air quality issues at our properties.

Available Information

Our internet address is www.hudsonpacificproperties.com. On the Investor Relations page on our Web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission, or SEC: our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our Investor Relations Web page are available to be viewed on this page free of charge. Also available on our Web site, free of charge, are our corporate governance guidelines, the charters of the nominating and corporate governance, audit and compensation committees of our board of directors and our code of business conduct and ethics (which applies to all directors and employees, including our principal executive officer, principal financial officer and principal accounting officer). Information contained on or hyperlinked from our Web site is not incorporated by reference into and should not be considered part of this Annual Report on Form 10-K or our other filings with the SEC. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, Hudson Pacific Properties, Inc., 11601 Wilshire Blvd., Sixth Floor, Los Angeles, California 90025.

Item 1A. Risk Factors

Forward-looking Statements

Certain written and oral statements made or incorporated by reference from time to time by us or our representatives in this Annual Report on Form 10-K, other filings or reports filed with the SEC, press releases, conferences, or otherwise, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act). In particular, statements relating to our liquidity and capital resources, portfolio performance and results of operations contain forward-looking statements. Furthermore, all of the statements regarding future financial performance (including anticipated funds from operations (“FFO”), market conditions and demographics) are forward-looking statements. We are including this cautionary statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any such forward-looking statements. We caution investors that any forward-looking statements presented in this Annual Report on Form 10-K, or that management may make orally or in writing from time to time, are based on management’s beliefs and assumptions made by, and information currently available to, management. When used, the words “anticipate,” “believe,” “expect,” “intend,” “may,” “might,” “plan,” “estimate “project,” “should,” “will,” “result” and similar expressions that do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past 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 may cause our actual results, performance, liquidity or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- adverse economic or real estate developments in our target markets;
- general economic conditions;
- defaults on, early terminations of or non-renewal of leases by tenants;
- fluctuations in interest rates and increased operating costs;
- our failure to obtain necessary outside financing;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- lack or insufficient amounts of insurance;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying properties to acquire and completing acquisitions;
- our failure to successfully operate acquired properties and operations;
- our failure to maintain our status as a REIT;

- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- financial market fluctuations;
- changes in real estate and zoning laws and increases in real property tax rates; and
- other factors affecting the real estate industry generally.

Set forth below are some (but not all) of the factors that could adversely affect our business and financial performance. Moreover, we operate in a highly competitive and rapidly changing environment. New risk factors emerge from time to time,

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and it is not possible for management to predict all such risk factors, nor can it 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. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Risks Related to Our Properties and Our Business

Our properties are located in California and the Pacific Northwest, and we are susceptible to adverse economic conditions, local regulations and natural disasters affecting those markets.

Our properties are located in California and the Pacific Northwest, which exposes us to greater economic risks than if we owned a more geographically dispersed portfolio. Further, our properties are concentrated in certain submarkets, including Los Angeles, Orange County, San Diego, San Francisco, Silicon Valley, the East Bay, and Seattle, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the economic and regulatory environments of California and the Pacific Northwest (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation), as well as to natural disasters that occur in our markets (such as earthquakes, wind, landslides, droughts, fires and other events). In addition, the State of California continues to suffer from severe budgetary constraints and is regarded as more litigious and more highly regulated and taxed than many other states, all of which may reduce demand for office space in California. Any adverse developments in the economy or real estate market in California or the Pacific Northwest, or any decrease in demand for office space resulting from the California regulatory or business environment, could adversely impact our financial condition, results of operations, cash flow and the per share trading price of our securities.

We derive a significant portion of our rental revenue from tenants in the media, entertainment, and technology industries, which makes us particularly susceptible to demand for rental space in those industries.

Our Sunset Gower, Sunset Bronson, Technicolor Building, 1455 Market, Rincon, 10950 Washington, 875 Howard, 625 Second Street, 275 Brannan, Pinnacle I, Pinnacle II and Element LA properties are leased to primarily media, entertainment, or technology tenants and a significant portion of our rental revenue is derived from tenants in the media, entertainment, and technology industries. Consequently, we are susceptible to adverse developments affecting the demand by media, entertainment, and technology tenants for office, production and support space in Southern and Northern California, the Pacific Northwest and, more particularly, in Hollywood and the South of Market submarket of San Francisco, such as writer, director and actor strikes, industry slowdowns and the relocation of media, entertainment, and technology businesses to other locations. Although our Technicolor Building property and the 10950 Washington property are principally occupied and suitable for general office purposes, portions of such properties may require modifications prior to or at the commencement of a lease term if these properties were to be re-leased to more traditional office users. Although our Sunset Gower and Sunset Bronson properties contain both sound stages and space suitable for office use, they have historically served the media and entertainment industry and will continue to depend on that sector for future tenancy. In addition, our media and entertainment properties tend to be subject to short-term leases of less than one year. As a result, were there to be adverse developments affecting the demand by media and entertainment tenants for office, production and support space, it could affect the occupancy of our media and entertainment properties more quickly than if we had longer term leases. Any adverse development in the media, entertainment, and technology industries could adversely affect our financial condition, results of operations, cash flow and the per share trading price of our securities.

We may be unable to identify and complete acquisitions of properties that meet our criteria, which may impede our growth.

Our business strategy includes the acquisition of underperforming office properties. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategies. We continue to evaluate the market of available properties and may attempt to acquire properties when strategic opportunities exist. However, we may be unable to acquire any of the properties that we may identify as potential acquisition opportunities in the future. Our ability to acquire properties on favorable terms, or at all, may be exposed to the following significant risks:

- potential inability to acquire a desired property because of competition from other real estate investors with significant capital, including publicly traded REITs, private equity investors and institutional investment funds, which may be able to accept more risk than we can prudently manage, including risks with respect to the geographic proximity of investments and the payment of higher acquisition prices;

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- we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete;

- even if we enter into agreements for the acquisition of properties, these agreements are typically subject to customary conditions to closing, including the satisfactory completion of our due diligence investigations; and

- we may be unable to finance the acquisition on favorable terms or at all.

If we are unable to finance property acquisitions or acquire properties on favorable terms, or at all, our financial condition, results of operations, cash flow and the per share trading price of our securities could be adversely affected. In addition, failure to identify or complete acquisitions of suitable properties could slow our growth.

Our future acquisitions may not yield the returns we expect.

Our future acquisitions and our ability to successfully operate the properties we acquire in such acquisitions may be exposed to the following significant risks:

- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;

- 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;

- our cash flow may be insufficient to meet our required principal and interest payments;

- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;

- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result our results of operations and financial condition could be adversely affected;

- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot operate acquired properties to meet our financial expectations, our financial condition, results of operations, cash flow and the per share trading price of our securities could be adversely affected.

We may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell such assets.

In the future we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our operating partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

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Our growth depends on external sources of capital that are outside of our control and may not be available to us on commercially reasonable terms or at all.

In order to maintain our qualification as a REIT, we are required to meet various requirements under the Internal Revenue Code of 1986, as amended, or Code, including that we distribute annually at least 90% of our net taxable income, excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we intend to rely on third-party sources to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage and likelihood of default. Our access to third-party sources of capital depends, in part, on:

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

The credit markets can experience significant disruptions. 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 make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations, cash flow, cash available for distribution, including cash available for payment of dividends on and the per share trading price of our securities.

If interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our stockholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures. We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Failure to hedge effectively against interest rate changes may materially adversely affect our financial condition, results of operations, cash flow, cash available for distribution, including cash available for payment of dividends on and the per share trading price of our securities. In addition, while such agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, Derivative and Hedging.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds.

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Our unsecured revolving credit facility restricts our ability to engage in some business activities.

Our unsecured revolving credit facility contains customary negative covenants and other financial and operating covenants that, among other things:

- restrict our ability to incur additional indebtedness;
- restrict our ability to make certain investments;
- restrict our ability to merge with another company;
- restrict our ability to make distributions to stockholders; and
- require us to maintain financial coverage ratios.

These limitations restrict our ability to engage in some business activities, which could adversely affect our financial condition, results of operations, cash flow, cash available for distributions to our stockholders, and per share trading price of our securities. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us. Furthermore, our unsecured revolving credit facility contains specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our financial condition, results of operations, cash flow and per share trading price of our securities.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole, including dislocations in the credit markets. These conditions may adversely affect our financial condition, results of operations, cash flow and the per share trading price of our securities as a result of the following potential consequences, among others:

- significant job losses in the financial and professional services industries may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to obtain financing on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and
- one or more lenders under our unsecured revolving credit facility could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

We have a limited operating history and may not be able to operate our business successfully or implement our business strategies as described in this Annual Report on Form 10-K.

We commenced operations only upon completion of our initial public offering on June 29, 2010. Our office portfolio consists of properties located in California and the Pacific Northwest, containing a total of approximately 5.3 million net rentable square feet. Our 3401 Exposition, Pinnacle II, Seattle Portfolio, and 1861 Bundy properties have only been under our management since they were acquired on May 22, 2013, June 14, 2013, July 31, 2013, and September 26, 2013, respectively. These properties may have characteristics or deficiencies unknown to us that could affect such properties' valuation or revenue potential. In addition, there can be no assurance that the operating performance of the properties will not decline under our management. We cannot assure you that we will be able to operate our business successfully or implement our business strategies.

We face significant competition, which may decrease or prevent increases of the occupancy and rental rates of our properties.

We compete with numerous developers, owners and operators of office properties, many of which own properties similar to ours in the same submarkets 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. As a result, our financial condition, results of operations, cash flow and the per share trading price of our securities could be adversely affected.

We depend on significant tenants, and many of our properties are single-tenant properties or are currently occupied by single tenants.

As of December 31, 2013, the 15 largest tenants in our office portfolio represented approximately 60.2% of the total annualized base rent generated by our office properties. The inability of a significant tenant to pay rent or the bankruptcy or insolvency of a significant tenant may adversely affect the income produced by our properties. If a tenant becomes bankrupt or insolvent, federal law may prohibit us from evicting such tenant based solely upon such bankruptcy or insolvency. In addition, a bankrupt or insolvent tenant may be authorized to reject and terminate its lease with us. Any claim against such tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. As of December 31, 2013, our two largest tenants were Warner Bros. Entertainment and Warner Music Group, which together accounted for 12.4% of our annualized base rent and therefore represented a significant credit concentration. If Warner Bros. Entertainment and Warner Music Group were to experience a downturn or a weakening of financial condition resulting in a failure to make timely rental payments or causing a lease default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. Any such event described above could have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our securities.

Furthermore, Saatchi & Saatchi leases 100% of the Del Amo Office property under the terms of an office lease that permits Saatchi & Saatchi to terminate the lease as to all of the leased premises prior to the stated lease expiration on December 31, 2014 and December 31, 2016, in each case upon nine months prior notice and in exchange for payment of an early termination fee estimated to be approximately $3.8 million for 2014 and approximately $3.0 million for 2016. As of December 31, 2013, the Saatchi & Saatchi lease comprised approximately 2.3% of our annualized office base rent. To the extent that Saatchi & Saatchi exercises its early termination right, our financial condition, results of operations and cash flow will be adversely affected, and we can provide no assurance that we will be able to generate an equivalent amount of net rental revenue by leasing the vacated space to new third-party tenants. Our financial condition, results of operations, cash flow and the per share trading price of our securities could be adversely affected if any of our significant tenants were to become unable to pay their rent or become bankrupt or insolvent.

We may be unable to renew leases, lease vacant space or re-let space as leases expire.

As of December 31, 2013, approximately 5.9% of the square footage of the office properties in our portfolio was available (taking into account uncommenced leases signed as of December 31, 2013), and an additional approximately 6.3% of the square footage of the office properties in our portfolio is scheduled to expire in 2014 (including leases scheduled to expire as of, but including, December 31, 2013). Furthermore, substantially all of the square footage of the media and entertainment properties in our portfolio (other than the KTLA lease of the KTLA facility at Sunset Bronson) will expire in 2014 and 2015. We cannot assure you that leases will be renewed or that our properties will be re-let at net effective rental rates equal to or above the current average net effective rental rates or that substantial rent abatements, tenant improvements, early termination rights or below-market renewal options will not be offered to attract new tenants or retain existing tenants. If the rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-let a significant portion of our available space and space for which leases will expire, our financial condition, results of operations, cash flow and per share trading price of our securities could be adversely affected.

We may be required to make rent or other concessions and/or significant capital expenditures to improve our properties in order to retain and attract tenants, causing our financial condition, results of operations, cash flow and per share trading price of our securities to be adversely affected.

To the extent adverse economic conditions continue in the real estate market and demand for office space remains low, we expect that, upon expiration of leases at our properties, we will be required to make rent or other concessions to tenants, accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants. As a result, we may have to make significant capital or other expenditures in order to retain tenants whose leases expire and to attract new tenants in sufficient numbers. Additionally, we may need to raise capital to make such expenditures. If we are unable to do so or capital is otherwise unavailable, we may be unable to make the required expenditures. This could result in non-renewals by tenants upon expiration of their leases, which could cause an adverse effect to our financial condition, results of operations, cash flow and the per share trading price of our securities.

The actual rents we receive for the properties in our portfolio may be less than our asking rents, and we may 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 Northern or Southern California or the Pacific Northwest real estate markets, a general economic downturn and the desirability of our properties compared to other properties in our submarkets, we may be unable to realize the asking rents across the properties in our portfolio. In addition, the degree of discrepancy between our asking rents and the actual rents we are able to obtain may vary both from property to property and among different leased spaces within a single property. If we are unable to obtain rental rates that are on average comparable to our asking rents across our portfolio, then our ability to generate cash flow growth will be negatively impacted. In addition, depending on asking rental rates at any given time as compared to expiring leases in our portfolio, from time to time rental rates for expiring leases may be higher than starting rental rates for new leases.

Some of our properties are subject to ground leases, the termination or expiration of which could cause us to lose our interest in, and the right to receive rental income from, such properties.

The 9300 Wilshire Boulevard property, 0.59 acres of the Sunset Gower property and a portion representing 64% of the building area of the 222 Kearny Street property (excluding the 180 Sutter building) are subject to ground leases. If any of these ground leases are terminated following a default or expire without being extended, we may lose our interest in the related property and may no longer have the right to receive any of the rental income from such property, which would adversely affect our financial condition, results of operations, cash flow and the per share trading price of our securities.

The ground sublease for the Del Amo Office property is subject and subordinate to a ground lease, the termination of which could result in a termination of the ground sublease.

