


Douglas Emmett

Annual Report 2013


Dear Fellow Shareholders,

I am happy to report that we had another **record year** for both FFO and AFFO per share in 2013. Our FFO per share grew to $1.49, up 10% from 2012 and 27% from 2007, our first full year as a public company. Our AFFO per share increased to $1.18, up 12% from 2012. Even with the effects of the recession, **our AFFO on a per share basis has grown by 66% since 2007**, an average of 11% per year.

2013 saw another year of continued **improvement in our fundamentals**. We increased the leased rate for our office portfolio to 92.2% while raising office rental rates everywhere except Warner Center. Our trophy multifamily properties remained fully leased, also with strong rental rate growth.

Strong fundamentals support the **increased valuations** seen in recent office building sales, and new office development remains severely constrained by restrictive zoning laws relied upon by well-organized community groups. Aside from Warner Center, there has been **no significant Class A office construction** for over a decade and no significant new deliveries are on the horizon.

We have a **strong balance sheet** with low leverage and no remaining debt maturities during 2014. In 2013, we purchased two buildings for approximately $150 million, paid down over $200 million of debt, and increased our dividend to an annualized $0.80 per share; our dividend coverage is still one of the best in our peer group. Our two **multi-family development** projects continue to progress nicely, and we expect to break ground in Honolulu in 2014. We continue to actively pursue additional office and apartment acquisitions with our ample liquidity.

We enter 2014 with optimism and confidence in the strength of our markets as well as the many **varied and vibrant industries** supporting them. Recent job growth in West Los Angeles has been double that of the nation, with total payroll employment now 1.5% above 2007 peak levels.

Like every year, I promise that our entire team, including Ken, Ted, Dan and I, will continue to be committed to the high standards that have been the hallmark of Douglas Emmett for more than 40 years.

Sincerely,

Jordan L. Kaplan
President & CEO

DOUGLAS EMMETT, INC.

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Forward Looking Statements.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934 as amended (Exchange Act). You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Report. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this Report, or those which we may make orally or in writing from time to time, are based on our beliefs and assumptions, as well as information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following: adverse economic or real estate developments in Southern California and Honolulu; a general downturn in the economy, such as the recent global financial crisis; decreased rental rates or increased tenant incentive and vacancy rates; defaults on, early termination of, or non-renewal of leases by tenants; increased interest rates and operating costs; failure to generate sufficient cash flows to service our outstanding indebtedness; difficulties in raising capital for our unconsolidated institutional real estate funds; difficulties in identifying properties to acquire and completing acquisitions; failure to successfully operate acquired properties and operations; failure to maintain our status as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code); possible adverse changes in rent control laws and regulations; environmental uncertainties; risks related to natural disasters; lack or insufficient amount of insurance; inability to successfully expand into new markets and submarkets; risks associated with property development; conflicts of interest with our officers; changes in real estate zoning laws and increases in real property tax rates; and the consequences of any future terrorist attacks. For further discussion of these and other factors, see "Item 1A. Risk Factors" included in our 2013 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.

Business Overview

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

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

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

- **Concentration of High Quality Office and Multifamily Assets in Premier Submarkets.** First, we select submarkets that are supply constrained, with high barriers to entry, key lifestyle amenities, proximity to high-end executive housing and a strong, diverse economic base. Virtually no entitled Class A office space is currently under construction in any of our targeted submarkets. Our submarkets are dominated by small, affluent tenants, whose rent is very small relative to their revenues and often not the paramount factor in their leasing decisions. In addition, our diverse base of office tenants operates in a variety of legal, medical, entertainment, technology, financial and other professional businesses, reducing our dependence on any one industry. In 2013, 2012 and 2011, no tenant provided more than 10% of our total rental revenue and tenant reimbursements.
- **Disciplined Strategy of Acquiring Substantial Market Share.** Once we select a submarket, we follow a disciplined strategy of gaining substantial market share to provide us with extensive local transactional market information, pricing power in lease and vendor negotiations and an enhanced ability to identify and negotiate investment opportunities. As a result, we average about a 25% share of the Class A office space in our targeted submarkets.
- **Proactive Asset and Property Management.** Finally, our fully integrated focused operating platform provides the unsurpassed tenant service demanded in our submarkets, with in-house leasing, proactive asset and property management and internal design and construction services. We believe this provides a key competitive advantage in managing our office portfolio, which at December 31, 2013 consisted of 2,530 office leases, with a median size of approximately 2,400 square feet, and our 2,868 apartment units. Our property management group oversees day-to-day property management of both our office and multifamily portfolios, allowing us to benefit from the operational efficiencies permitted by our submarket concentration. Our in-house leasing agents and legal specialists allow us to manage and lease a large property portfolio with a diverse group of smaller tenants, closing an average of approximately three office leases each business day. Finally, our in-house construction company allows us to compress the time required for building out many smaller spaces, so that we can reduce the resulting structural vacancy.

Available Information

We make available free of charge on our website at www.douglasemmett.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, as soon as reasonably practicable after we file such reports with, or furnish them to, the Securities and Exchange Commission (SEC). None of the information on or hyperlinked from our website is incorporated into this Report.

