

Edgar Filing: Douglas Emmett Inc - Form 10-Q

Douglas Emmett Inc  
Form 10-Q  
May 09, 2018  
United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission file number 001-33106

Douglas Emmett, Inc.

(Exact name of registrant as specified in its charter)

Maryland

20-3073047

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

808 Wilshire Boulevard, Suite 200, Santa Monica, California 90401

(Address of principal executive offices)

(Zip Code)

(310) 255-7700

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer x

Accelerated filer "

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

Emerging growth company "

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

Edgar Filing: Douglas Emmett Inc - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at	May 4, 2018
Common Stock, \$0.01 par value per share	169,917,966	shares

1

---

DOUGLAS EMMETT, INC.  
FORM 10-Q

Table of Contents

	Page
<u>Glossary</u>	<u>3</u>
<u>Forward Looking Statements</u>	<u>5</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1 Financial Statements (unaudited)</u>	<u>6</u>
<u>Consolidated Balance Sheets</u>	<u>6</u>
<u>Consolidated Statements of Operations</u>	<u>7</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 4 Controls and Procedures</u>	<u>40</u>
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>41</u>
<u>Item 1A Risk Factors</u>	<u>41</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
<u>Item 3 Defaults Upon Senior Securities</u>	<u>41</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>41</u>
<u>Item 5 Other Information</u>	<u>41</u>
<u>Item 6 Exhibits</u>	<u>41</u>
 <u>SIGNATURES</u>	<u>42</u>

Table of Contents

Glossary

Abbreviations used in this Report:

AOCI	Accumulated Other Comprehensive Income (Loss)
ASU	Accounting Standards Update
ATM	At-the-Market
BOMA	Building Owners and Managers Association
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Internal Revenue Code of 1986, as amended
DEI	Douglas Emmett, Inc.
EPS	Earnings Per Share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFO	Funds from Operations
Fund X	Douglas Emmett Fund X, LLC
Funds	Unconsolidated institutional real estate funds (Fund X, Partnership X and Opportunity Fund)
GAAP	Generally Accepted Accounting Principles (United States)
JV	Joint Venture
LIBOR	London Interbank Offered Rate
LTIP Units	Long-Term Incentive Plan Units
NAREIT	National Association of Real Estate Investment Trusts
OCI	Other Comprehensive Income (Loss)
OP Units	Operating Partnership Units
Operating Partnership	Douglas Emmett Properties, LP
Opportunity Fund	Fund X Opportunity Fund, LLC
Partnership X	Douglas Emmett Partnership X, LP
PCAOB	Public Company Accounting Oversight Board (United States)
REIT	Real Estate Investment Trust
Report	Quarterly Report on Form 10-Q
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
TRS	Taxable REIT subsidiary(ies)
US	United States
VIE	Variable Interest Entity(ies)

Table of Contents

Glossary

Defined terms used in this Report:

Annualized Rent	Annualized cash base rent (excluding tenant reimbursements, parking and other income) before abatements under leases commenced as of the reporting date. Annualized rent for our triple net office leases is calculated by adding expense reimbursements and estimates of normal building expenses paid by tenants to base rent. Annualized rent does not include lost rent recovered from insurance and rent for building management use.
Consolidated Portfolio	Includes the properties in our consolidated results, which includes the properties owned by our consolidated JVs.
Funds From Operations (FFO)	We calculate FFO in accordance with the standards established by NAREIT by excluding gains (or losses) on sales of investments in real estate, real estate depreciation and amortization (other than amortization of deferred loan costs) from our net income (including adjusting for the effect of such items attributable to consolidated joint ventures and unconsolidated real estate funds, but not for noncontrolling interests included in our Operating Partnership). FFO is a Non-GAAP supplemental financial measure that we report because it is useful to our investors. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 for a discussion of FFO.
Net Operating Income (NOI)	We calculate NOI, a Non-GAAP measure, as revenue less operating expenses attributable to the properties that we own and operate. NOI is calculated by excluding the following from our net income: general and administrative expense, depreciation and amortization expense, other income, other expense, income, including depreciation, from unconsolidated real estate funds, interest expense, gains (or losses) on sales of investments in real estate and net income attributable to noncontrolling interests. NOI is a Non-GAAP supplemental financial measure that we report because it is useful to our investors. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 for a discussion of our Same Properties NOI.
Occupancy Rate	The percentage leased, excluding signed leases not yet commenced, as of the reporting date. Management space is considered leased and occupied, while space taken out of service during a repositioning is excluded from both the numerator and denominator for calculating percentage leased and occupied.
Recurring Capital Expenditures	Building improvements required to maintain revenues once a property has been stabilized, and excludes capital expenditures for (i) acquired buildings being stabilized, (ii) newly developed space, (iii) upgrades to improve revenues or operating expenses, (iv) casualty damage or (v) bringing the property into compliance with governmental requirements.
Rentable Square Feet	Based on the BOMA remeasurement and consists of leased square feet (including square feet with respect to signed leases not commenced as of the reporting date), available square feet, building management use square feet and square feet of the BOMA adjustment on leased space.
Same Properties	Our consolidated wholly-owned properties that have been owned and operated by us in a consistent manner, and reported in our consolidated results during the entire span of both periods being compared. We exclude from our same property subset any properties (i) acquired during the comparative periods; (ii) sold, held for sale, contributed or otherwise removed from our consolidated financial statements during the comparative periods; or (iii) that underwent a major repositioning project that we believed significantly affected its results during the comparative periods.
Short-Term Lease	Represents leases that expired on or before the reporting date or had a term of less than one year, including hold over tenancies, month to month leases and other short term occupancies.
Total Portfolio	Includes our Consolidated Portfolio plus the properties owned by our Funds.



## Table of Contents

### Forward Looking Statements

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

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

For further discussion of these and other risk factors see Item 1A. “Risk Factors” in our 2017 Annual Report on Form 10-K. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in

this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Douglas Emmett, Inc.

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2018	December 31, 2017
	Unaudited	
Assets		
Investment in real estate:		
Land	\$1,062,326	\$1,062,345
Buildings and improvements	7,914,592	7,886,201
Tenant improvements and lease intangibles	773,065	756,190
Property under development	96,920	124,472
Investment in real estate, gross	9,846,903	9,829,208
Less: accumulated depreciation and amortization	(2,067,299 )	(2,012,752 )
Investment in real estate, net	7,779,604	7,816,456
Property held for sale, net	17,576	—
Cash and cash equivalents	183,556	176,645
Tenant receivables, net	2,871	2,980
Deferred rent receivables, net	111,005	106,021
Acquired lease intangible assets, net	3,998	4,293
Interest rate contract assets	98,909	60,069
Investment in unconsolidated real estate funds	110,117	107,735
Other assets	16,264	18,442
Total Assets	\$8,323,900	\$8,292,641
Liabilities		
Secured notes payable and revolving credit facility, net	\$4,098,900	