The property on which the Del Amo Office building is located is subleased by Del Amo Fashion Center Operating Company, L.L.C., or Del Amo, through a long-term ground sublease. The ground sublease is subject and subordinate to the terms of a ground lease between the fee owner of the Del Amo Office property and the sub-landlord under the ground sublease. The fee owner has not granted to the subtenant under the ground sublease any rights of non-disturbance. Accordingly, a termination of the ground lease for any reason, including a rejection thereof by the ground tenant under the ground lease in a bankruptcy proceeding, could result in a termination of the ground sublease. In the event of a termination of the ground sublease, we may lose our interest in the Del Amo Office building and may no longer have the right to receive any of the rental income from the Del Amo Office building. In addition, our lack of any non-disturbance rights from the fee owner may impair our ability to obtain financing for the Del Amo Office building.

Our success depends on key personnel whose continued service is not guaranteed.

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel who have extensive market knowledge and relationships and exercise substantial influence over our operational, financing, acquisition and disposition activity. Many of our other senior executives have extensive experience and strong reputations in the real estate industry, which aid us in identifying opportunities, having opportunities brought to us, and negotiating with tenants and build-to-suit prospects. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry personnel, which could adversely affect our financial condition, results of operations, cash flow and the per share trading price of our securities.

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

We carry commercial property (including earthquake), liability and terrorism coverage on all the properties in our portfolio (most are covered under a blanket insurance policy while a few are under individual policies), in addition to other coverages, such as trademark and pollution coverage, that may be appropriate for certain of our properties. We have selected policy specifications and insured limits that we believe to be appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. However, we do not carry insurance for losses such as loss from riots or war because such coverage is not available or is not available at commercially reasonable rates. Some of our policies, like those covering losses due to terrorism or earthquakes, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses, which could affect certain of our properties that are located in areas particularly susceptible to natural disasters. All of the properties we currently own are located in California and the Pacific Northwest, areas especially susceptible to earthquakes. In addition, we may discontinue earthquake, terrorism or other insurance on some or all of our properties in the future if the cost of premiums for any such policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. As a result, we may be required to incur significant costs in the event of adverse weather conditions and natural disasters. If we or one or more of our tenants experiences a loss that is uninsured or that exceeds policy limits, we could 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. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future as the costs associated with property and casualty renewals may be higher than anticipated. 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. Further reconstruction or improvement of such a property would likely require significant upgrades to meet zoning and building code requirements.

Future terrorist activity or engagement in war by the U.S. may have an adverse effect on our financial condition and operating results.

Terrorist attacks in the U.S. and other acts of terrorism or war may result in declining economic activity, which could harm the demand for and the value of our properties. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction, or loss, and the availability of insurance for these acts may be less, and cost more, which could adversely affect our financial condition. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

Terrorist attacks and engagement in war by the U.S. also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause decline in the demand for our office and media and entertainment leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

We may become subject to litigation, which could have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our securities.

In the future we may become subject to litigation, including claims relating to our operations, offerings, and otherwise in the ordinary course of business. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments or settlements, which, if uninsured, or if the fines, judgments and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our securities. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition and disputes between us and our co-venturers.

As described more fully in Item 7 below, on November 8, 2012, we entered into a joint venture with M. David Paul & Associates/Worthe Real Estate Group, or MDP/Worthe, to acquire The Pinnacle, a two-building (Pinnacle I and Pinnacle II), 625,640 square-foot office property located in Burbank, California. In addition to our joint venture with MDP/Worthe, Pinnacle JV, we may co-invest in the future with other third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. These investments may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions.

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Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives, and they may have competing interests in our markets that could create conflict of interest issues. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. In addition, prior consent of our joint venture partners may be required for a sale or transfer to a third party of our interests in the joint venture, which would restrict our ability to dispose of our interest in the joint venture. If we become a limited partner or non-managing member in any partnership or limited liability company and such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Our joint ventures may be subject to debt and, in the current volatile credit market, the refinancing of such debt may require equity capital calls.

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

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal controls we may discover material weaknesses or significant deficiencies in our internal controls. As a result of weaknesses that may be identified in our internal controls, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we discover weaknesses, we will make efforts to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with the NYSE. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our securities.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and the real estate industry.

Our ability to pay expected dividends to our stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events include many of the risks set forth above under "—Risks Related to Our Properties and Our Business," as well as the following:

- local oversupply or reduction in demand for office or media and entertainment-related space;

- adverse changes in financial conditions of buyers, sellers and tenants of properties;

- 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, and the need to periodically repair, renovate and re-let space;

- increased operating costs, including insurance premiums, utilities, real estate taxes and state and local taxes;
- civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes and floods, which may result in uninsured or underinsured losses;
- decreases in the underlying value of our real estate; and
- changing submarket demographics.

In addition, periods of economic downturn or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which would adversely affect our financial condition, results of operations, cash flow and per share trading price of our securities.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties within a specific time period is subject to certain limitations imposed by our tax protection agreements, as well as 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 current economic downturn, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.
In addition, the Code imposes restrictions on a REIT’s ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forgo or defer sales of properties that otherwise would be in our best interest.

Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which may adversely affect our financial condition, results of operations, cash flow and per share trading price of our securities.

We could incur significant costs related to government regulation and litigation over environmental matters.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating from such property, including costs to investigate, clean up such contamination and liability for harm to natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property, or adjacent properties, for commercial or industrial purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. As a result, we could potentially incur material liability for these issues, which could adversely impact our financial condition, results of operations, cash flow and the per share trading price of our securities.

Environmental laws also govern the presence, maintenance and removal of ACBM and LBP and may impose fines and penalties for failure to comply with these requirements or expose us to third-party liability (e.g., liability for personal injury associated with exposure to asbestos or lead). Such laws require that owners or operators of buildings containing ACBM and LBP (and employers in such buildings) properly manage and maintain the asbestos and lead, adequately notify or train those who may come into contact with asbestos or lead, and undertake special precautions, including removal or other abatement, if asbestos or lead would be disturbed during renovation or demolition of a building. Some of our properties contain ACBM and/or LBP and we could be liable for such damages, fines or penalties.

In addition, the properties in our portfolio also are subject to various federal, state and local environmental and health and safety requirements, such as state and local fire requirements. Moreover, some of our tenants routinely handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities. Environmental liabilities could affect a tenant’s ability to make rental payments to us. In addition, changes in laws could increase the potential liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders or that such costs or other remedial measures will not have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our securities. 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.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury is alleged to have occurred.

We may incur significant costs complying with various federal, state and local 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. Local 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 restrict our use of our properties and may require us to obtain approval from local officials of 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 or hazardous material abatement requirements. There can be no assurance that existing laws and regulatory policies 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 growth strategy may be affected by our ability to obtain permits, licenses and zoning relief. Our failure to obtain such permits, licenses and zoning relief or to comply with applicable laws could have an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our securities.

In addition, federal and state laws and regulations, including laws such as the ADA, impose further restrictions on our properties and operations. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA. If one or more of the properties in our portfolio is not in compliance with the ADA or any other regulatory requirements, we may be required to incur additional costs to bring the property into compliance and we might incur governmental fines or the award of damages to private litigants. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely impact our financial condition, results of operations, cash flow and per share trading price of our securities.

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 the availability and pricing of financing on favorable terms or at all; construction and/or lease-up delays; cost overruns, including construction costs that exceed our original estimates; contractor and subcontractor disputes, strikes, labor disputes or supply disruptions; failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all; and delays with respect to obtaining or the inability to obtain necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws. 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 our financial condition, results of operations, cash flow and per share trading price of our securities.

Risks Related to Our Organizational Structure

As of December 31, 2013, the Farallon Funds owned an approximate 23.5% beneficial interest in our company on a fully diluted basis and have the ability to exercise significant influence on our company.

As of December 31, 2013, investment funds affiliated with Farallon Capital Management, L.L.C., or Farallon, which we refer to as the Farallon Funds, owned an approximate 23.5% beneficial interest in our company on a fully diluted basis. Consequently, the Farallon Funds may be able to significantly influence the outcome of matters submitted for stockholder action, including the election of our board of directors and approval of significant corporate transactions, including business combinations, consolidations and mergers. In addition, one member of our board of directors is a managing member of Farallon. As a result, the Farallon Funds have substantial influence on us and could exercise their influence in a manner that conflicts with the interests of other stockholders.

The series A preferred units that were issued to some contributors in connection with our initial public offering in exchange for the contribution of their properties have certain preferences, which could limit our ability to pay dividends or other distributions to the holders of our securities or engage in certain business combinations, recapitalizations or other fundamental changes.

In exchange for the contribution of properties to our portfolio in connection with our initial public offering, some contributors received series A preferred units in our operating partnership, which units have an aggregate liquidation preference of approximately $10.5 million and have a preference as to distributions and upon liquidation that could limit our ability to pay dividends on our series B preferred stock and our common stock. The series A preferred units are senior to any other class of securities our operating partnership may issue in the future without the consent of the holders of the series A preferred units. As a result, we will be unable to issue partnership units in our operating partnership senior to the series A preferred units without the consent of the holders of series A preferred units. Any preferred stock in our company that we issue will be subordinate to the series A preferred units. In addition, we may only engage in a fundamental change, including a recapitalization, a merger and a sale of all or substantially all of our assets, as a result of which our common stock ceases to be publicly traded or common units cease to be exchangeable (at our option) for publicly traded shares of our stock, without the consent of holders of series A preferred units if following such transaction we will maintain certain leverage ratios and equity requirements, and pay certain minimum tax distributions to holders of our outstanding series A preferred units. Alternatively, we may redeem all or any portion of the then outstanding series A preferred units for cash (at a price per unit equal to the redemption price). If we choose to redeem the outstanding series A preferred units in connection with a fundamental change, this could reduce the amount of cash available for distribution to holders of our series B preferred stock and our common stock. In addition, these provisions could increase the cost of any such fundamental change transaction, which may discourage a merger, combination or change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests.

Our common stock is ranked junior to our series B preferred stock.

Our common stock is ranked junior to our series B preferred stock. Our outstanding series B preferred stock also has or will have a preference upon our dissolution, liquidation or winding up in respect of assets available for distribution to our stockholders. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. In the future, we may attempt to increase our capital resources by making additional offerings of equity securities, including classes or series of additional preferred stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offering. Thus, our stockholders bear the risk of our future offerings reducing the per share trading price of our common stock and diluting their interest in us.

Conflicts of interest exist or could arise in the future between the interests of our stockholders and the interests of holders of units in our operating partnership, which may impede business decisions that could benefit our stockholders.

Conflicts of interest exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with their management of our company. At the same time, we, as the general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners under Maryland law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our fiduciary duties and obligations as general partner to our operating partnership and its partners may come into conflict with the duties of our directors and officers to our company.

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Additionally, the partnership agreement provides that we and our directors and officers will not be liable or accountable to our operating partnership for losses sustained, liabilities incurred or benefits not derived if we, or such director or officer acted in good faith. The partnership agreement also provides that we will not be liable to the operating partnership or any partner for monetary damages for losses sustained, liabilities incurred or benefits not derived by the operating partnership or any limited partner, except for liability for our intentional harm or gross negligence. Moreover, the partnership agreement provides that our operating partnership is required to indemnify us and our directors, officers and employees, officers and employees of the operating partnership and our designees from and against any and all claims that relate to the operations of our operating partnership, except (1) if the act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) for any transaction for which the indemnified party received an improper personal benefit, in money, property or services or otherwise, in violation or breach of any provision of the partnership agreement or (3) in the case of a criminal proceeding, if the indemnified person had reasonable cause to believe that the act or omission was unlawful. No reported decision of a Maryland appellate court has interpreted provisions similar to the provisions of the partnership agreement of our operating partnership that modify and reduce our fiduciary duties or obligations as the general partner or reduce or eliminate our liability for money damages to the operating partnership and its partners, and we have not obtained an opinion of counsel as to the enforceability of the provisions set forth in the partnership agreement that purport to modify or reduce the fiduciary duties that would be in effect were it not for the partnership agreement.

We may pursue less vigorous enforcement of terms of the contribution and other agreements with members of our senior management and our affiliates because of our dependence on them and conflicts of interest.

Each of Victor J. Coleman and affiliates of the Farallon Funds are parties to contribution agreements with us pursuant to which we have acquired interests in our properties and assets. In addition, Mr. Coleman is party to an employment agreement with us. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationship with a member of our senior management and the Farallon Funds, with possible negative impact on stockholders.

Our charter and bylaws, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay, defer or prevent a change of control transaction, even if such a change in control may be in your interest, and as a result may depress the market price of our securities.

Our charter contains certain ownership limits. Our charter contains various provisions that are intended to preserve our qualification as a REIT and, subject to certain exceptions, authorize our directors to take such actions as are necessary or appropriate to preserve our qualification as a REIT. For example, our charter prohibits the actual, beneficial or constructive ownership by any person of more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of each of our common stock and series B preferred stock, and more than 9.8% in value of the aggregate outstanding shares of all classes and series of our stock. Our board of directors, in its sole and absolute discretion, may exempt a person, prospectively or retroactively, from these ownership limits if certain conditions are satisfied. In connection with our initial public offering and the offering of our series B preferred stock, our board of directors granted to the Farallon Funds and certain of their affiliates, which we refer to collectively as the Farallon excepted holders, and to certain other persons, exemptions from the ownership limits, subject to various conditions and limitations. The restrictions on ownership and transfer of our stock may:

- discourage a tender offer or other transactions or a change in management or of control that might involve a premium price for our common stock or series B preferred stock or that our stockholders otherwise believe to be in their best interests; or

- result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

We could increase the number of authorized shares of stock, classify and reclassify unissued stock and issue stock without stockholder approval. Subject to the rights of holders of series B preferred stock to approve the classification or issuance of any class or series of stock ranking senior to the series B preferred stock, our board of directors has the power under our charter to amend our charter to increase the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue, to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into one or more classes or series of stock and set the terms of such newly classified or reclassified shares. Although our board of directors has no such intention at the present time, it could establish a class or series of preferred stock that could, depending on the terms of

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such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our securities or that our stockholders otherwise believe to be in their best interest.

Certain provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that our stockholders otherwise believe to be in their best interest. Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could be in the best interest of our stockholders, 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 or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price and/or supermajority and stockholder voting requirements on these combinations; and

- "control share" provisions that provide that "control shares" of our company (defined as shares that, 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 issued and outstanding "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.