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

Market for Common Stock; Dividends

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

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

Holders of Record

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

Dividend Policy

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

Sales of Unregistered Securities

None

Repurchases of Equity Securities

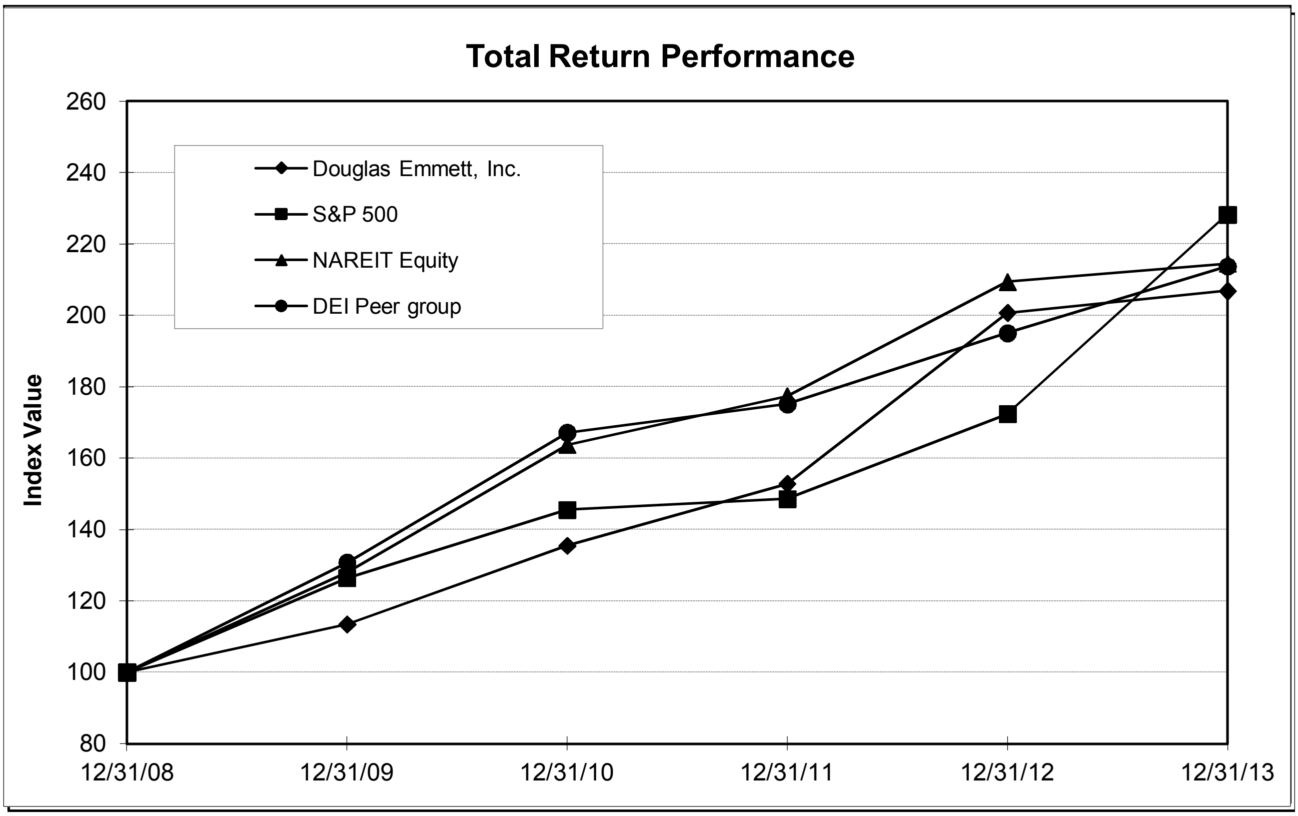
During 2013, we redeemed 13,000 of our operating partnership units for a total purchase price of $353,000 in cash, an average price of $26.68 per unit.

Performance Graph

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

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

Douglas Emmett, Inc.



	Period Ending					
Index	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**
Douglas Emmett, Inc.	100.00	113.45	135.46	152.84	200.73	206.85
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19
NAREIT Equity	100.00	127.99	163.78	177.36	209.39	214.56
DEI Peer group	100.00	130.75	167.14	175.11	195.02	213.75

**DEI Peer Group consist of Boston Properties, Inc. (BXP), Kilroy Realty Corporation (KRC), SL Green Realty Corp. (SLG), Vornado Realty Trust (VNO)*

Selected Financial Data

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data (in thousands):					
Total office revenues	$ 514,600	$ 505,276	$ 505,077	$ 502,700	$ 502,767
Total multifamily revenues	76,936	73,723	70,260	68,144	68,293
Total revenues	591,536	578,999	575,337	570,844	571,060
Operating income	178,691	175,810	152,474	140,027	148,358
Income (Loss) attributable to common stockholders	45,311	22,942	1,451	(26,423)	(27,064)
Per Share Data:					
Income (Loss) per share - basic	$ 0.32	$ 0.16	$ 0.01	$ (0.22)	$ (0.22)
Income (Loss) per share - diluted	$ 0.31	$ 0.16	$ 0.01	$ (0.22)	$ (0.22)
Weighted average common shares outstanding (in thousands):					
Basic	142,556	139,791	126,187	122,715	121,553
Diluted	174,802	173,120	159,966	122,715	121,553
Dividends declared per common share	$ 0.74	$ 0.63	$ 0.49	$ 0.40	$ 0.40

	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data (in thousands):					
Total assets	$ 5,847,789	$ 6,103,807	$ 6,231,602	$ 6,279,289	$ 6,059,932
Secured notes payable	3,241,140	3,441,140	3,624,156	3,668,133	3,273,459
Other Data:					
Number of consolidated properties(1)	61	59	59	59	58

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

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

Executive Summary

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and in Honolulu, Hawaii. We focus on owning and acquiring a substantial share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities.

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

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

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

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

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

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

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

Financings, Acquisitions, Dispositions, Development and Repositionings

Financings:

- During the fourth quarter of 2013, we closed a revolving credit facility of $300.0 million with a floating rate of LIBOR +1.40%, and a maturity of December 2017. See Note 6 to our consolidated financial statements included in this Report.
- During 2013, we also paid off a $240.0 million loan that was scheduled to mature on April 2015. We repaid $90.0 million of this loan during the first quarter of 2013 using a portion of our cash on hand, and repaid the remaining $150.0 million in the fourth quarter using $110.0 million from cash on hand and $40.0 million from our revolving credit facility. See Note 6 to our consolidated financial statements included in this Report.
- On April 30, 2013, one of our unconsolidated Funds closed a $325.0 million loan which matures on May 1, 2018 with a floating interest rate that we effectively fixed at 2.35% per annum until May 1, 2017. The proceeds of that loan, plus $40.0 million of additional cash, were used to pay down its outstanding debt of $365.0 million that was scheduled to mature in August 2013.

Acquisitions:

- During the first quarter of 2013, we purchased an additional 3.3% interest in Fund X and an additional 0.9% interest in Partnership X, for an aggregate of approximately $8.0 million in cash.
- On May 15, 2013, we used a portion of our cash on hand to purchase a 225,000 square foot Class A office building located at 8484 Wilshire Blvd. in Beverly Hills for a contract price of $89.0 million, or approximately $395 per square foot.
- On August 15, 2013, we purchased a 191,000 square foot Class A office building located at 16501 Ventura Blvd. in Encino for a contract price of $61.0 million, or approximately $319 per square foot.

Dispositions: We had no property dispositions during 2013.