As permitted by the MGCL, we have elected, by resolution of our board of directors, to exempt from the business combination provisions of the MGCL, any business combination that is first approved by our disinterested directors and, pursuant to a provision in our bylaws, to exempt any acquisition of our stock from the control share provisions of the MGCL. However, our board of directors may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt into the control share provisions of the MGCL at any time in the future.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. These provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could be in the best interest of our stockholders. Our charter contains a provision whereby we have elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors.

Certain provisions in the partnership agreement of our operating partnership may delay or prevent unsolicited acquisitions of us. Provisions in the partnership agreement of our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes of 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 units;

- our ability, as general partner, in some cases, to amend the partnership agreement and to cause the operating partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of the limited partners;

- the right of the limited partners to consent to transfers of the general partnership interest and mergers or other transactions involving us under specified circumstances; and

- restrictions on debt levels and equity requirements pursuant to the terms of our series A preferred units, as well as required distributions to holders of series A preferred units of our operating partnership, following certain changes of control of us.

Our charter, bylaws, the partnership agreement of our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that our stockholders otherwise believe to be in their best interest.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our investment and financing policies are exclusively determined by our board of directors. Accordingly, our stockholders do not control these policies. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk. Changes to our policies with regards to the foregoing could adversely affect our financial condition, results of operations, cash flow and per share trading price of our securities.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to obligate our company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those and certain other capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from such director or officer will be limited.

Tax protection agreements could limit our ability to sell or otherwise dispose of certain properties.

In connection with our formation transactions for our IPO, we entered into tax protection agreements with certain third-party contributors that provide that if we dispose of any interest with respect to the First Financial or Tierrasanta properties in a taxable transaction during the period from the closing of our initial public offering on June 29, 2010 through certain specified dates ranging until 2027, we will indemnify the third-party contributors for certain tax liabilities payable as a result of the sale (as well as tax liabilities payable as a result of the reimbursement payment). Certain contributors' rights under the tax protection agreements with respect to these properties will, however, expire at various times (depending on the rights of such partner) during the period beginning in 2017 and prior to the expiration, in 2027, of the maximum period for indemnification. The First Financial and Tierrasanta properties represented approximately 6.6% of our office portfolio's annualized base rent as of December 31, 2013. If we were to trigger the tax protection provisions under these agreements, we would be required to pay damages, if any, in the amount of certain taxes payable by these contributors (plus additional damages in the amount of the taxes incurred as a result of such payment). In addition, although it may otherwise be in our stockholders' best interest that we sell one of these properties, it may be economically prohibitive for us to do so because of these obligations.

Our tax protection agreements may require our operating partnership to maintain certain debt levels that otherwise would not be required to operate our business.

Our tax protection agreements provide that during the period from the closing of our initial public offering on June 29, 2010, through certain specified dates ranging from 2017 to 2027, our operating partnership will offer certain holders of units who continue to hold the units received in respect of the formation transactions the opportunity to guarantee debt. If we fail to make such opportunities available, we will be required to indemnify such holders for certain tax liabilities, if any, resulting from our failure to make such opportunities available to them (and any tax liabilities payable as a result of the indemnity payment). We agreed to these provisions in order to assist certain contributors in deferring the recognition of taxable gain as a result of and after the formation transactions. These obligations may require us to maintain more or different indebtedness than we would otherwise require for our business.

We are a holding company with no direct operations and, as such, we rely on funds received from our operating partnership to pay liabilities, and the interests of our stockholders are structurally subordinated to all liabilities and obligations of our operating partnership and its subsidiaries.

We are a holding company and conduct substantially all of our operations through our operating partnership. We do not have, apart from an interest in our operating partnership, any independent operations. As a result, we rely on distributions from our operating partnership to pay any dividends we might declare on our common stock and on shares of our series B preferred stock. We also rely on distributions from our operating partnership to meet our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we are a holding company, claims of our equity holders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our operating partnership and its subsidiaries and subordinate to the rights of holders of series A preferred units. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our and our operating partnership's and its subsidiaries' liabilities and obligations have been paid in full.

Risks Related to Our Status as a REIT

Failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We have elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2013. We believe that we have operated in a manner that has allowed us to qualify as a REIT for federal income tax purposes commencing with such taxable year, and we intend to continue operating in such manner. We have not requested and do not plan to request a ruling from the Internal Revenue Service, or IRS, that we qualify as a REIT, and the statements in this Annual Report are not binding on the IRS or any court. Therefore, we cannot assure you that we have qualified as a REIT, or that we will remain qualified as such in the future. If we lose our REIT status, we will face serious tax consequences that would substantially reduce the funds available for distribution to you for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Any such corporate tax liability could be substantial and would reduce our cash available for, among other things, our operations and distributions to stockholders. In addition, if we fail to qualify as a REIT, we would not be required to make distributions to our stockholders. 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 could materially and adversely affect the value of our securities.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code, or the Treasury Regulations, is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the ownership of our stock, requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as "rents from real property." Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local income, property and excise taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our taxable REIT subsidiaries will be subject to tax as regular corporations in the jurisdictions they operate.

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Our ownership of taxable REIT subsidiaries is subject to certain restrictions, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our taxable REIT subsidiaries are not conducted on arm's length terms.

We currently own an interest in one taxable REIT subsidiary and may acquire securities in additional taxable REIT subsidiaries in the future. A taxable REIT subsidiary is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a taxable REIT subsidiary. If a taxable REIT subsidiary owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a taxable REIT subsidiary. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to federal income tax as a regular C corporation. In addition, a 100% excise tax will be imposed on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm's length basis. A REIT's ownership of securities of a taxable REIT subsidiary is not subject to the 5% or 10% asset tests applicable to REITs. Not more than 25% of our total assets may be represented by securities, including securities of taxable REIT subsidiaries, other than those securities includable in the 75% asset test. We anticipate that the aggregate value of the stock and securities of any taxable REIT subsidiaries and other nonqualifying assets that we own will be less than 25% of the value of our total assets, and we will monitor the value of these investments to ensure compliance with applicable ownership limitations. In addition, we intend to structure our transactions with any taxable REIT subsidiaries that we own to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation or to avoid application of the 100% excise tax discussed above.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market's perception of our growth potential, our current debt levels, the market price of our common stock, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, and could adversely affect our financial condition, results of operations, cash flow, cash available for distributions to our stockholders, and per share trading price of our securities.

Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; or (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could have an adverse effect on our business results, profitability and ability to execute our business plan. Moreover, if we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

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

Income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates are generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential tax rates

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applicable to qualified dividend income. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the shares of REITs, including the per share trading price of our securities.

The power of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders and unitholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders and accordingly, distributions Hudson Pacific Properties, L.P. makes to its unitholders could be similarly reduced.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, our portfolio consisted of 26 properties (24 wholly-owned properties and two properties owned by a joint venture), located in eight California submarkets and Seattle, Washington, containing a total of approximately 6.2 million square feet, which we refer to as our portfolio. The following table presents an overview of our portfolio, based on information as of December 31, 2013. Rental data presented in the table below for office properties reflects annualized base rent on leases in place as of December 31, 2013 and does not reflect actual cash rents historically received because such data does not reflect abatements or tenant reimbursements for real estate taxes, insurance, common area or other operating expenses. Rental data presented in the table below for media and entertainment properties reflects actual cash base rents, excluding tenant reimbursements, received during the 12 months ended December 31, 2013. Leases at our media and entertainment properties are typically short-term leases of one year or less, and other than the KTLA lease at our Sunset Bronson property, substantially all of the current in-place leases at our media and entertainment properties will expire in 2014 and 2015.

The following table sets forth certain information relating to each of the office and media and entertainment properties owned as of December 31, 2013.

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Property	City	Year Built/ Renovated	Square Feet[1]	Percent Leased[2]		Annualized Base Rent/ Annual Base Rent[3]	Annualized Base Rent/ Annual Base Rent Per Leased Square Foot[4]
OFFICE PROPERTIES							
First & King	Seattle	1904/2009	472,223	90.5	%	$9,130,740	$21.37
Met Park North	Seattle	2000	190,748	95.4		4,702,751	25.85
Northview	Seattle	1991	182,229	83.3		3,119,304	20.56
Rincon Center	San Francisco	1985	580,850	88.8		16,263,997	40.09
1455 Market Street	San Francisco	1977	1,012,012	96.7		18,821,822	21.14
875 Howard Street	San Francisco	Various	286,270	99.4		7,019,003	25.05
222 Kearny Street	San Francisco	Various	148,797	91.6		4,900,281	35.96
625 Second Street	San Francisco	1905	137,018	100.0		5,391,747	43.91
275 Brannan Street	San Francisco	1906	54,673	100.0		2,897,669	53.00
901 Market Street	San Francisco	1912	212,319	76.9		3,435,511	29.69
First Financial	Encino (LA)	1986	222,423	95.8		7,284,917	34.20
Technicolor Building	Hollywood (LA)	2008	114,958	100.0		4,549,302	39.57
Del Amo Office Building	Torrance (LA)	1986	113,000	100.0		3,069,070	27.16
9300 Wilshire	Beverly Hills	1965/2001	61,224	98.0		2,398,198	40.71
10950 Washington	Culver City	Various	159,024	100.0		5,190,720	32.64
604 Arizona	Santa Monica	1950	44,260	100.0		1,779,252	40.20
6922 Hollywood	Hollywood (LA)	1965	205,523	92.2		7,963,981	42.04
10900 Washington	Culver City	1973	9,919	100.0		339,176	34.19
Element LA	Los Angeles	Various	247,545	100.0		—	—
Pinnacle I	Burbank	2002	393,777	91.7		14,829,638	41.05
Pinnacle II	Burbank	2005	231,864	99.2		8,637,927	37.56
3401 Exposition	Santa Monica	1961	63,376	100.0		—	—
1861 Bundy	Los Angeles	1950	36,492	100.0		—	—
Tierrasanta	San Diego	1985	112,300	96.4		1,569,572	14.50
Total/Weighted Average Office Properties:			5,292,824	94.1	%	$133,294,578	$30.51
MEDIA & ENTERTAINMENT PROPERTIES							
Sunset Gower	Hollywood (LA)	Various	570,470	65.3		$12,270,624	$32.92
Sunset Bronson	Hollywood (LA)	Various	313,723	78.1		8,733,969	35.63
Total/Weighted Average Media & Entertainment Properties:			884,193	69.9	%	$21,004,593	$34.90
Total Office and M&E Properties:			6,177,017			$154,299,171	$24.98
LAND							
Sunset Bronson—Lot A	Hollywood (LA)	N/A	273,913				
Sunset Bronson—Redevelopment	Hollywood (LA)	N/A	389,740				
Sunset Gower— Redevelopment	Hollywood (LA)	N/A	423,396				
Olympic Bundy	West Los Angeles	N/A	500,000				
Total Land Assets:			1,587,049				
Portfolio Total:			7,764,066				

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(1) Square footage for office properties and media and entertainment properties has been determined by management based upon estimated leasable square feet, which may be less or more than the Building Owners and Managers Association, or BOMA, rentable area. Square footage may change over time due to remeasurement, releasing, acquisition, or development. On September 21, 2012, we acquired an office property located at 1455 Gordon Street totaling approximately 6,000 square feet, which was added to the Sunset Gower property. This acquisition is reflected in the square footage for Sunset Gower on a weighted average basis. As of December 31, 2013, the square footage for media and entertainment properties totaled 884,193 square feet, including this acquisition. Square footage for land assets represents management's estimate of developable square feet, the majority of which remains subject to entitlement approvals that have not yet been obtained.

(2) Percent leased for office properties is calculated as (i) square footage under commenced and uncommenced leases as of December 31, 2013, divided by (ii) total square feet, expressed as a percentage. Percent leased for media and entertainment properties is the average percent leased for the 12 months ended December 31, 2013. As a result of the short-term nature of the leases into which we enter at our media and entertainment properties, and because entertainment industry tenants generally do not shoot on weekends due to higher costs, we believe stabilized occupancy rates at our media and entertainment properties are lower than those rates achievable at our traditional office assets, where tenants enter into longer-term lease arrangements.

(3) We present rent data for office properties on an annualized basis, and for media and entertainment properties on an annual basis. Annualized base rent for office properties is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) under commenced leases as of December 31, 2013 by (ii) 12. Annual base rent for media and entertainment properties reflects actual base rent for the 12 months ended December 31, 2013, excluding tenant reimbursements.

(4) Annualized base rent per leased square foot for the office properties is calculated as (i) annualized base rent divided by (ii) square footage under commenced lease as of December 31, 2013. Annual base rent per leased square foot for the media and entertainment properties is calculated as (i) actual base rent for the 12 months ended December 31, 2013, excluding tenant reimbursements, divided by (ii) average square feet under lease for the 12 months ended December 31, 2013.

Office Portfolio

Our office portfolio consists of 24 office properties comprising an aggregate of approximately 5.3 million square feet. As of December 31, 2013, our stabilized office properties were approximately 95.4% leased (giving effect to leases signed but not commenced as of that date). All of our office properties are located in California and the Pacific Northwest. As of December 31, 2013, the weighted average remaining lease term for our stabilized office portfolio was 67 months.

Tenant Diversification of Office Portfolio

Our office portfolio is currently leased to a variety of companies. The following table sets forth information regarding the 15 largest tenants in our office portfolio based on annualized base rent as of December 31, 2013.

Tenant	Property	Lease Expiration[1]	Total Leased Square Feet	Percentage of Office Portfolio Square Feet		Annualized Base Rent[2]	Percentage of Office Portfolio Annualized Base Rent	
Warner Bros. Entertainment	Pinnacle II	12/31/2021	230,000	4.3	%	$8,637,927	6.5	%
Warner Music Group	Pinnacle I	12/31/2019	195,166	3.7		7,881,178	5.9	
EMC Corporation[3]	Various	Various	294,756	5.6		7,033,054	5.3	
Bank of America[4]	1455 Market Street	Various	502,233	9.5		6,432,454	4.8	
Square	1455 Market Street	9/27/2023	202,606	3.8		6,322,405	4.7	
AIG[5]	Rincon Center	Various	140,564	2.7		6,183,793	4.6	
GSA[6]	Various	Various	168,393	3.2		5,350,456	4.0	

NFL Enterprises	Various	6/30/2017	137,305	2.6		4,704,997	3.5	
Fox Interactive Media, Inc.	625 Second Street	3/31/2017	104,897	2.0		4,594,278	3.4	
Technicolor Creative Services USA, Inc.	Technicolor Building	5/31/2020	114,958	2.2		4,549,302	3.4	
Clear Channel	Pinnacle I	9/30/2016	107,715	2.0		4,479,985	3.4	
Salesforce.com(7)	Rincon Center	Various	93,028	1.8		4,093,232	3.1	
Amazon	Met Park North	11/30/2023	139,824	2.6		3,669,637	2.8	
Capital One	First & King	2/28/2019	133,148	2.5		3,269,711	2.5	
Saatchi & Saatchi North America, Inc.	Del Amo Office Building	12/31/2019	113,000	2.1		3,069,070	2.3	
Total			2,677,593	50.6	%	$80,271,479	60.2	%

(1) GSA and Saatchi & Saatchi North America, Inc. leases are subject to early termination prior to expiration at the option of the tenant.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)) under commenced leases as of December 31, 2013 (ii) by 12. Annualized base rent does not reflect tenant reimbursements.

(3) EMC expirations by property and square footage: (1) 66,510 square feet at 875 Howard Street expiring on June 30, 2019; and (2) 228,246 square feet at First & King expiring on December 31, 2023.

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(4) We have completed leases at our 1455 Market property with Square, Inc. for 332,492 square feet, which backfills certain space currently leased to Bank of America. The following summarizes Bank of America's early termination rights by square footage as of December 31, 2013, subject to the pending lease commencements with Square, Inc.: (1) 152,373 square feet at December 31, 2013, 129,886 square feet of which is scheduled to be delivered to Square, Inc. in January 2014 for lease commencement in January 2014; (2) 212,854 square feet at December 31, 2015; and (3) 137,006 square feet at December 31, 2017.

(5) AIG expirations by square feet: (1) 7,964 square feet expiring on August 31, 2014; and (2) 132,600 square feet expiring on July 31, 2017.

(6) GSA expirations by property and square footage: (1) 89,995 square feet at 1455 Market Street expiring on February 19, 2017; (2) 5,906 square feet at 901 Market Street expiring on April 30, 2017; (3) 28,993 square feet at Northview expiring on April 4, 2020; and (4) 43,499 square feet at 901 Market Street expiring on July 31, 2021.

(7) We have completed leases at our Rincon Center property with Salesforce.com for 235,733 square feet of which 142,705 square feet has yet to commence. The following summarizes Salesforce.com's expirations by square feet: (1) 83,016 uncommenced square feet expiring on July 31, 2025; (2) 59,689 uncommenced square feet expiring April 30, 2027; and (3) 93,028 commenced square feet expiring on October 31, 2028.

Lease Distribution of Office Portfolio

The following table sets forth information relating to the distribution of leases in our office portfolio, based on net rentable square feet under lease as of December 31, 2013.

Square Feet Under Lease	Number of Leases	Percentage of All Leases	Total Leased Square Feet	Percentage of Office Portfolio Leased Square Feet	Annualized Base Rent[1]	Percentage of Office Portfolio Annualized Base Rent
2,500 or less	66	30.3 %	84,016	1.7 %	$3,126,907	1.9 %
2,501-10,000	71	32.6	398,577	8.0	13,519,153	8.5
10,001-20,000	18	8.2	258,221	5.2	8,540,664	5.2
20,001-40,000	18	8.2	526,495	10.6	16,127,830	9.9
40,001-100,000	12	5.5	748,238	15.0	23,919,014	14.7
Greater than 100,000	15	6.9	2,331,779	46.8	68,061,010	41.6
Building management use	8	3.7	21,364	0.4	—	—
Uncommenced leases	10	4.6	612,970	12.3	29,736,474	18.2
Office Portfolio Total:	218	100.0 %	4,981,660	100.0 %	$163,031,052	100.0 %

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(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)), including uncommenced leases, as of December 31, 2013 (ii) by 12. Annualized base rent does not reflect tenant reimbursements.

Lease Expirations of Office Portfolio

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2013 plus available space, for each of the ten full calendar years beginning January 1, 2012 at the properties in our office portfolio. Unless otherwise stated in the footnotes, the information set forth in the table assumes that tenants exercise no renewal options.

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Year of Lease Expiration	Square Footage of Expiring Leases[1]	Percentage of Office Portfolio Square Feet	Annualized Base Rent[2]	Percentage of Office Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot
Vacant	311,164	5.9 %	$—	— %	$—
2013	208,299	3.9	4,575,746	2.8	21.97
2014	126,641	2.4	4,720,012	2.9	37.27
2015	292,003	5.5	4,866,628	3.0	16.67
2016	392,965	7.4	12,603,744	7.7	32.07
2017	779,768	14.7	25,817,251	15.8	33.11
2018	355,407	6.7	9,357,304	5.8	26.33
2019	605,078	11.4	20,445,039	12.6	33.79
2020	374,889	7.1	14,228,925	8.7	37.96
2021	358,091	6.8	11,474,952	7.0	32.04
2022	18,906	0.4	703,015	0.4	37.18
Thereafter	835,279	15.8	24,501,961	15.0	29.33
Building management use	21,364	0.4	—	—	—
Signed leases not commenced	612,970	11.6	29,736,474	18.3	48.51
Office Portfolio Total/Weighted Average:	$5,292,824	100.0 %	$163,031,052	100.00 %	$39.07

(1) Assumes Bank of America exercises the early termination rights set forth in footnote (3) on page 27 of this Form 10-K.

(2) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents (before abatements)), including uncommenced leases, as of December 31, 2013, by (ii) 12. Annualized base rent does not reflect tenant reimbursements.

Media and Entertainment Portfolio

Our portfolio of operating properties includes two properties that we consider to be media and entertainment properties, encompassing an aggregate of 884,196 square feet. We define our media and entertainment properties as those properties in our portfolio that are primarily used for the physical production of media content, such as television programs, feature films, commercials, music videos and photographs. These properties generally also feature a traditional office component that is leased to production companies and content providers. For the 12 months ended December 31, 2013, our media and entertainment properties were approximately 69.9% leased. Our media and entertainment properties are located in prime Southern California submarkets.

Leasing Characteristics of Media and Entertainment Properties

The duration of typical lease terms for tenants of media and entertainment properties tends to be shorter than those of traditional office properties. Generally, terms of the media and entertainment leases are one year or less, as tenants are never certain as to whether their productions will continue to be carried by networks or cable channels. However, historically, many entertainment tenants have exercised renewal options such that their actual tenancy is extended for multiple years. As an example, productions such as Judge Judy, Judge Joe Brown and Let's Make a Deal have been tenants at Sunset Bronson Studios for between three and 15 years. At Sunset Gower Studios, NBC's Heroes was a tenant for four years prior to its cancellation and Showtime's Dexter was a tenant for six years prior to the show ending. Additionally, occupancy levels for sound stage space and office and support space tend to run in parallel, as a majority of stage users also require office and support space. In addition, we require tenants at our media and entertainment properties to use our facilities for items such as lighting, equipment rental, parking, power, HVAC and telecommunications (telephone and internet). As a result, our other property-related revenues tend to track overall occupancy of our media and entertainment properties. As a result of the short-term nature of the leases into which we enter at our media and entertainment properties, and because entertainment industry tenants generally do not shoot on weekends due to higher costs, we believe stabilized occupancy rates at our media and entertainment properties are lower than those rates achievable at our traditional office assets, where tenants enter into longer-term lease arrangements.

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Description of Our Media and Entertainment Properties

Sunset Gower, Hollywood, California

Sunset Gower is a 15.7-acre media and entertainment property located in the heart of Hollywood, four blocks west of the Hollywood (101) Freeway. The property encompasses almost an entire city block, bordered by Sunset Boulevard to the north, Gower Street to the west, Gordon Street to the east and Fountain Avenue to the south. The property, a fixture in the Los Angeles-based entertainment industry since it was built in the 1920s, served as Columbia Pictures' headquarters through 1972 and is now one of the largest independent media and entertainment properties in the United States. Sunset Gower provides a fully-integrated environment for its media and entertainment-focused tenants within which they can access creative and technical talent for film and television production as well as post-production. Sunset Gower typically serves as home to single-camera television and motion picture production tenants. The property comprises 394,910 square feet of office and support space, along with 12 sound stage facilities totaling 175,560 square feet. In addition, there are 1,450 parking spaces situated in both surface and structured parking lots. Included in the total office square footage are three buildings, known as 6050 Sunset and 1455 Beachwood (acquired on December 16, 2011) and 1455 Gordon (acquired on September 21, 2012), that comprise approximately 26,761 square feet. The 1455 Beachwood and 1455 Gordon buildings are currently being renovated. For the year ended December 31, 2013, Sunset Gower was approximately 65.3% leased.

An approximately 0.59-acre portion of the site is subject to ground leases, expiring March 31, 2060, by and between Sunset Gower Entertainment Properties, LLC and the Chadwick 1994 Family Trust and Richard S. Chadwick. The remaining portion of the Sunset Gower property is owned by Sunset Gower Entertainment Properties in fee, with the exception of 6050 Sunset, 1455 Beachwood, and 1455 Gordon, which are owned by SGS Ancillary Parcels, LLC.

In addition to Sunset Gower's existing facilities, the current zoning designation for Sunset Gower, M1-1—Limited Industrial, City of Los Angeles, permits a floor area ratio, or FAR, of 1.5x, which implies a maximum allowable density of 1,022,933 square feet, or an incremental 423,436 square feet above the existing 599,497 floor area ratio, including the Technicolor Building. However, as of December 31, 2013, we had no immediate plans to develop additional facilities on the property.

Sunset Gower Primary Tenants

The following table summarizes information regarding the primary tenants of Sunset Gower for the year ended December 31, 2013:

Tenant	Principal Nature of Business	Lease Expiration	Renewal Options	Total Leased Square Feet[(1)]	Percentage of Property Square Feet	Annual Base Rent[(2)]	Annual Base Rent Per Leased Square Foot[(3)]	Percentage of Property Annual Base Rent
FTP Productions (Scandal)	Television/Entertainment	5/26/2014 - 5/31/2014	—	69,056	12.1%	$2,750,397	$39.83	22.4%
Farnsworth Entertainment(Newsroom)	Television/Entertainment	9/30/2014	—	61,945	10.9	1,940,198	31.32	15.8
Blind Decker (Dexter)	Television/Entertainment	7/5/2013 - 9/30/2013	—	58,653	10.3	1,545,147	35.13	12.6
Total/Weighted Average:				189,654	33.3%	$6,235,742	$32.88	50.8%

(1) Reflects average square feet under lease to such tenant for the year ended December 31, 2013.

(2) Annual base rent reflects actual base rent for the year ended December 31, 2013, excluding tenant reimbursements.

(3) Annual base rent per leased square foot is calculated as actual rent for the year ended December 31, 2013, excluding tenant reimbursements, divided by average square feet under lease for the year ended December 31, 2013.

Sunset Gower Percent Leased and Base Rent

The following table sets forth the percentage leased, annual base rent per leased square foot and annual net effective base rent per leased square foot for Sunset Gower as of the dates indicated below:

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Date	Percent Leased(1)	Annual Base Rent Per Leased Square Foot(2)	Annual Net Effective Base Rent Per Leased Square Foot(3)
December 31, 2013	65.3 %	$32.92	$33.01
December 31, 2012	71.2	30.49	30.61
December 31, 2011	66.6	30.88	30.98
December 31, 2010	70.9	30.27	30.27
December 31, 2009	68.2	29.83	29.83

(1) Percent leased is the average percent leased for the year that ended on the dates indicated above. As a result of the short-term nature of the leases into which we enter at our media and entertainment properties, and because entertainment industry tenants generally do not shoot on weekends due to higher costs, we believe stabilized occupancy rates at our media and entertainment properties are lower than those rates achievable at our traditional office assets, where tenants enter into longer-term lease arrangements.

(2) Annual base rent per leased square foot is calculated as actual base rent, excluding tenant reimbursements, for the year that ended on the dates indicated above divided by average square feet under lease for the year that ended on the dates indicated above.

(3) Annual net effective base rent per leased square foot represents (i) actual base rent, excluding tenant reimbursements, for the year that ended on the dates indicated above, calculated on a straight-line basis to amortize free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (ii) the average square feet under lease for the year that ended on the dates indicated above.

Sunset Bronson, Hollywood, California

Sunset Bronson is a 10.6 acre media and entertainment property located in the heart of Hollywood, one block west of the Hollywood (101) Freeway and in close proximity to the Sunset Gower property. The property encompasses a full city block, bordered by Sunset Boulevard to the north, Bronson Avenue to the west, Van Ness Avenue to the east and Fernwood Avenue to the south. The property, which was built in phases from 1924 through 1981, formerly served as Warner Brothers Studios' headquarters and has been continuously operated as a media and entertainment property since the 1920s. The property includes a Historical-Cultural Monument designation for the Site of the Filming of the First Talking Film (The Jazz Singer) that is specific to the building structure that fronts Sunset Boulevard. Similar to nearby Sunset Gower, Sunset Bronson is a multi-use property with a full complement of production, post-production and support facilities that enable its media and entertainment focused tenants to conduct their business in a collaborative and efficient setting. In contrast to Sunset Gower, which typically serves single-camera television and motion picture productions, Sunset Bronson caters to multi-camera television productions, such as game shows, talk shows or courtroom shows that record in video and require a control room to manage and edit the productions' multiple cameras. Excluding the KTLA portion of the property, which is described below, Sunset Bronson consists of approximately 86,108 square feet of office and support space and nine sound stage facilities with approximately 137,109 square feet, along with 455 parking spaces. The property has three digital control rooms, one of which has high-definition technology, which allow tenants to edit productions filmed with high-definition cameras. For the year ended December 31, 2013, Sunset Bronson was approximately 78.1% leased.

Sunset Bronson also includes the KTLA facility, which is a multi-use office, broadcasting and production facility located on the Sunset Bronson property described above. The KTLA facility is 100% leased by KTLA Channel 5, one of the largest independent television stations in Los Angeles and has served as KTLA's only broadcast facility and its primary office and production location for over 50 years. In connection with the acquisition of the Sunset Bronson property, KTLA, Inc., a subsidiary of Tribune Company, entered into a five-year lease for approximately 90,506 square feet, which includes 83,531 square feet of office and support space and 6,975 square feet encompassing two sound stages. At the time of the closing of the acquisition of the Sunset Bronson property, our predecessor received a prepayment of $16.3 million from KTLA in prepayment of its rents for the initial five-year term of its lease. On

December 8, 2008, Tribune Company and several of its affiliates, including KTLA, Inc., filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. On June 25, 2009, KTLA assumed its lease for the KTLA facility and cured all outstanding pre-petition amounts due us.