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

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

Results of Operations and Basis of Presentation

The accompanying consolidated financial statements as of December 31, 2013 and 2012 and for the three years ended December 31, 2013, 2012 and 2011 are the consolidated financial statements of Douglas Emmett, Inc. and our subsidiaries including our operating partnership. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements. The comparability of our results of operations during this period was affected by a number of acquisitions: two properties that we acquired in 2013, one property acquired by one of our Funds during 2011, and additional interests that we acquired in our Funds in 2012 and 2013. See Notes 3 and 18 to our consolidated financial statements in Item 15 of this Report.

Funds From Operations

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

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

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

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

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

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

Rental Rate Trends

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

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

(1) Because straight-line rent takes into account the full economic value of each lease, including accommodations and rent escalations, we believe that it may provide a better comparison than ending cash rents, which include the impact of the annual escalations over the entire term of the lease. However, care should be taken in any comparison, as the averages are affected in each period by factors such as buildings, submarkets, types of space and term involved in the leases executed during the period.
(2) Represents the weighted average straight-line annualized base rent (i.e., excludes tenant reimbursements, parking and other revenue) per leased square foot for leases entered into within our total office portfolio. For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.
(3) Represents the weighted average leasing commissions and tenant improvement allowances under all office leases within our total office portfolio that were entered into during the applicable period, divided by the number of years of the lease.

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

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

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

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

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

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

Occupancy Rates

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

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

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

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

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

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

Revenues

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

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

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

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

Operating Expenses

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

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

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

Depreciation and Amortization: Depreciation and amortization expense increased by $6.5 million, or 3.5%, to $191.4 million for 2013 compared to $184.8 million for 2012. The increase was primarily due to depreciation and amortization of $4.0 million from properties that we owned during both comparable periods, as well as depreciation and amortization of $2.5 million from properties that we acquired in the second and third quarters of 2013. The increase in depreciation and amortization for our comparable properties reflects accelerated depreciation of tenant improvements as a result of a tenant bankruptcy at one of our office properties in Honolulu, as well as accelerated depreciation of a building for a property that we plan on redeveloping in 2015 in Los Angeles.

Non-Operating Income and Expenses

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

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

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

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

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

Revenues

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

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

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

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

Operating Expenses

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

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

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

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

Non-Operating Income and Expenses

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

Interest Expense: Interest expense decreased by \$1.8 million, or 1.2%, to \$146.7 million for 2012, compared to \$148.5 million for 2011. The decrease primarily reflects lower debt balances, lower non-cash amortization from interest rate swaps, and lower mark to market adjustments for swaps not designated as hedges, partly offset by lower amortization of non-cash loan premium. See Notes 6 and 8 to our consolidated financial statements included in this Report.

Liquidity and Capital Resources

Available Borrowings, Cash Balances and Capital Resources

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

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

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

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

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

Commitments

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

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

(1) For detail of the interest rates that determine our periodic interest payments related to our long-term debt obligations, see Note 6 to our consolidated financial statements included in this Report.
(2) For detail of the minimum lease payments, see Note 14 to our consolidated financial statements included in this Report.

Off-Balance Sheet Arrangements

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

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

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

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

(1) The loan was assumed by one of our Funds upon acquisition of the property securing the loan, and requires monthly payments of principal and interest. Interest on this loan is fixed.
(2) The loan is secured by six properties in a collateralized pool, requires monthly payments of interest only, and the outstanding principal is due upon maturity. The interest on this loan is effectively fixed by an interest rate swap which matures on May 1, 2017. We made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve outs under this loan, and also guaranteed the related swap, although we have an indemnity from that Fund for any amounts that we would be required to pay under these agreements. As of December 31, 2013, the maximum future payments under the swap agreement were approximately $6.6 million. As of December 31, 2013, all obligations under the loan and swap agreements have been performed by the Fund in accordance with the terms of those agreements.

Cash Flows

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

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

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

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

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

Critical Accounting Policies

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

Investment in Real Estate

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

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

Impairment of Long-Lived Assets

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of that asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of an investment in real estate or in one of our Funds, we record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the property or equity investment. These losses have a direct impact on our net income, because recording an impairment loss results in an immediate negative adjustment to net income. We record assets that we have determined to dispose at the lower of the carrying amount or our estimate of fair value, less costs to sell. The evaluation of anticipated cash flows and other values is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If our strategy changes or market conditions otherwise dictate an earlier sale date, we may recognize an impairment loss, which could be material.

Income Taxes

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

Revenue Recognition

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

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

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

Monitoring of Rents and Other Receivables

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

Stock-Based Compensation

We have awarded stock-based compensation to certain employees and members of our Board of Directors in the form of stock options and LTIP units. We recognize the estimated fair value of the awards over the requisite vesting period. We utilize a Black-Scholes model to calculate the fair value of options, which uses assumptions related to the stock, including volatility and dividend yield, as well as assumptions related to the stock award itself, such as the expected term and estimated forfeiture rate. Option valuation models require the input of somewhat subjective assumptions for which we have relied on observations of both historical trends and implied estimates as determined by independent third parties. For LTIP units, the fair value is based on the market value of our common stock on the date of grant and a discount for post-vesting restrictions estimated by a third-party consultant.

Financial Instruments

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

Interest Rate Agreements

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Consolidated Financial Statements of Douglas Emmett, Inc.

Report of Management on Internal Control over Financial Reporting

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

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

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

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, as stated in their report appearing on page 20, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2013.

/s/ JORDAN L. KAPLAN

Jordan L. Kaplan
Chief Executive Officer

/s/ THEODORE E. GUTH

Theodore E. Guth
Chief Financial Officer

February 27, 2014

Report of Independent Registered Public Accounting Firm

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Douglas Emmett, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

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

/s/ Ernst & Young LLP

Los Angeles, California
February 27, 2014

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

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

/s/ Ernst & Young LLP

Los Angeles, California
February 27, 2014

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

	December 31, 2013	December 31, 2012
Assets		
Investment in real estate:		
Land	$ 867,284	$ 851,679
Buildings and improvements	5,386,446	5,244,738
Tenant improvements and lease intangibles	759,003	690,120
Investment in real estate, gross	7,012,733	6,786,537
Less: accumulated depreciation	(1,495,819)	(1,304,468)
Investment in real estate, net	5,516,914	5,482,069
Cash and cash equivalents	44,206	373,203
Tenant receivables, net	1,760	1,331
Deferred rent receivables, net	69,662	63,192
Acquired lease intangible assets, net	3,744	4,707
Investment in unconsolidated real estate funds	182,896	149,478
Other assets	28,607	29,827
Total assets	$ 5,847,789	$ 6,103,807
Liabilities		
Secured notes payable	$ 3,241,140	$ 3,441,140
Interest payable, accounts payable and deferred revenue	52,763	45,171
Security deposits	35,470	34,284
Acquired lease intangible liabilities, net	59,543	67,035
Interest rate contracts	63,144	100,294
Dividends payable	28,521	25,424
Total liabilities	3,480,581	3,713,348
Equity		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, $0.01 par value 750,000,000 authorized, 142,605,390 and 141,245,896 outstanding at December 31, 2013 and December 31, 2012, respectively	1,426	1,412
Additional paid-in capital	2,653,905	2,635,408
Accumulated other comprehensive income (loss)	(50,554)	(82,991)
Accumulated deficit	(634,380)	(574,173)
Total Douglas Emmett, Inc. stockholders' equity	1,970,397	1,979,656
Noncontrolling interests	396,811	410,803
Total equity	2,367,208	2,390,459
Total liabilities and equity	$ 5,847,789	$ 6,103,807

See notes to consolidated financial statements.

Douglas Emmett, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Year Ended December 31, 2013	2012	2011
Revenues			
Office rental			
Rental revenues	$ 394,739	$ 391,447	$ 394,213
Tenant recoveries	45,144	44,093	43,914
Parking and other income	74,717	69,736	66,950
Total office revenues	514,600	505,276	505,077
Multifamily rental			
Rental revenues	71,209	68,262	65,343
Parking and other income	5,727	5,461	4,917
Total multifamily revenues	76,936	73,723	70,260
Total revenues	591,536	578,999	575,337
Operating Expenses			
Office expense	174,952	170,725	168,869
Multifamily expense	19,928	19,672	19,012
General and administrative	26,614	27,943	29,286
Depreciation and amortization	191,351	184,849	205,696
Total operating expenses	412,845	403,189	422,863
Operating income	178,691	175,810	152,474
Other income	6,402	2,821	3,179
Other expenses	(4,199)	(1,883)	(2,073)
Income (loss) including depreciation, from unconsolidated real estate funds	3,098	(1,710)	(2,867)
Interest expense	(130,548)	(146,693)	(148,455)
Acquisition-related expenses	(607)	—	—
Net income	52,837	28,345	2,258
Less: Net income attributable to noncontrolling interests	(7,526)	(5,403)	(807)
Net income attributable to common stockholders	$ 45,311	$ 22,942	$ 1,451
Net income attributable to common stockholders per share – basic	$ 0.32	$ 0.16	$ 0.01
Net income attributable to common stockholders per share – diluted	$ 0.31	$ 0.16	$ 0.01

See notes to consolidated financial statements.

Douglas Emmett, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$ 52,837	$ 28,345	$ 2,258
Other comprehensive income (loss): cash flow hedges	39,562	10,491	(37,011)
Comprehensive income (loss)	92,399	38,836	(34,753)
Less: comprehensive (income) loss attributable to noncontrolling interests	(14,651)	(9,705)	5,789
Comprehensive income (loss) attributable to common stockholders	$ 77,748	$ 29,131	$ (28,964)

See notes to consolidated financial statements.

Douglas Emmett, Inc.
Consolidated Statements of Equity
(in thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011
Shares of Common Stock			
Balance at beginning of period	141,246	131,070	124,131
Conversion of operating partnership units	1,359	3,239	714
Issuance of common stock	—	6,937	6,225
Balance at end of period	142,605	141,246	131,070
Common Stock			
Balance at beginning of period	$ 1,412	$ 1,311	$ 1,241
Conversion of operating partnership units	14	32	8
Issuance of common stock	—	69	62
Balance at end of period	$ 1,426	$ 1,412	$ 1,311
Additional Paid-in Capital			
Balance at beginning of period	$ 2,635,408	$ 2,461,649	$ 2,332,307
Conversion of operating partnership units	18,670	44,876	10,453
Repurchase of operating partnership units	(173)	—	—
Issuance of common stock	—	128,188	117,397
Stock compensation	—	695	1,492
Balance at end of period	$ 2,653,905	$ 2,635,408	$ 2,461,649
Accumulated Other Comprehensive Income (Loss)			
Balance at beginning of period	$ (82,991)	$ (89,180)	$ (58,765)
Cash flow hedge adjustment	32,437	6,189	(30,415)
Balance at end of period	$ (50,554)	$ (82,991)	$ (89,180)
Accumulated Deficit			
Balance at beginning of period	$ (574,173)	$ (508,674)	$ (447,722)
Net income	45,311	22,942	1,451
Dividends	(105,518)	(88,441)	(62,403)
Balance at end of period	$ (634,380)	$ (574,173)	$ (508,674)
Noncontrolling Interests			
Balance at beginning of period	$ 410,803	$ 450,849	$ 472,108
Net income	7,526	5,403	807
Cash flow hedge adjustment	7,125	4,302	(6,596)
Contributions	653	(10)	10
Distributions	(21,237)	(18,315)	(14,904)
Conversion of operating partnership units	(18,684)	(44,908)	(10,461)
Repurchase of operating partnership units	(180)	—	—
Stock compensation	10,805	13,482	9,885
Balance at end of period	$ 396,811	$ 410,803	$ 450,849
Total Equity			
Balance at beginning of period	$ 2,390,459	$ 2,315,955	$ 2,299,169
Net income	52,837	28,345	2,258
Cash flow hedge adjustment	39,562	10,491	(37,011)
Issuance of common stock	—	128,257	117,459
Repurchase of operating partnership units	(352)	—	—
Dividends	(105,519)	(88,441)	(62,403)
Contributions	653	(10)	10
Distributions	(21,237)	(18,315)	(14,904)
Stock compensation	10,805	14,177	11,377
Balance at end of period	$ 2,367,208	$ 2,390,459	$ 2,315,955
Dividends declared per common share	$ 0.74	$ 0.63	$ 0.49

See notes to consolidated financial statements.