We entered into an amendment to the KTLA lease that extends the lease term through January 31, 2016. Net rents were approximately $2,707,940 for the period February 1, 2013 through January 31, 2014. Net rents are expected to be $2,789,178 for the period February 1, 2014 through January 31, 2015 and $2,872,853 for the period February 1, 2015 through January 31, 2016.

In addition to Sunset Bronson's existing facilities, the current zoning designation for Sunset Bronson, M1-1—Limited Industrial, City of Los Angeles, permits a FAR of 1.5x, which implies a maximum allowable density of 689,565 square feet or an incremental 391,836 square feet above the existing 297,729 total FAR, including the KTLA portion of the property.

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Sunset Bronson Primary Tenants

The following table summarizes information regarding the primary tenants of Sunset Bronson as of December 31, 2013:

Tenant	Principal Nature of Business	Lease Expiration	Renewal Options	Total Leased Square Feet(1)	Percentage of Property Square Feet	Annual Base Rent(2)	Annual Base Rent Per Leased Square Foot(3)	Percentage of Property Annual Base Rent
KTLA	Television/ Entertainment	1/31/2016	—	90,506	28.8 %	$2,076,668	$22.95	23.8 %
3 Doors Productions (Let's Make a Deal)	Television/ Entertainment	5/6/2014 - 5/27/2014	—	44,736	14.3	1,627,580	36.38	18.6
CBS Studios (Judge Judy)	Television/ Entertainment	5/26/2014	—	19,734	6.3	1,024,126	51.90	11.7
Total/Weighted Average:				154,976	49.4 %	$4,728,374	$30.51	54.1 %

(1) Reflects average square feet under lease to such tenant for the year ended December 31, 2013.

(2) Annual base rent reflects actual base rent for the year ended December 31, 2013, excluding tenant reimbursements. As of February 1, 2013, annualized base rent for KTLA will be $2,707,940, subject to annual increases of three percent and abatements of $676,985, $697,294, and $718,213 for 2013, 2014 and 2015, respectively.

(3) Annual base rent per leased square foot is calculated as actual base rent for the year ended December 31, 2013, excluding tenant reimbursements, divided by average square feet under lease for the year ended December 31, 2013.

Sunset Bronson Percent Leased and Base Rent

The following table sets forth the percentage leased, annual base rent per leased square foot and annual net effective base rent per leased square foot for the Sunset Bronson property as of the dates indicated below:

Date	Percent Leased(1)	Annual Base Rent Per Leased Square Foot(2)	Annual Net Effective Base Rent Per Leased Square Foot(3)
December 31, 2013	78.1 %	$35.63	$38.31
December 31, 2012	78.1	42.16	40.02
December 31, 2011	76.3	40.77	38.58
December 31, 2010	75.5	40.18	37.97
December 31, 2009	68.5	40.12	38.70

(1) Percent leased is the average percent leased for the year that ended on the dates indicated above. As a result of the short-term nature of the leases into which we enter at our media and entertainment properties, and because entertainment industry tenants generally do not shoot on weekends due to higher costs, we believe stabilized occupancy rates at our media and entertainment properties are lower than those rates achievable at our traditional office assets, where tenants enter into longer-term lease arrangements.

(2) Annual base rent per leased square foot is calculated as actual base rent, excluding tenant reimbursements, for the year that ended on the dates indicated above divided by average square feet under lease for the year that ended on the dates indicated above.

(3) Annual net effective base rent per leased square foot represents (i) actual base rent, excluding tenant reimbursements, for the year that ended on the dates indicated above, calculated on a straight-line basis to amortize

free rent periods and abatements, but without regard to tenant improvement allowances and leasing commissions, divided by (ii) the average square feet under lease for the year that ended on the dates indicated above.

On February 11, 2011, we closed a five-year term loan totaling $92.0 million with Wells Fargo Bank, N.A. secured by our Sunset Gower and Sunset Bronson media and entertainment campuses.

Sunset Bronson Lot A

In connection with our purchase of Sunset Bronson in 2008, we acquired a 67,381 square-foot undeveloped lot located on the northwest corner of Sunset Boulevard and Bronson Avenue. The lot is located two blocks west of the I-101 Freeway, between the Sunset Gower and Sunset Bronson properties. The site is currently used as a surface parking lot and can be developed to include up to 60,855 square feet of retail and office space based on current zoning, with the opportunity to add additional developable square footage through certain municipal land entitlement approvals. We estimate that with further entitlements, we could increase the developable square footage to approximately 273,913 square feet. While we are holding this property for its development potential, we do not currently have any plans for its development.

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Item 3. Legal Proceedings

From time to time, we are a party to various lawsuits, claims and other legal proceedings arising out of, or incident to, our ordinary course of business. We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or that, individually or in the aggregate, would be expected to have a material adverse effect on our business, financial condition or results of operations if determined adversely to us.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

Overview

As of February 26, 2014, we had approximately 67,027,472 shares of common stock outstanding, including unvested restricted stock grants. Our common stock has traded on the NYSE under the symbol "HPP" since June 24, 2010. The applicable high and low prices of our common stock from January 1, 2013 through December 31, 2013, as reported by the NYSE, are set forth below for the periods indicated.

Distributions

We intend to make distributions each taxable year (not including a return of capital for federal income tax purposes) equal to at least 90% of our taxable income. We intend to pay regular quarterly dividend distributions to our stockholders. Dividends will be made to those stockholders who are stockholders as of the dividend record dates. Dividend amounts depend on our available cash flows, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as our board of directors deem relevant.

Our common stock is traded on the New York Stock Exchange under the symbol "HPP". On December 31, 2013, the reported closing sale price per share of our common stock on the New York Stock Exchange was $21.87. 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:

Fiscal year 2013	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$21.78	$21.64	$21.75	$ 0.125
Second quarter	21.37	20.80	21.28	0.125
Third quarter	19.70	19.39	19.45	0.125
Fourth quarter	22.15	21.80	21.87	0.125

The closing share price for our common stock on February 26, 2014, as reported by the New York Stock Exchange, was $22.13. As of February 26, 2014, there were 33 stockholders of record of our common stock.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Equity Compensation Plan Information

Our equity compensation plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.

Stock Performance Graph

The information below shall not be deemed to be “soliciting material” or to be “filed” with the SEC 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 shows our cumulative total stockholder return for the period beginning with the initial listing of our common stock on the New York Stock Exchange on June 24, 2010 and ending on December 31, 2013. The graph assumes a $100 investment in each of the indices on June 24, 2010 and the reinvestment of all dividends. The graph also shows the cumulative total returns of the Standard & Poor’s 500 Stock Index, or S&P Index, and an industry peer group. Our stock price performance shown in the following graph is not indicative of future stock price performance.

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	Period Ending								
Index	06/23/10	06/30/10	12/31/10	06/30/11	12/31/11	06/30/12	12/31/12	06/30/13	12/31/13
Hudson Pacific Properties, Inc.	100.00	101.47	89.63	94.06	87.40	109.17	133.75	136.69	142.15
S&P 500	100.00	94.42	116.38	123.40	118.84	130.12	137.86	156.92	182.51
SNL US RE $500M-$1B Imp Cap	100.00	95.24	120.66	130.87	116.14	135.91	157.45	174.42	185.23
SNL US RE $1B-$2B Imp Cap	100.00	95.48	122.55	126.60	116.85	140.67	153.00	169.43	179.17

Item 6. Selected Financial Data

The following tables set forth, on a historical basis, selected financial and operating data. The financial information has been derived from our consolidated balance sheets and statements of operations. The following data should be read in conjunction with our financial statements and notes thereto and Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations included below in this Form 10-K.

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HUDSON PACIFIC PROPERTIES
(in thousands, except share, per share, square footage and occupancy data)
Year Ended December 31,

	Consolidated				Historical
	2013	2012	2011	2010	2009
Statements of Operations Data:					
Revenues					
Office					
Rental	$124,839	$88,459	$69,145	$15,485	$6,561
Tenant recoveries	25,870	22,029	21,954	2,883	1,827
Parking and other	14,732	9,840	5,643	999	222
Total office revenues	$165,441	$120,328	$96,742	$19,367	$8,610
Media & entertainment					
Rental	$23,003	$23,598	$21,617	$20,931	$19,916
Tenant recoveries	1,807	1,598	1,539	1,571	1,792
Other property-related revenue	15,072	14,733	13,638	11,397	9,427
Other	235	204	187	238	64
Total media & entertainment revenues	$40,117	$40,133	$36,981	$34,137	$31,199
Total revenues	$205,558	$160,461	$133,723	$53,504	$39,809
Operating expenses					
Office operating expenses	$63,434	$50,599	$42,312	$7,034	$3,088
Media & entertainment operating expenses	24,149	24,340	22,446	19,815	19,545
General and administrative	19,952	16,497	13,038	4,493	—
Depreciation and amortization	70,063	54,758	41,983	13,226	8,332
Total operating expenses	$177,598	$146,194	$119,779	$44,568	$30,965
Income from operations	$27,960	$14,267	$13,944	$8,936	$8,844
Other expense (income)					
Interest expense	$25,470	$19,071	$17,480	$8,831	$8,792
Interest income	(272)	(306)	(73)	(59)	(16)
Unrealized gain on interest rate contracts	—	—	—	(347)	(400)
Acquisition-related expenses	1,446	1,051	1,693	4,273	—
Other (income) expenses	(99)	(92)	443	192	97
Total other expenses	$26,545	$19,724	$19,543	$12,890	$8,473
Incone (loss) from continuing operations	$1,415	$(5,457)	$(5,599)	$(3,954)	$371
Income (loss) from discontinued operations	$1,571	$451	$3,361	$1,272	$(1,015)
Impairment loss from discontinued operations	(5,580)	—	—	—	—
Net (loss) income from discontinued operations	$(4,009)	$451	$3,361	$1,272	$(1,015)
Net loss	$(2,594)	$(5,006)	$(2,238)	$(2,682)	$(644)
Net income attributable to preferred stock and units	(12,893)	(12,924)	(8,108)	(817)	—
Net income attributable to restricted shares	(300)	(295)	(231)	(50)	—

Net loss (income) attributable to non-controlling interest in consolidated real estate entities	321	21	(803)	(119)	29
Net loss attributable to common units in the Operating Partnership	633	1,014	946	418	—
Net loss attributable to Hudson Pacific Properties, Inc. shareholders' / controlling members' equity	$(14,833)	$(17,190)	$(10,434)	$(3,250)	$(615)

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HUDSON PACIFIC PROPERTIES
(in thousands, except share, per share, square footage and occupancy data)
Year Ended December 31,

	Consolidated				Historical
	2013	2012	2011	2010	2009
Per-Share Data:					
Net loss from continuing operations attributable to common stockholders	$(0.20)	$(0.42)	$(0.46)	$—	$—
Net (loss) income from discontinued operations	(0.07)	0.01	0.11	—	—
Net loss attributable to shareholders' per share—basic and diluted	$(0.27)	$(0.41)	$(0.35)	$—	$—
Weighted average shares of common stock outstanding—basic and diluted	55,182,647	41,640,691	29,392,920	—	—
Dividends declared per common share	$0.500	$0.500	$0.500	$0.1921	$—

	2013	2012	2011	2010	2009
Balance Sheet Data:					
Investment in real estate, net	$1,918,988	$1,340,361	$957,810	$787,872	$362,135
Total assets	2,131,274	1,559,692	1,152,791	1,004,565	448,234
Notes payable	931,308	582,085	399,871	342,060	189,518
Total liabilities	1,017,933	649,995	451,647	390,232	221,646
6.25% Series A cumulative redeemable preferred units of the Operating Partnership	10,475	12,475	12,475	12,475	—
Redeemable non-controlling interest in consolidated real estate entity	—	—	—	40,328	—
Series B cumulative redeemable preferred stock	145,000	145,000	87,500	87,500	—
Members' / stockholders' equity	858,446	695,213	537,813	408,346	223,240
Non-controlling partnership / members' interest	99,420	57,009	63,356	65,684	3,348
Total equity	$1,102,866	$897,222	$688,669	$561,530	$226,588
Total liabilities and equity	$2,131,274	$1,559,692	$1,152,791	$1,004,565	$448,234
Other Data					
Cash flows provided by (used in)					
Operating activities	$41,547	$42,821	$32,082	$7,619	$4,538
Investing activities	$(424,042)	$(423,470)	$(130,604)	$(242,156)	$(15,457)
Financing activities	$393,947	$385,848	$63,352	$279,718	$8,800

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

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Statements contained in this Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, property development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the breadth and duration of the current economic recession and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, competitive market conditions, interest rate levels, volatility in our stock price and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events, or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and related to investing in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see Item 1A: Risk Factors and the discussion under the captions "—Forward-looking Statements" above and "—Liquidity and Capital Resources" below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

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Executive Summary

Through our interest in Hudson Pacific Properties, L.P. (our operating partnership) and its subsidiaries, at December 31, 2013 our consolidated office portfolio consisted of approximately 5.3 million square feet, and our media and entertainment portfolio consisted of 0.9 million square feet. As of December 31, 2013, our consolidated stabilized office portfolio was 95.4% leased (including leases not yet commenced). Our media and entertainment properties were 69.9% leased for the trailing 12-month period ended December 31, 2013.

Current Year Acquisitions, Dispositions, Repositionings and Financings.

Acquisitions.

3401 Exposition Boulevard Acquisition

On May 22, 2013, the Company acquired 3401 Exposition Blvd. in Santa Monica, California for $25.7 million (before closing costs and prorations) from Watt Investment Partners. 3401 Exposition Blvd. is expected to consist of approximately 63,376 square feet of creative office space.

Pinnacle II Acquisition

On November 8, 2012, the Company entered into a joint venture with MDP/Worthe to acquire The Pinnacle, a two-building (Pinnacle I and Pinnacle II), 625,091 square-foot office property located in Burbank, California. The acquisition of the 393,777 square-foot Pinnacle I building by the joint venture closed on November 8, 2012 for a purchase price of $212.5 million, $129.0 million of which was financed with a new ten-year project loan. On June 14, 2013, the 231,314 square-foot Pinnacle II building was contributed to the joint venture by MDP/Worthe subject to an existing $89.1 million project loan bearing interest at a fixed annual rate of 6.313% and maturing on September 6, 2016. Other than for purposes of funding closing costs and prorations, the Company did not make a capital contribution in connection with the contribution of the Pinnacle II building to the joint venture, but the Company's ownership interest in the joint venture was adjusted from 98.25% to 65.00% to reflect the contribution of the Pinnacle II by MDP/Worthe, with the remaining 35.00% owned by MDP/Worthe. With the closing of this transaction, the joint venture owns both buildings for a combined purchase price of $342.5 million, subject to $218.1 million of project financing.