Douglas Emmett, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Operating Activities			
Net income	$ 52,837	$ 28,345	$ 2,258
Adjustments to reconcile net income to net cash provided by operating activities:			
(Income) loss, including depreciation, from unconsolidated real estate funds	(3,098)	1,710	2,867
Depreciation and amortization	191,351	184,849	205,696
Net accretion of acquired lease intangibles	(15,693)	(18,094)	(20,466)
Amortization of deferred loan costs	4,214	4,211	4,512
Amortization of loan premium	—	(1,060)	(9,073)
Non-cash market value adjustments on interest rate contracts	88	8,956	16,497
Non-cash amortization of stock-based compensation	10,005	10,581	7,995
Operating distributions received from unconsolidated real estate funds	783	752	1,084
Change in working capital components:			
Tenant receivables	(429)	391	(131)
Deferred rent receivables	(6,470)	(4,511)	(9,748)
Accounts payable and accrued expenses	8,816	(6,873)	1,498
Security deposits	1,186	330	2,104
Other assets	383	786	3,799
Net cash provided by operating activities	243,973	210,373	208,892
Investing Activities			
Capital expenditures for improvements to real estate	(67,456)	(60,158)	(55,963)
Property acquisitions	(150,000)	—	—
Loan to related party	(2,882)	—	—
Loan payments received from related party	213	—	—
Contributions to unconsolidated real estate funds	(26,405)	(2,604)	(9,211)
Acquisitions of additional interests in unconsolidated real estate funds	(8,004)	(33,454)	—
Capital distributions received from unconsolidated real estate funds	7,518	4,699	4,164
Net cash used in investing activities	(247,016)	(91,517)	(61,010)
Financing Activities			
Proceeds from long-term borrowings	40,000	440,000	1,745,000
Deferred loan cost payments	(2,596)	(2,125)	(13,400)
Payment of refundable loan deposit	—	—	(1,575)
Refund of loan deposit	—	1,575	—
Repayment of borrowings	(240,000)	(621,956)	(1,779,904)
Contributions by noncontrolling interests	653	—	10
Distributions to noncontrolling interests	(21,237)	(18,315)	(15,090)
Distributions of capital to noncontrolling interests	—	(10)	—
Repurchase of operating partnership units	(352)	—	—
Cash dividends to common stockholders	(102,422)	(80,056)	(57,777)
Issuance of common stock, net	—	128,257	117,752
Termination of interest rate contracts	—	—	(8,340)
Net cash used in financing activities	(325,954)	(152,630)	(13,324)
(Decrease) Increase in Cash and Cash Equivalents	(328,997)	(33,774)	134,558
Cash and Cash Equivalents at Beginning of Year	373,203	406,977	272,419
Cash and Cash Equivalents at End of Year	$ 44,206	$ 373,203	$ 406,977
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 127,185	$ 134,830	$ 135,278

See notes to consolidated financial statements for additional non-cash items.

1. Overview

Organization and Description of Business

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT). We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and Honolulu, Hawaii. We focus on owning and acquiring a substantial share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities.

Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, as well as our investment in our two institutional unconsolidated real estate funds (Funds), we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties in Los Angeles County, California and Honolulu, Hawaii. As of December 31, 2013, we owned a consolidated portfolio of fifty-two office properties (including ancillary retail space) and nine multifamily properties, as well as the fee interests in two parcels of land subject to ground leases. Alongside our consolidated portfolio, we also manage and own equity interests in our Funds which, at December 31, 2013, owned eight additional office properties, for a combined sixty office properties in our total portfolio.

The terms "us," "we" and "our" as used in these financial statements refer to Douglas Emmett, Inc. and its subsidiaries.

Basis of Presentation

The financial statements presented are the consolidated financial statements of Douglas Emmett, Inc. and its subsidiaries, including our operating partnership. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements, and certain prior period amounts have been reclassified to conform with the current period presentation. Substantially all of our business is conducted through our consolidated operating partnership, in which other investors own a noncontrolling interest. See Note 9. Our business also includes a consolidated joint venture in which our operating partnership owns a two-thirds interest. The balances and results of the property owned by this consolidated joint venture are included in our financial statements.

The accompanying financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) in conformity with Generally Accepted Accounting Principles of the United States (GAAP) as established by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC), including modifications issued under Accounting Standards Updates (ASUs). The accompanying financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Any reference to the number of properties, square footage and geography, are unaudited and outside the scope of our independent registered public accounting firm's audit of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Segment Information

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate two business segments: the acquisition, development, ownership and management of office real estate, and the acquisition, development, ownership and management of multifamily real estate.

The products for our office segment include primarily rental of office space and other tenant services, including parking and storage space rental. The products for our multifamily segment include primarily rental of apartments and other tenant services, including parking and storage space rental. See Note 16.

Investments in Real Estate

We account for acquisitions of properties utilizing the purchase method, and include the results of operations of the acquired properties in our results of operations from their respective dates of acquisition. We expense transaction costs related to acquisitions when they are incurred.

When we acquire a property, we determine the fair values of the tangible assets on an "as-if-vacant" basis. We use estimates of future cash flows, comparable sales, other relevant information obtained in connection with the acquisition of the property, and other valuation techniques to allocate the purchase price of each acquired property between land, buildings and improvements, tenant improvements and leasing costs, and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market tenant leases, and acquired above- and below-market ground leases.

The estimated fair value of acquired in-place at-market tenant leases represents the estimated costs that we would have incurred to lease the property to the occupancy level of the property at the date of acquisition, including the fair value of leasing commissions and legal costs. Additionally, we evaluate the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period. We record above-market and below-market in-place lease intangibles as an asset or liability based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. Our initial valuations and allocations are subject to change until the allocation is finalized within 12 months after the acquisition date. See Note 3.

The values allocated to land, buildings and improvements, in-place leases, tenant improvements and leasing costs are depreciated on a straight-line basis using an estimated life of forty years for buildings; fifteen years for site improvements; the average term of existing leases in the building acquired for in-place lease values; and the respective lease term for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental income. The values of acquired above- and below-market ground leases are amortized over the life of the lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of operations. Any unamortized amounts relating to a lease that is terminated prior to its stated expiration are written off in the period of termination.

We charge expenditures for repairs and maintenance operations as incurred, and capitalize significant improvements and costs incurred in the execution of leases. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in discontinued operations for the period.

Interest, insurance, property taxes and other costs incurred during the period of construction of real estate are capitalized. Cost capitalization of development and redevelopment activities begins during the predevelopment period, which we define as activities that are necessary to the development of the property. We cease capitalization upon substantial completion of the project, but no later than one year from cessation of major construction activity. We also cease capitalization when activities necessary to prepare the property for its intended use have been suspended. For the year ended December 31, 2013 we capitalized $101 thousand of costs related to our multifamily developments in Honolulu and Brentwood, which includes $75 thousand of capitalized interest expense. We did not capitalize any costs during 2012 and 2011 related to development or redevelopment activities.

Investment in Unconsolidated Real Estate Funds

At December 31, 2013, we managed and held equity interests in two Funds: Fund X and Partnership X. We held a 68.61% interest in Fund X, and an aggregate 24.25% interest in the properties held by Partnership X and its subsidiaries. We account for our investments in the Funds using the equity method because we have significant influence, but not control over the entities. Our investment balance represents our share of the net assets of the combined Funds, additional basis of approximately $3.1 million (primarily due to the inclusion of the cost of raising capital that is accounted for as part of our investment basis), and a note receivable with an outstanding balance of $2.7 million. See Note 18.

Impairment of Long-Lived Assets

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the current carrying value exceeds the estimated undiscounted cash flows, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Based upon such periodic assessments, no impairments occurred during 2013, 2012 or 2011.

We assess whether there has been impairment in the value of our investments in our Funds periodically. An impairment charge is recorded when events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investments in our Funds is dependent on a number of factors, including the performance of the investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in one of our Funds is other-than-temporary. Based upon such periodic assessments, no impairment occurred during 2013, 2012 or 2011.

An asset is classified as an asset held for disposition when it meets certain requirements, including the approval of the sale of the asset, the marketing of the asset for sale, and our expectation that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset, excluding long-term debt, is included on the balance sheet as properties held for disposition, we cease to depreciate the asset, and the operating results of the asset are included in discontinued operations for all periods presented.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, we consider short-term investments with maturities of three months or less when purchased to be cash equivalents.

Revenue and Gain Recognition

Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; services are rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the term of the lease. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental revenues in the accompanying consolidated statements of operations, are recognized when the related lease is canceled and we have no continuing obligation to provide services to such former tenant. We recorded total lease termination revenue of $576 thousand for 2013, $985 thousand for 2012 and $444 thousand for 2011.

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

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

Monitoring of Rents and Other Receivables

We maintain an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. We take into consideration many factors to evaluate the level of reserves necessary, including historical termination/default activity and current economic conditions. As of December 31, 2013 and 2012, we had an allowance for doubtful accounts of $10.7 million and $14.7 million, respectively.

We generally do not require collateral or other security from our tenants other than letters of credit or cash security deposits. As of December 31, 2013 and 2012, we had a total of approximately $17.0 million and $19.1 million, respectively, of letters of credit held for security, as well as $35.5 million and $34.3 million, respectively, of cash security deposits.

Deferred Loan Costs

Costs incurred in issuing secured notes payable are capitalized. Deferred loan costs are included in other assets in the consolidated balance sheets at December 31, 2013 and 2012. The deferred loan costs are amortized to interest expense over the life of the respective loans. Any unamortized amounts upon early repayment of secured notes payable are written-off in the period of repayment. See Note 5.

Interest Rate Agreements

We generally manage our interest rate risk associated with floating rate borrowings by obtaining interest rate swap and interest rate cap contracts. The interest rate swap agreements that we utilize effectively modify our exposure to interest rate risk by converting our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. We do not use any other derivative instruments.

We record all derivatives on the balance sheet at fair value on a gross basis. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements and other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (a component of equity outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms. See Note 8.

Stock-Based Compensation

We account for stock-based compensation, including stock options and long-term incentive plan units, using the fair value method of accounting. The estimated fair value of the stock options and the long-term incentive units is amortized over their respective vesting periods. See Note 11.

Earnings Per Share

Basic earnings per share is calculated by dividing the net income attributable to common stockholders for the period by the weighted average of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income attributable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. See Note 10.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (IRC), commencing with our initial taxable year ending December 31, 2006. To qualify as a REIT, we are required (among other things) to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the IRC relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. If we fail to qualify as a REIT in any taxable year, and were unable to avail ourselves of certain savings provisions set forth in the IRC, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local jurisdictions, including those in which we transact business or reside. Our non taxable REIT subsidiaries, including our operating partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities (including limited partnerships and S-Corporations) is reportable in the income tax returns of the respective partners and stockholders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements.

We have elected to treat several of our subsidiaries as taxable REIT subsidiaries (TRS) which generally may engage in any business, including the provision of customary or non-customary services for our tenants. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. Our TRS subsidiaries did not have significant tax provisions or deferred income tax items for 2013, 2012 or 2011.

Recently Issued Accounting Literature

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standard Updates (ASUs). We consider the applicability and impact of all ASUs.

In February 2013, the FASB issued ASU No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date (Topic 405),* which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. ASU No. 2013-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which for us means the first quarter of 2014. When adopted, ASU 2013-04 applies retroactively for existing joint and several liability arrangements within the scope of Subtopic 405-40. Although earlier application is permitted, we do not intend to adopt the ASU before the effective date. We do not expect this ASU to have a material impact on our financial position or results of operations, as we do not currently have any obligations within the scope of this ASU.

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (Topic 815),* which permits for the inclusion of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the U.S. government (UST), and the London Interbank Offered Rate (LIBOR). The ASU amendments also remove the restriction on using different benchmark interest rates for similar hedges. ASU No. 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU did not have a material impact on our financial position or results of operations.

The FASB has not issued any other ASUs during 2013 or 2014 that we expect to be applicable and have a material impact on our future financial position or results of operations.

3. Investment in Real Estate

During 2013, we made two acquisitions: on May 15, 2013, we purchased a 225 thousand square foot Class A office building located at 8484 Wilshire Blvd. in Beverly Hills for a contract price of $89.0 million, or approximately $395 per square foot, and on August 15, 2013, we purchased a 191 thousand square foot Class A office building located at 16501 Ventura Blvd. in Encino for a contract price of $61.0 million, or approximately $319 per square foot. The results of operations for these acquired properties are included in our consolidated statements of operations after the respective date of their acquisitions. We did not acquire any properties during 2012 and 2011.

The tables below (in thousands) summarize our preliminary purchase price allocations for the acquired properties (these allocations are subject to adjustment within twelve months of the acquisition date):

	8484 Wilshire
Investment in real estate:	
Land	$ 8,847
Buildings and improvements	77,158
Tenant improvements and other in-place lease assets	6,485
Acquired lease intangibles, net	(3,490)
Net assets and liabilities acquired	$ 89,000

	16501 Ventura
Investment in real estate:	
Land	$ 6,759
Buildings and improvements	55,179
Tenant improvements and other in-place lease assets	4,736
Acquired lease intangibles, net	(5,674)
Net assets and liabilities acquired	$ 61,000

In addition, one of our unconsolidated Funds acquired a Class A office building located on Rodeo Drive in Beverly Hills in April 2011 for a contract price of $42.0 million.