Seattle Acquisition

On July 31, 2013, the Company acquired a 848,001 square-foot office portfolio in Seattle, Washington from Spear Street Capital for approximately $368.4 million (net of certain credits and before closing costs and prorations). The purchase price was paid from a combination of cash-on-hand (including funds from the 1031 exchange of City Plaza), borrowings under the Company's corporate unsecured credit facility, and the asset-level financing described below. The Seattle Portfolio consists of the following:

- a two-building, 484,463 square-foot waterfront property located in the Pioneer Square submarket of downtown Seattle, referred to as the First & King property. This property is 88.2% leased to tenants such as Capital One/ING Direct, EMC Corporation and Nuance Communications;
- a 189,762 square-foot Class-A office building located in the South Lake Union submarket of downtown Seattle, referred to as the Met Park North property. This building is 94.6% leased, with 72.4% of the building to be occupied by Amazon.com, Inc. under a ten-year lease that commenced in November 2013; and
- a 173,776 square-foot building located in the Edmonds/Lynnwood submarket of Seattle's Northend, referred to as the Northview property. This building is 88.6% leased to tenants such as Automatic Data Processing, Inc. and the Federal Emergency Management Agency.

1861 Bundy Acquisition

On September 27, 2013, the Company acquired 1861 Bundy Drive in Los Angeles, California for $11.5 million (before closing costs and prorations). 1861 Bundy Drive is expected to consist of approximately 36,474 square feet of creative office space and be part of the Company's Element LA property.

Dispositions. We disposed of one property in 2013.

City Plaza Disposition

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On July 12, 2013, the Company sold its City Plaza property for approximately $56.0 million (before certain credits, prorations, and closing costs). Proceeds from the disposition were used toward the acquisition of the Seattle Portfolio pursuant to a like-kind exchange under Internal Revenue Code Section 1031. City Plaza is a nineteen-story, 333,922 rentable square-foot Class-A office building located in Orange, California that was acquired by the Company's predecessor in August of 2008 and contributed to the Company in connection with its June 29, 2010 initial public offering.

Repositionings.

We generally select a property for repositioning at the time we purchase it. 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 determine the optimal use and tenant mix. A repositioning can consist of a range of improvements to a property, and may involve a complete structural renovation of a building to significantly upgrade the character of the property, or it may involve targeted remodeling of common areas and tenant spaces to make the property more attractive to certain identified tenants. Because each repositioning effort is unique and determined based on the property, tenants and overall trends in the general market and specific submarket, the results are varying degrees of depressed rental revenue and occupancy levels for the affected property, which impacts our results and, accordingly, comparisons of our performance from period to period. The repositioning process generally occurs over the course of months or even years. Although usually associated with newly-acquired properties, repositioning efforts can also occur at properties we already own; repositioning properties discussed in the context of this paragraph exclude acquisition properties where the plan for improvement is implemented as part of the acquisition. During 2013, we acquired 3401 Exposition Blvd. and 1861 Bundy Drive for purposes of repositioning.

Financings.

3401 Exposition Boulevard

As part of the acquisition of 3401 Exposition Blvd. on May 22, 2013, the Company assumed a loan with an outstanding principal balance of approximately $13.2 million. The loan bears interest at a rate equal to one-month LIBOR plus 380 basis points and is scheduled to mature on May 31, 2014.

Pinnacle II

As part of the contribution of the Pinnacle II building on June 14, 2013, the Company's joint venture with MDP/Worthe assumed a loan with an outstanding principal balance of approximately $89.1 million. The loan bears interest at a fixed annual rate of 6.313% and is scheduled to mature on September 6, 2016.

Seattle Portfolio (Met Park North and First & King Properties)

In connection with the acquisition of the Seattle Portfolio, on July 31, 2013, the Company closed a seven-year loan totaling $64.5 million with Union Bank, N.A., secured by the Company's Met Park North property. The loan bears interest at a rate equal to one-month LIBOR plus 155 basis points. The full loan is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.1644% through the loan's maturity on August 1, 2020. Proceeds from the loan were used toward the purchase the Seattle Portfolio.

On August 14, 2013, the Company closed a five-year loan totaling $95.0 million with Wells Fargo Bank, N.A., secured by the Company's First & King property. The loan bears interest at a rate equal to one-month LIBOR plus 160 basis points and is scheduled to mature on August 31, 2018. Proceeds from the loan were used toward the repayment of amounts drawn on our unsecured credit facility in connection with the Seattle Portfolio acquisition.

Media and Entertainment Properties

Effective August 22, 2013, the terms of the Company’s loan secured by its Sunset Gower and Sunset Bronson media and entertainment properties were amended to increase the outstanding balance from $92.0 million to $97.0 million, reduce the interest rate from LIBOR plus 3.50% to LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018.

Element LA

On October 18, 2013, the Company closed a four-year loan with U.S. Bank, National Association, secured by the Company’s Element LA property, which upon full disbursement, will total $65.5 million. The loan bears interest at LIBOR plus 195 basis points and will mature on November 1, 2017, provided that the Company may extend such maturity for up to two

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one-year periods, subject to satisfaction of certain conditions. Proceeds from the loan are expected to be used to fund site-work, parking garage, base building, tenant improvement, and leasing commission costs associated with the renovation and lease-up of the property.

625 Second Street

On November 1, 2013, the Company repaid the $33.7 million loan secured by the Company's 625 Second Street property. That loan bore interest at a fixed rate of 5.85% and was scheduled to mature February 1, 2014. The repayment was made with proceeds from a draw under the Company's unsecured revolving credit facility.

Factors That May Influence Our Operating Results

Business and Strategy

We focus our investment strategy on office properties located in submarkets with growth potential as well as on underperforming properties or portfolios that provide opportunities to implement a value-add strategy to increase occupancy rates and cash flow. Additionally, we intend to acquire properties or portfolios that are distressed due to near-term debt maturities or underperforming properties where we believe better management, focused leasing efforts and/or capital improvements would improve the property's operating performance and value. Our strategy also includes active management, aggressive leasing efforts, focused capital improvement programs, the reduction and containment of operating costs and an emphasis on tenant satisfaction, which we believe will minimize turnover costs and improve occupancy.

From the acquisition of our first property in February 2007 through December 2013, we have acquired or developed properties totaling an aggregate of approximately 7.7 million square feet. We intend to pursue acquisitions of additional properties as a key part of our growth strategy, often including properties that may have substantial vacancy, which enables us to increase cash flow through lease-up. We expect to continue to acquire properties subject to existing mortgage financing and other indebtedness or to incur indebtedness in connection with acquiring or refinancing these properties. Debt service on such indebtedness will have a priority over any dividends with respect to our common or series B preferred stock and our common and series A preferred units.

Rental Revenue

The amount of net rental revenue generated by the properties in our portfolio depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space that becomes available from lease terminations. As of December 31, 2013, the percent leased for our stabilized office properties was approximately 95.4% (or 90.1%, excluding leases signed but not commenced as of that date), and the percent leased for the media and entertainment properties (based on 12-month trailing average) was approximately 69.9%. The amount of rental revenue generated by us also depends on our ability to maintain or increase rental rates at our properties. We believe that the average rental rates for our office properties are generally below the current average quoted market rate. We believe the average rental rates for our media and entertainment properties are generally equal to current average quoted market rates. Negative trends in one or more of these factors could adversely affect our rental revenue in future periods. Future economic downturns or regional downturns affecting our submarkets or downturns in our tenants' industries that impair our ability to renew or re-let space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our properties. In addition, growth in rental revenue will also partially depend on our ability to acquire additional properties that meet our investment criteria.

Conditions in Our Markets

The properties in our portfolio are all located in California and Pacific Northwest submarkets. Positive or negative changes in economic or other conditions in California or Pacific Northwest, including state budgetary shortfalls, employment rates, natural hazards and other factors, may impact our overall performance.

Operating Expenses

Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site maintenance costs. Increases in these expenses over tenants' base years are generally passed on to tenants in our full-service gross leased properties and are generally paid in full by tenants in our net lease properties. Certain of our properties have been reassessed for property tax purposes as a result of our initial public offering or their subsequent acquisition and other reassessments remain pending. In the case of completed reassessments, the amount of property taxes we pay reflects the valuations established with the county assessors for the relevant locations of each property as of the initial public offering or their subsequent acquisition. With respect to pending reassessments, we similarly expect the amount of property taxes we pay to reflect the valuations established with such county assessors.

Taxable REIT Subsidiary

As part of the formation transactions, we formed Hudson Pacific Services, Inc., or our services company, a Maryland corporation that is wholly owned by our operating partnership. We have elected, together with our services company, to treat our services company as a taxable REIT subsidiary for federal income tax purposes, and we may form additional taxable REIT subsidiaries in the future. Our services company generally may provide both customary and non-customary services to our tenants and engage in other activities that we may not engage in directly without adversely affecting our qualification as a REIT. Our services company and its wholly owned subsidiaries provide a number of services to certain tenants at our media and entertainment properties and, from time to time, one or more taxable REIT subsidiaries may provide services to our tenants at these and other properties. In addition, our operating partnership has contributed some or all of its interests in certain wholly owned subsidiaries or their assets to our services company. We currently lease space to wholly owned subsidiaries of our services company at our media and entertainment properties and may, from time to time, enter into additional leases with one or more taxable REIT subsidiaries. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable), as a regular C corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries.

Critical Accounting Policies

Investment in Real Estate Properties

The properties in our portfolio are carried at cost, less accumulated depreciation and amortization. We account for the cost of an acquisition, including the assumption of liabilities, to the acquired tangible assets and identifiable intangibles based on their estimated fair values in accordance with GAAP. We assess fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it was vacant. Acquisition-related expenses are expensed in the period incurred.

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

We capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Indirect development costs, including salaries and benefits, office rent, and associated costs for those individuals directly responsible for and who spend their time on development activities are also capitalized and allocated to the projects to which they relate. Capitalized personnel costs were approximately $1.9 million and $1.4 million for the twelve months ended December 31, 2013 and 2012, respectively. Interest is capitalized on the construction in progress at a rate equal to our weighted average cost of debt. Capitalized interest was approximately $4.6 million and $1.5 million for the twelve months ended December 31, 2013 and 2012, respectively. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. We consider a construction project as substantially complete and held available for occupancy upon the completion of tenant improvements but no later than one year after cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as they are incurred. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as they are incurred.

We compute depreciation using the straight-line method over the estimated useful lives of 39 years for building and improvements, 15 years for land improvements, five or seven years for furniture and fixtures and equipment, and over the shorter of asset life or life of the lease for tenant improvements. Above- and below-market lease intangibles are amortized to revenue over the remaining non-cancellable lease terms and bargain renewal periods, if applicable. Other in-place lease intangibles are amortized to expense over the remaining non-cancellable lease term. Depreciation is discontinued when a property is identified as held for sale.

Impairment of Long-Lived Assets

We assess the carrying value of real estate assets and related intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impairment losses are recorded on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. We recognize impairment losses to the extent the carrying amount exceeds the fair value of the properties. Properties held for sale are recorded at the lower of cost or estimated fair value less cost to sell. We recorded $5.6 million of impairment charges related to a property held for sale during the twelve months ended December 31, 2013 with no comparable charge for the twelve months ended 2012. There were no properties held for sale at December 31, 2013 and one property was held for sale at December 31, 2012.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due for monthly rents and other charges. We maintain an allowance for doubtful accounts for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. We monitor the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, our assessment is based on amounts estimated to be recoverable over the term of the lease. At December 31, 2013 and December 31, 2012, respectively, we reserved $328 and $8 of straight-line receivables. We evaluate the collectability of accounts receivable based on a combination of factors. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and our historical collection experience. We recognize an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. Historical experience has been within our expectations. We recognized $959, $724 and $946 of bad debt expense for the twelve months ended December 31, 2013, 2012 and 2011.

The following summarizes our accounts receivable net of allowance for doubtful accounts as of:

	December 31, 2013	December 31, 2012
Accounts receivable	9,496	13,765
Allowance for doubtful accounts	(1,243)	(1,598)
Accounts receivable, net	8,253	12,167

Revenue Recognition

We recognize rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. For assets acquired subject to leases, we recognize revenue upon acquisition of the asset, provided the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on which items a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

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Certain leases provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. Such revenue is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Other property-related revenue is revenue that is derived from the tenants' use of lighting, equipment rental, parking, power, HVAC and telecommunications (telephone and internet). Other property-related revenue is recognized when these items are provided.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, and we have discretion in selecting the supplier and bear the associated credit risk.

We recognize gains on sales of properties upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when (i) the collectability of the sales price is reasonably assured, (ii) we are not obligated to perform significant activities after the sale, (iii) the initial investment from the buyer is sufficient and (iv) other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition have been met.

Stock-Based Compensation

ASC Topic 718, Compensation—Stock Compensation (referred to as ASC Topic 718 and formerly known as FASB 123R), requires us to recognize an expense for the fair value of equity-based compensation awards. Grants of stock options, restricted stock, restricted stock units and performance units under our equity incentive award plans are accounted for under ASC Topic 718. Our compensation committee will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs.

Income Taxes

Our taxable income prior to the completion of our initial public offering is reportable by the members of the limited liability companies that comprise our predecessor. Our property-owning subsidiaries are limited liability companies and are treated as pass-through entities for income tax purposes. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements for the activities of these entities.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") commencing with our taxable year ended December 31, 2010. We believe that we have operated in a manner that has allowed us to qualify as a REIT for federal income tax purposes commencing with such taxable year, and we intend to continue operating in such manner. To qualify as a REIT, we are required to distribute at least 90% of our net taxable income to our stockholders, excluding net capital gains, and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided that we continue to qualify for taxation as a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Unless entitled to relief under specific statutory provisions, we would be ineligible to elect to be treated as a REIT for the four taxable years following the year for which we lose our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

We have elected to treat one of our subsidiaries as a taxable REIT subsidiary. Certain activities that we may undertake, such as non-customary services for our tenants and holding assets that we cannot hold directly, will be conducted by a taxable REIT subsidiary. A taxable REIT subsidiary is subject to federal and, where applicable, state income taxes on its net income.