4. Acquired Lease Intangibles

The following summarizes our acquired lease intangibles related to above/below-market leases (in thousands) as of December 31:

	2013	2012
Above-market tenant leases	$ 34,997	$ 34,968
Accumulated amortization	(33,899)	(32,985)
Below-market ground leases	3,198	3,198
Accumulated amortization	(552)	(474)
Acquired lease intangible assets, net	$ 3,744	$ 4,707
Below-market tenant leases	$ 272,413	$ 263,220
Accumulated accretion	(225,425)	(208,939)
Above-market ground leases	16,200	16,200
Accumulated accretion	(3,645)	(3,446)
Acquired lease intangible liabilities, net	$ 59,543	$ 67,035

Net accretion of above- and below-market in-place tenant lease value was recorded as an increase to rental income totaling $15.7 million for 2013, $18.1 million for 2012 and $20.5 million for 2011. The net accretion of above- and below-market ground lease value has been recorded as a decrease to office rental operating expense totaling $122 thousand for 2013, 2012 and 2011.

The following is the estimated net accretion at December 31, 2013 for the next five years (in thousands):

Year	
2014	$ 13,820
2015	11,565
2016	8,370
2017	3,544
2018	3,166
Thereafter	15,334
Total	$ 55,799

5. Other Assets

Other assets consisted of the following (in thousands) at December 31:

	2013	2012
Deferred loan costs, net of accumulated amortization of $9,395 and $8,245 at December 31, 2013 and December 31, 2012, respectively	$ 17,745	$ 19,362
Restricted cash	194	2,379
Prepaid expenses	5,747	4,049
Other indefinite-lived intangible	1,988	1,988
Other	2,933	2,049
Total other assets	$ 28,607	$ 29,827

We recognized deferred loan cost amortization expense of $4.2 million in 2013 and 2012, and $4.5 million in 2011. Deferred loan cost amortization is included as a component of interest expense in the consolidated statements of operations.

6. Secured Notes Payable

The following summarizes our secured notes payable (in thousands):

Description [1]	Maturity Date	Outstanding Principal Balance as of December 31, 2013	Outstanding Principal Balance as of December 31, 2012	Variable Interest Rate	Effective Annual Fixed Interest Rate [2]	Swap Maturity Date
Term Loan [3]	3/3/2014	$ 16,140	$ 16,140	LIBOR + 1.85%	N/A	--
Fannie Mae Loan [4]	2/1/2015	111,920	111,920	DMBS + 0.707%	N/A	--
Term Loan	4/1/2015	—	240,000	LIBOR +1.50%	N/A	--
Fannie Mae Loan	3/1/2016	82,000	82,000	LIBOR + 0.62%	N/A	--
Fannie Mae Loan	6/1/2017	18,000	18,000	LIBOR + 0.62%	N/A	--
Term Loan	10/2/2017	400,000	400,000	LIBOR + 2.00%	4.45%	7/1/2015
Term Loan	4/2/2018	510,000	510,000	LIBOR + 2.00%	4.12%	4/1/2016
Term Loan	8/1/2018	530,000	530,000	LIBOR + 1.70%	3.74%	8/1/2016
Term Loan [5]	8/5/2018	355,000	355,000	N/A	4.14%	--
Term Loan [6]	2/1/2019	155,000	155,000	N/A	4.00%	--
Term Loan [7]	6/5/2019	285,000	285,000	N/A	3.85%	--
Term Loan [8]	3/1/2020 [9]	350,000	350,000	N/A	4.46%	--
Fannie Mae Loans	11/2/2020	388,080	388,080	LIBOR + 1.65%	3.65%	11/1/2017
Aggregate loan principal		**3,201,140**	**3,441,140**			
Revolving credit line [10]	12/11/2017	40,000	—	LIBOR + 1.40%	N/A	--
Total [11]		**$ 3,241,140**	**$ 3,441,140**			
Aggregate amount of effectively fixed rate loans		$ 1,828,080	$ 2,168,080		3.98%	
Aggregate amount of fixed rate loans		1,145,000	1,145,000		4.15%	
Aggregate amount of variable rate loans		268,060	128,060		N/A	
Total [11]		**$ 3,241,140**	**$ 3,441,140**			

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(1) As of December 31, 2013, (i) the weighted average remaining life of our outstanding debt was 4.8 years ; (ii) of the $2.97 billion of debt on which the interest rate was fixed under the terms of the loan or a swap, the weighted average remaining life was 5.0 years, the weighted average remaining period during which interest was fixed was 3.4 years and the weighted average annual interest rate was 4.05%; and (iii) including the non-cash amortization of interest rate contracts and prepaid financing, the effective weighted average interest rate was 4.18%. Except as otherwise noted, each loan is secured by a separate collateral pool consisting of one or more properties, requiring monthly payments of interest only with outstanding principal due upon maturity.

(2) Includes the effect of interest rate contracts as of December 31, 2013, and excludes amortization of loan fees, all shown on an actual/360-day basis.

(3) The borrower is a consolidated entity in which our operating partnership owns a two-thirds interest.

(4) The loan has a $75.0 million tranche bearing interest at DMBS + 0.76% and a $36.9 million tranche bearing interest at DMBS + 0.60%.

(5) Interest-only until February 2016, with principal amortization thereafter based upon a 30-year amortization table.

(6) Interest-only until February 2015, with principal amortization thereafter based upon a 30-year amortization table.

(7) Interest only until February 2017, with principal amortization thereafter based upon a 30-year amortization table.

(8) Interest at a fixed interest rate until March 1, 2018 and a floating rate thereafter, with interest-only payments until March 2014 and payments thereafter based upon a 30-year amortization table.

(9) We have 2 one-year extension options, which would extend the maturity to March 1, 2020 from March 1, 2018, subject to meeting certain conditions.

(10) Revolving credit facility under which we can borrow up to $300.0 million, and which is secured by 3 separate collateral pools consisting of a total of 6 properties. We are charged unused fees on the unused balance ranging from 0.15% to 0.20%.

(11) See Note 12 for our fair value disclosures.