We are subject to the statutory requirements of the states in which we conduct business. The Company periodically evaluates its tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of December 31, 2013, the Company has not established a liability for uncertain tax positions.

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Results of Operations

The following table identifies each of the properties in our portfolio acquired through December 31, 2013 and their date of acquisition.

Properties	Acquisition/Completion Date	Square Feet
875 Howard Street	2/15/2007	286,270
Sunset Gower	8/17/2007	543,709
Sunset Bronson	1/30/2008	313,723
Technicolor Building	6/1/2008	114,958
First Financial	6/29/2010	222,423
Tierrasanta	6/29/2010	112,300
Del Amo Office	8/13/2010	113,000
9300 Wilshire Boulevard	8/24/2010	61,224
222 Kearny Street	10/8/2010	148,797
1455 Market	12/16/2010	1,012,012
Rincon Center	12/16/2010	580,850
10950 Washington	12/22/2010	159,024
604 Arizona	7/26/2011	44,260
275 Brannan	8/19/2011	54,673
625 Second Street	9/1/2011	137,018
6922 Hollywood Boulevard	11/22/2011	205,523
6050 Ocean Way & 1455 N. Beachwood Drive	12/16/2011	20,761
10900 Washington	4/5/2012	9,919
901 Market Street	6/1/2012	212,319
Element LA	9/5/2012	247,545
1455 Gordon Street	9/21/2012	6,000
Pinnacle I(1)	11/8/2012	393,777
3401 Exposition	5/22/2013	63,376
Pinnacle II(1)	6/14/2013	231,864
First & King	7/31/2013	472,223
Met Park North	7/31/2013	190,748
Northview	7/31/2013	182,229
1861 Bundy	9/26/2013	36,492
Total		6,177,017

(1) These properties are owned by our joint venture with MDP/Worthe. As of December 31, 2012, we owned a 98.25% interest in the joint venture, which owned Pinnacle I as of that date. On June 14, 2013, MDP/Worthe contributed its interest in Pinnacle II to the joint venture, which reduced our interest in the joint venture to 65.0%.

All amounts and percentages used in this discussion of our results of operations are calculated using the numbers presented in the financial statements contained in this report rather than the rounded numbers appearing in this discussion.

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

Revenue

Total Office Revenue. Total office revenue consists of rental revenue, tenant recoveries, and parking and other revenue. Total office revenues increased $45.1 million, or 37.5%, to $165.4 million for the twelve months ended December 31, 2013 compared to $120.3 million for the twelve months ended December 31, 2012. The period-over-period changes in the items that comprise total revenue are attributable primarily to the factors discussed below. During the twelve months ended December 31, 2013, the Company entered into an agreement to sell its City Plaza property in Orange, California. Accordingly, the City Plaza property was reclassified as held for sale and its financial results are accounted for as discontinued operations for the twelve months ended December 31, 2013 and December 31, 2012.

Office Rental Revenue. Office rental revenue includes rental revenues from our office properties and percentage rent on retail space contained within those properties. Total office rental revenue increased $36.4 million, or 41.1%, to $124.8 million for the twelve months ended December 31, 2013 compared to $88.5 million for the twelve months ended December 31, 2012. The increase in rental revenue was primarily the result of operating results from the 901 Market property acquired on June 1, 2012, and the Pinnacle I and Pinnacle II buildings our joint venture with MDP/Worthe acquired on November 8, 2012 and June 14, 2013, respectively, and our acquisition of the Seattle Portfolio on July 31, 2013. During the twelve months ended December 31, 2013, the Company renewed 23 office leases encompassing approximately 232,967 rentable square feet. The weighted average initial stabilized cash rents for those renewed leases were 5.0% above the expiring cash rents for the same space and the weighted average initial straight-line rents on those renewed leases were 15.2% above the expiring straight-line rents for the same space.

Office Tenant Recoveries. Office tenant recoveries increased $3.8 million, or 17.4%, to $25.9 million for the twelve months ended December 31, 2013 compared to $22.0 million for the twelve months ended December 31, 2012. The increase in tenant recoveries was primarily the result of the 901 Market property acquired on June 1, 2012, the Pinnacle I and Pinnacle II buildings our joint venture with MDP/Worthe acquired on November 8, 2012 and June 14, 2013, respectively, and the Seattle Portfolio acquired on July 31, 2013.

Office Parking and Other Revenue. Office parking and other revenue increased $4.9 million, or 49.7% to $14.7 million for the twelve months ended December 31, 2013 compared to $9.8 million for the twelve months ended December 31, 2012. The increase in parking and other revenue was primarily the result of operating results from the 901 Market property acquired on June 1, 2012, the Pinnacle I and Pinnacle II buildings our joint venture with MDP/Worthe acquired on November 8, 2012 and June 14, 2013, respectively, and the Seattle Portfolio acquired on July 31, 2013, together with early lease termination payments from Bank of America relating to the Company's 1455 Market Street property of $1.6 million (after the write-off of non-cash items), with no comparable activity for the same period a year ago.

Total Media & Entertainment Revenue. Total media and entertainment revenue consists of rental revenue, tenant recoveries, other property-related revenue and other revenue. Total media and entertainment revenues remained relatively flat for the three months ended December 31, 2013 compared to the three months ended December 31, 2012. The items that contributed to the period-over-period total revenue results are discussed below.

Media & Entertainment Rental Revenue. Media and entertainment rental revenue includes rental revenues from our media and entertainment properties, percentage rent on retail space contained within those properties, and lease termination income. Total media and entertainment rental revenue decreased $0.6 million, or 2.5%, to $23.0 million for the twelve months ended December 31, 2013 compared to $23.6 million for the twelve months ended December 31, 2012. The decrease in rental revenue was primarily due to lower occupancy compared to the same period a year ago.

Media & Entertainment Tenant Recoveries. Tenant recoveries increased $0.2 million, or 13.1%, to $1.8 million for the twelve months ended December 31, 2013 compared to $1.6 million for the twelve months ended December 31, 2012. The increase in tenant recoveries was primarily due to higher equipment rental reimbursements at our Sunset Bronson property compared to the same period a year ago.

Media & Entertainment Other Property-Related Revenue. Other property-related revenue is revenue that is derived from the tenants' rental of lighting and other equipment, parking, power, HVAC and telecommunications (telephone and Internet). Total other property-related revenue increased $0.3 million, or 2.3%, to $15.1 million for the twelve months ended December 31, 2013 compared to $14.7 million for the twelve months ended December 31, 2012. The increase in other property-related revenue was primarily due to higher production activity compared to the same period a year ago.

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Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as property- and corporate-level general and administrative expenses, other property related expenses, management fees and depreciation and amortization. Total operating expenses increased by $31.4 million, or 21.5%, to $177.6 million for the twelve months ended December 31, 2013 compared to $146.2 million for the twelve months ended December 31, 2012. This increase in total operating expenses reflects the factors discussed below. During the twelve months ended December 31, 2013, the Company entered into an agreement to sell its City Plaza property in Orange, California. Accordingly, the City Plaza property was reclassified as held for sale and its financial results are accounted for as discontinued operations for the twelve months ended December 31, 2013 and December 31, 2012.

Office Operating Expenses. Office operating expenses increased $12.8 million, or 25.4%, to $63.4 million for the twelve months ended December 31, 2013 compared to $50.6 million for the twelve months ended December 31, 2012. The increase in operating expenses was primarily the result of operating results from the 901 Market property acquired on June 1, 2012, and the Pinnacle I and Pinnacle II buildings our joint venture with MDP/Worthe acquired on November 8, 2012 and June 14, 2013, respectively, and the Seattle Portfolio acquired on July 31, 2013. This increase in operating expenses also reflects a supplemental property tax expense associated with our Technicolor property which occurred in the twelve months ended December 31, 2012 of approximately $0.9 million, with no comparable activity in the twelve months ended December 31, 2013. If this supplemental property tax expense is disregarded, then operating expenses from continuing operations at the Company’s office properties would have increased by $13.8 million, or 27.7%, over the same period a year ago.

Media & Entertainment Operating Expenses. Media and entertainment operating expenses remained relatively flat for the twelve months ended December 31, 2013 compared to the twelve months ended December 31, 2012. Operating expenses for the twelve months of 2013 reflect a property tax reimbursement resulting from the reassessment of the Sunset Gower media and entertainment property of $0.8 million, with no comparable activity in the same period a year ago. If this supplemental property tax reimbursement is disregarded, then operating expenses from continuing operations at the Company’s media and entertainment properties would have increased by $0.6 million, or 2.5%, over the same period a year ago. This increase in operating expenses was the result of higher production activity compared to the same period a year ago.

General and Administrative Expenses. General and administrative expenses includes wages and salaries for corporate-level employees, accounting, legal and other professional services, office supplies, entertainment, travel, and automobile expenses, telecommunications and computer-related expenses, and other miscellaneous items. General and administrative expenses increased $3.5 million, or 20.9%, to $20.0 million for the twelve months ended December 31, 2013 compared to $16.5 million for the twelve months ended December 31, 2012. The increase in general and administrative expenses was primarily due to the adoption of the 2013 Out performance Program and increased staffing to meet operational needs stemming from growth through the acquisitions of office properties.

Depreciation and Amortization. Depreciation and amortization expense increased $15.3 million, or 28.0%, to $70.1 million for the twelve months ended December 31, 2013 compared to $54.8 million for the twelve months ended December 31, 2012. The increase was primarily the result of the 901 Market property acquired on June 1, 2012, the Pinnacle I and Pinnacle II buildings our joint venture with MDP/Worthe acquired on November 8, 2012 and June 14, 2013, respectively, and the Seattle Portfolio acquired on July 31, 2013.

Other Expense (Income)

Interest Expense. Interest expense increased $6.4 million or 33.6% to $25.5 million for the twelve months ended December 31, 2013 compared to $19.1 million for the twelve months ended December 31, 2012. At December 31, 2013, the Company had $931.3 million of notes payable compared to $582.1 million at December 31, 2012. The increase was primarily due to interest expenses for a full twelve months on the indebtedness associated with our First Financial and 10950 Washington properties, the increase in indebtedness associated with our 275 Brannan property financing on October 5, 2012, our 901 Market property financing on October 29, 2012, the indebtedness associated with the Pinnacle I and Pinnacle II buildings acquired on November 8, 2012 and June 14, 2013, respectively, and the indebtedness associated with the acquisition of the Seattle Portfolio.

Acquisition-related expenses. Acquisition-related expenses increased $0.4 million, or 37.6%, to $1.4 million for the twelve months ended December 31, 2013 compared to $1.1 million for the twelve months ended December 31, 2012. The increase in acquisition-related expenses was primarily due to higher expenses associated with the loan assumption in connection with the acquisition of Pinnacle II.

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Net (Loss) Income From Discontinued Operations

During the twelve months ended December 31, 2013, the Company entered into an agreement to sell its City Plaza property in Orange, California, for approximately $56.0 million (before certain credits, prorations and closing costs). Accordingly, the City Plaza property was reclassified as held for sale and its financial results are accounted for as discontinued operations for the twelve months ended December 31, 2013 and December 31, 2012. Income from discontinued operations associated with the City Plaza property increased $1.1 million, or 248.3%, to $1.6 million for the twelve months ended December 31, 2013 compared to $0.5 million for the twelve months ended December 31, 2012. The Company also recognized $5.6 million of impairment loss in the twelve months ended December 31, 2013 based the estimated loss on sale of the City Plaza property, with no comparable activity in the same period a year ago. As a result of the combined income from discontinued operations and impairment loss from discontinued operations, the Company experienced a net loss from discontinued operations of $4.0 million for the twelve months ended December 31, 2013 compared to net income from discontinued operations of $0.5 million for the twelve months ended December 31, 2012.

Net Loss

Net Loss for the twelve months ended December 31, 2013 was $2.6 million compared to net loss of $5.0 million for the twelve months ended December 31, 2012. The increase was primarily due to higher office operating revenues resulting from a full twelve months of operating results from the 901 Market property acquired on June 1, 2012, and the acquisition of the Pinnacle I and Pinnacle II buildings by our joint venture with MDP/Worthe on November 8, 2012 and June 14, 2013, respectively, and our acquisition of the Seattle Portfolio on July 31, 2013, all partially offset by higher office operating expenses, higher general and administrative expenses, higher interest expense, and net loss from discontinued operations associated with the disposition of the City Plaza property, all as described above.

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

Revenue

Total Office Revenue. Total office revenue consists of rental revenue, tenant recoveries, and parking and other revenue. Total office revenues increased $23.6 million, or 24.4%, to $120.3 million for the twelve months ended December 31, 2012 compared to $96.7 million for the twelve months ended December 31, 2011. The period-over-period changes in the items that comprise total revenue are attributable primarily to the factors discussed below.

Office Rental Revenue. Office rental revenue includes rental revenues from our office properties and percentage rent on retail space contained within those properties. Total office rental revenue increased $19.3 million, or 27.9%, to $88.5 million for the twelve months ended December 31, 2012 compared to $69.1 million for the twelve months ended December 31, 2011. The increase in rental revenue largely reflects a full year of operating results from office properties acquired in the second half of 2011 and the impact of office properties acquired in the second, third, and fourth quarters of 2012.

Office Tenant Recoveries. Office tenant recoveries remained relatively flat for the twelve months ended December 31, 2012 compared to the twelve months ended December 31, 2011.

Office Parking and Other Revenue. Office parking and other revenue increased $4.2 million, or 74.4%, to $9.8 million for the twelve months ended December 31, 2012 compared to $5.6 million for the twelve months ended December 31, 2011. The increase in parking and other revenue largely reflects a full year of operating results from office properties acquired in the second half of 2011 and the impact of office properties acquired in the second, third, and fourth quarters of 2012.

Total Media & Entertainment Revenue. Total media and entertainment revenue consists of rental revenue, tenant recoveries, other property-related revenue and other revenue. Total media and entertainment revenues increased $3.2 million, or 8.5%, to $40.1 million for the twelve months ended December 31, 2012 compared to $37.0 million for the twelve months ended December 31, 2011. The items that contributed to the period-over-period total revenue results are discussed below.

Media & Entertainment Rental Revenue. Media and entertainment rental revenue includes rental revenues from our media and entertainment properties, percentage rent on retail space contained within those properties, and lease termination income. Total media and entertainment rental revenue increased $2.0 million, or 9.2%, to $23.6 million for the twelve months ended December 31, 2012 compared to $21.6 million for the twelve months ended December 31, 2011. The increase in rental revenue was primarily due to higher rents and occupancy compared to the same period a year ago.

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Media & Entertainment Tenant Recoveries. Tenant recoveries remained relatively flat for the twelve months ended December 31, 2012 compared to the twelve months ended December 31, 2011.

Media & Entertainment Other Property-Related Revenue. Other property-related revenue is revenue that is derived from the tenants' rental of lighting and other equipment, parking, power, HVAC and telecommunications (telephone and internet). Total other property-related revenue increased $1.1 million, or 8.0%, to $14.7 million for the twelve months ended December 31, 2012 compared to $13.6 million for the twelve months ended December 31, 2011. The increase in other property-related revenue was primarily due to higher production activity and occupancy at our media and entertainment properties compared to the same period a year ago.

Operating Expenses

Total Operating Expenses. Total operating expenses consist of property operating expenses, as well as property- and corporate-level general and administrative expenses, other property related expenses, management fees and depreciation and amortization. Total operating expenses increased by $26.4 million, or 22.1%, to $146.2 million for the twelve months ended December 31, 2012 compared to $119.8 million for the twelve months ended December 31, 2011. This increase in total operating expenses reflects the factors discussed below.

Office Operating Expenses. Office operating expenses increased $8.3 million, or 19.6%, to $50.6 million for the twelve months ended December 31, 2012 compared to $42.3 million for the twelve months ended December 31, 2011. The increase in operating expenses largely reflects a full year of operating results from office properties acquired in the second half of 2011 and the impact of office properties acquired in the second, third, and fourth quarters of 2012.

Media & Entertainment Operating Expenses. Media and entertainment operating expenses increased $1.9 million, or 8.4%, to $24.3 million for the twelve months ended December 31, 2012 compared to $22.4 million for the twelve months ended December 31, 2011. The increase was primarily due to higher production activity and occupancy at our media and entertainment properties compared to the same period a year ago.

General and Administrative Expenses. General and administrative expenses includes wages and salaries for corporate-level employees, accounting, legal and other professional services, office supplies, entertainment, travel, and automobile expenses, telecommunications and computer-related expenses, and other miscellaneous items. General and administrative expenses increased $3.5 million, or 26.5%, to $16.5 million for the twelve months ended December 31, 2012 compared to $13.0 million for the twelve months ended December 31, 2011. The increase in general and administrative expenses was primarily due to the adoption of the 2012 Outperformance Program and increased staffing to meet operational needs arising from the acquisitions of office properties.

Depreciation and Amortization. Depreciation and amortization expense increased $12.8 million, or 30.4%, to $54.8 million for the twelve months ended December 31, 2012 compared to $42.0 million for the twelve months ended December 31, 2011. The increase was primarily due to the depreciation associated with a full year of operating results from office properties acquired in the second half of 2011 and the impact of office properties acquired in the second, third, and fourth quarters of 2012.

Other Expense (Income)

Interest Expense. Interest expense increased $1.6 million or 9.1% to $19.1 million for the twelve months ended December 31, 2012 compared to $17.5 million for the twelve months ended December 31, 2011. At December 31, 2012, we had $582.1 million of notes payable, compared to $399.9 million at December 31, 2011. The increase in interest expense was primarily due to the increase in indebtedness associated with the financing activity throughout 2012 on our First Financial, 10950 Washington, 901 Market, and Pinnacle I properties, as described above, and the full year impact of financings assumed in connection with properties acquired in the second half of 2011.

Acquisition-related expenses. Acquisition-related expenses decreased $0.6 million, or 37.9%, to $1.1 million for the twelve months ended December 31, 2012 compared to $1.7 million for the twelve months ended December 31, 2011. The decrease in acquisition-related expenses was primarily due to higher expenses associated with loans assumptions in connection properties acquired in the second half of 2011.

Net Loss

Net loss for the twelve months ended December 31, 2012 was $5.0 million compared to net loss of $2.2 million for the twelve months ended December 31, 2011. The increase in net loss was primarily due to higher operating expenses, higher general and administrative expenses, higher depreciation and amortization expenses, partially offset by higher revenues as a result of a full year of operating results from office properties acquired in the second half of 2011 and the impact of office properties acquired in the second, third, and fourth quarters of 2012, all as described above.

Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

We had approximately $30.4 million of cash and cash equivalents at December 31, 2013. In addition, the lead arrangers for our unsecured revolving credit facility have secured commitments that will allow borrowings of up to $250.0 million. As of December 31, 2013, we had total borrowing capacity of approximately $250.0 million under our unsecured revolving credit facility, $155.0 million of which had been drawn.

On January 28, 2014, we closed the public offering of 9,487,500 shares of our common stock. We used $155.0 million of proceeds from that stock offering to fully pay down the $155.0 million outstanding balance on our unsecured credit facility. On February 10, 2014 we drew $15.0 million in connection with our acquisition of the Merrill Place property. On February 27, 2014 we drew $20.0 million in connection with our acquisition of the 3402 Pico Boulevard property. As a result, we have total borrowing capacity of approximately $250.0 million under our unsecured revolving credit facility, $35.0 million of which has been drawn.

We have an At-the-Market, or ATM, program which allows us to sell up to $125.0 million of common stock, $12.6 million of which has been sold as of December 31, 2013.

We intend to use the unsecured revolving credit facility and ATM program, among other things, to finance the acquisition of other properties, to provide funds for tenant improvements and capital expenditures and to provide for working capital and other corporate purposes.

Based on the closing price of our common stock of $21.87 as of December 31, 2013, our ratio of debt to total market capitalization was approximately 39.2% (counting series A preferred units as debt) as of December 31, 2013. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total capitalization ratio), including restricted stock that we may issue to certain of our directors and executive officers, plus the aggregate value of common units not owned by us, plus the liquidation preference of outstanding series A preferred units and series B preferred stock, plus the book value of our total consolidated indebtedness.

Our short-term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, distributions to our limited partners and dividend payments to our stockholders required to maintain our REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through cash on hand, net cash provided by operations, reserves established from existing cash and, if necessary, by drawing upon our unsecured revolving credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for the repayment of debt at maturity, property acquisitions and non-recurring capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our unsecured revolving credit facility pending permanent financing.

We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about the Company.

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Consolidated Indebtedness

Senior Unsecured Revolving Credit Facility

On August 3, 2012, we replaced our $200.0 million secured revolving credit facility with a $250.0 million unsecured revolving credit facility with a group of lenders for which Wells Fargo Bank, N.A. acts as administrative agent and its affiliate acts as joint lead arranger, Bank of America, N.A. acts as joint lead arranger and, together with Barclays Capital Inc., acts as joint syndication agent, and Keybank, N.A., acts as documentation agent. Our Operating Partnership is the borrower under our new unsecured revolving credit facility. The facility is required to be guaranteed by us and all of our subsidiaries that own unencumbered properties. The unsecured revolving credit facility includes an accordion feature that allows us to increase the availability by $150.0 million, to $400.0 million, under specified circumstances and subject to receiving commitments from lenders.

Our unsecured revolving credit facility bears interest at a rate per annum equal to LIBOR plus 155 basis points to 220 basis points, depending on our leverage ratio. If the Company obtains a credit rating for its senior unsecured long term indebtedness, it may make an irrevocable election to change the interest rate for the unsecured revolving credit facility to a rate per annum equal to LIBOR plus 100 basis points to 185 basis points, depending on the credit rating. Our unsecured revolving credit facility is subject to a facility fee in an amount equal to our unused commitments multiplied by a rate per annum equal to 25 basis points to 35 basis points, depending on our usage of the unsecured revolving credit facility, or, if we make the credit rating election, in an amount equal to the aggregate amount of our commitments multiplied by a rate per annum equal to 15 basis points to 45 basis points, depending upon the credit rating. The amount available for us to borrow under the unsecured revolving credit facility is subject to compliance with certain covenants, including the following financial covenants:

- a maximum leverage ratio (defined as consolidated total indebtedness plus our pro rata share of indebtedness of unconsolidated affiliates to total asset value) of 0.60:1.00;
- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) plus our pro rata share of EBITDA of unconsolidated affiliates to fixed charges) of 1.50:1.00;
- a maximum secured indebtedness leverage ratio (defined as consolidated secured indebtedness plus our pro rata share of secured indebtedness of unconsolidated affiliates to total asset value) of 0.60:1:00 through and including August 3, 2014 and 0.55:1:00 thereafter;
- a maximum unencumbered leverage ratio (defined as consolidated unsecured indebtedness plus our pro rata share of unsecured indebtedness of unconsolidated affiliates to total unencumbered asset value) of 0.60:1:00;
- a minimum unsecured interest coverage ratio (defined as consolidated net operating income from unencumbered properties plus our pro rata share of net operating income from unencumbered properties to unsecured interest expense) of 1.60:1.00; and
- a maximum recourse debt ratio (defined as recourse indebtedness other than indebtedness under the unsecured revolving credit facility but including unsecured lines of credit to total asset value) of 0.15:1.00.

In addition to these covenants, our unsecured revolving credit facility also includes certain limitations on dividend payouts and distributions, limits on certain types of investments outside of our primary business, and other customary affirmative and negative covenants. Our ability to borrow under the unsecured revolving credit facility is subject to continued compliance with these covenants.
As of December 31, 2013, we were in compliance with our unsecured revolving credit facility’s financial covenants. As of December 31, 2013, we had total borrowing capacity of approximately $250.0 million under our unsecured revolving credit facility, $155.0 million of which had been drawn.

Outstanding Indebtedness

Our indebtedness creates the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on or other amounts in respect of our indebtedness and other obligations. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase.
As of December 31, 2013, we had outstanding notes payable of $926 million (before loan premium), of which $489.9 million, or 52.8%, was variable rate debt. $156.5 million of the variable rate debt is subject to the interest rate contracts described in footnotes 7 and 9 in the table below.

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The following table sets forth information as of December 31, 2013 with respect to our outstanding indebtedness (in thousands).

Debt	Outstanding December 31, 2013	December 31, 2012	Interest Rate[1]	Maturity Date
Unsecured Revolving Credit Facility	$155,000	$55,000	LIBOR+1.55% to 2.20%	8/3/2016
Mortgage loan secured by 625 Second Street[2]	—	33,700	5.85%	2/1/2014
Mortgage loan secured by 3401 Exposition Boulevard[3]	13,233	—	LIBOR+3.80%	5/31/2014
Mortgage loan secured by 6922 Hollywood Boulevard[4]	40,396	41,243	5.58%	1/1/2015
Mortgage loan secured by 275 Brannan	15,000	138	LIBOR+2.00%	10/5/2015
Mortgage loan secured by Pinnacle II[5]	88,540	—	6.313%	9/6/2016
Mortgage loan secured by 901 Market[6]	49,600	49,600	LIBOR+2.25%	10/31/2016
Mortgage loan secured by Element LA[7]	566	—	LIBOR+1.95%	11/1/2017
Mortgage loan secured by Sunset Gower/Sunset Bronson[8]	97,000	92,000	LIBOR+2.25%	2/11/2018
Mortgage loan secured by Rincon Center[9]	105,853	107,492	5.134%	5/1/2018
Mortgage loan secured by First & King[10]	95,000	—	LIBOR+1.60%	8/31/2018
Mortgage loan secured by Met Park North[11]	64,500	—	LIBOR+1.55%	8/1/2020
Mortgage loan secured by First Financial[12]	43,000	43,000	4.580%	2/1/2022
Mortgage loan secured by 10950 Washington[13]	29,300	29,711	5.316%	3/11/2022
Mortgage loan secured by Pinnacle I[14]	129,000	129,000	3.954%	11/7/2022
Subtotal	$925,988	$580,884		
Unamortized loan premium, net[15]	5,320	1,201		
Total	$931,308	$582,085		

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(1) Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed, excluding the amortization of loan fees and costs.

(2) This loan was assumed on September 1, 2011 in connection with the closing of our acquisition of the 625 Second Street property. We repaid this loan on November 1, 2013.

(3) This loan was assumed on May 22, 2013 in connection with the closing of our acquisition of the 3401 Exposition Boulevard property.

(4) This loan was assumed on November 22, 2011 in connection with the closing of our acquisition of the 6922 Hollywood Boulevard property. This loan is amortizing based on a 30-year amortization schedule.

(5) This loan was assumed on June 14, 2013 in connection with the contribution of the Pinnacle II building to the Company’s joint venture with MDP/Worthe. This loan bore interest only for the first five years. Beginning with the payment due October 6, 2011, monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule.

(6) On October 29, 2012, we obtained a loan for our 901 Market property pursuant to which we borrowed $49,600 upon closing, with the ability to draw up to an additional $11,900 for budgeted base building, tenant improvements, and other costs associated with the renovation and lease-up of that property.

(7) We have the ability to draw up to $65,500 for budgeted site-work, construction of a parking garage, base building, tenant improvement, and leasing commission costs associated with the renovation and lease-up of the property.

(8) On March 16, 2011, we purchased an interest rate cap in order to cap one-month LIBOR at 3.715% with respect to $50,000 of the loan through February 11, 2016. On January 11, 2012 we purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to $42,000 of the loan through February 11, 2016. Effective August 22, 2013, the terms of this loan were amended to increase the outstanding balance

from $92,000 to $97,000, reduce the interest rate from LIBOR plus 3.50% to LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018.

(9) This loan is amortizing based on a 30-year amortization schedule.

(10) This loan bears interest only for the first two years. Beginning with the payment due August 1, 2015, monthly debt service will include annual debt amortization payments of $1,604 based on a 30-year amortization schedule.

(11) This loan bears interest only at a rate equal to one-month LIBOR plus 1.55%. The full loan amount is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.1644% through the loan's maturity on August 1, 2020.

(12) This loan bears interest only for the first two years. Beginning with the payment due March 1, 2014, monthly debt service will include principal payments based on a 30-year amortization schedule, for total annual debt service of $2,639.

(13) This loan is amortizing based on a 30-year amortization schedule.

(14) This loan bears interest only for the first five years. Beginning with the payment due December 6, 2017, monthly debt service will include annual debt amortization payments based on a 30-year amortization schedule.

(15) Represents unamortized amount of the non-cash mark-to-market adjustment on debt associated with 6922 Hollywood Boulevard and Pinnacle II.

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Contractual Obligations

The following table provides information with respect to our commitments at December 31, 2013, including any guaranteed or minimum commitments under contractual obligations. The table does not reflect available debt extensions.

	Payments Due by Period				
Contractual Obligation	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Principal payments on mortgage loans[1]					