The minimum future principal payments due on our secured notes payable at December 31, 2013 were as follows (in thousands):

Twelve months ending December 31:		
2014	$	20,381
2015		120,297
2016		96,045
2017		477,967
2018		1,719,310
Thereafter		807,140
Total future principal payments	$	3,241,140

7. Interest Payable, Accounts Payable and Deferred Revenue

Interest payable, accounts payable and deferred revenue consist of the following (in thousands) as of December 31:

		2013		2012
Interest payable	$	9,263	$	10,203
Accounts payable and accrued liabilities		20,761		19,168
Deferred revenue		22,739		15,800
Total interest payable, accounts payable and deferred revenue	$	52,763	$	45,171

8. Interest Rate Contracts

Cash Flow Hedges of Interest Rate Risk

We make use of interest rate swap and interest rate cap contracts to manage the risk associated with changes in the interest rates on our floating-rate borrowings. When we enter into a floating-rate term loan, we generally enter into an interest rate swap agreement for the equivalent principal amount, for a period covering the majority of the loan term, which effectively converts our floating-rate debt to a fixed-rate basis during that time. In limited instances, we make use of interest rate caps to limit our exposure to interest rate increases on underlying floating-rate debt.

We may enter into derivative contracts that are intended to hedge certain economic risks, even though hedge accounting does not apply, or for which we elect to not apply hedge accounting. We do not use any other derivative instruments.

As of December 31, 2013, the totals of our existing swaps that qualified as highly effective cash flow hedges were as follows:

Interest Rate Derivative	Number of Instruments	Notional (in thousands)
Interest Rate Swaps	7	$1,828,080
Interest Rate Caps	2	$111,920

As of December 31, 2013, the totals of our Funds existing swaps that qualified as highly effective cash flow hedges were as follows:

Interest Rate Derivative	Number of Instruments	Notional (in thousands)
Interest Rate Swap	1	$325,000

Non-designated Hedges

Derivatives not designated as hedges are not speculative. As of December 31, 2013, we had the following outstanding interest rate derivatives that were not designated for accounting purposes as hedging instruments, but were used to hedge our economic exposure to interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional (in thousands)
Purchased Caps	4	$100,000

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision under which we could also be declared in default on our derivative obligations if we default on the underlying indebtedness that we are hedging, including any default where repayment of the indebtedness has not been accelerated by the lender. There have been no events of default with respect to any of our derivatives.

As of December 31, 2013 and 2012, the fair value of our derivatives in a net liability position, when aggregated by counterparty, was $67.2 million and $107.4 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements. As of December 31, 2013 and 2012, our Funds did not have any derivatives in a net liability position.

Accounting for Interest Rate Contracts

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

The change in net unrealized gains and losses related to our cash flow hedges reflects a reclassification from AOCI to interest expense, which increased interest expense by $36.3 million in 2013, $55.7 million in 2012 and $80.9 million in 2011. The change in net unrealized gains and losses related to our Fund's cash flow hedges reflects a reclassification from AOCI to income (loss) including depreciation, from unconsolidated real estate funds, which decreased the income (increased the loss) by $549 thousand in 2013, $5.5 million in 2012 and $6.6 million in 2011.

The cash flow swaps that we terminated in November 2010 had an AOCI balance of $13.9 million at the time they were terminated. Amortization of $3.5 million of this balance was included as part of the reclassification from AOCI to interest expense in 2010, and the remaining $10.4 million was reclassified in 2011. The cash flow swaps that we terminated in December 2011 had an AOCI balance of $10.1 million at the time they were terminated. Amortization of $1.3 million of this balance was included as part of the reclassification from AOCI to interest expense in 2011, and the remaining $8.8 million was reclassified from AOCI to interest expense in 2012.

We estimate an additional $35.3 million of our AOCI related to our derivatives designated as cash flow hedges will be reclassified as an increase to interest expense during the next twelve months, and $841 thousand of our AOCI related to our Funds derivatives designated as cash flow hedges will be reclassified as a decrease to income (loss) including depreciation, from unconsolidated real estate funds during the next twelve months.

The ineffectiveness attributable to mismatches between certain interest rate contracts and the corresponding items against which they were designated to hedge, that was reclassified from AOCI to interest expense, produced a loss of $85 thousand in 2013, and a gain of $4 thousand in 2012.

The ineffectiveness attributable to mismatches between certain interest rate contracts and the corresponding items against which they were designated to hedge produced a loss of $64 thousand in 2012, and a gain of $50 thousand in 2011.

Changes in fair value of derivatives not designated as hedges have been recognized in earnings for all periods. The aggregate net asset fair value of these swaps decreased by $4 thousand in 2013, $42 thousand in 2012 and $371 thousand in 2011. These decreases in net asset fair value were recorded as additional interest expense.

The table below (in thousands) presents the effect of our derivative instruments on our consolidated statements of operations for the year ended December 31:

	2013	2012
Derivatives Designated as Cash Flow Hedges:		
Gain (loss) recognized in other comprehensive income (OCI) (effective portion)	$ 903	$ (49,432)
Gain (loss) from unconsolidated investment in real estate funds recognized in other comprehensive income (OCI) (effective portion)	$ 1,779	$ (1,356)
Gain (loss) reclassified from AOCI into interest expense (effective portion) [1]	$ (36,247)	$ (55,748)
Gain (loss) from unconsolidated investment in real estate funds reclassified from AOCI into Income (loss), including depreciation, from unconsolidated real estate funds (effective portion)	$ (549)	$ (5,535)
Gain (loss) reclassified from AOCI into interest expense (ineffective portion and amount excluded from effectiveness testing)	$ (85)	$ 4
Gain (loss) on derivatives recognized in earnings under "interest expense" (ineffective portion and amount excluded from effectiveness testing)	$ —	$ (64)
Derivatives Not Designated as Cash Flow Hedges:		
Realized and unrealized gain (loss) recognized in interest expense	$ (4)	$ (42)

(1) The year ended December 31, 2012 includes a non-cash expense of $8.8 million related to the amortization of accumulated other comprehensive income balances on previously terminated swaps.

Fair Value Measurement

We record all derivatives on the balance sheet at fair value, using the framework for measuring fair value established by the FASB. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms. The table below (in thousands) presents the fair values of derivative instruments:

	2013	2012
Derivative assets disclosed within "Other Assets" [(1)]:		
Derivatives designated as accounting hedges	$ —	$ —
Derivatives not designated as accounting hedges	—	4
Total derivative assets	$ —	$ 4
Derivative liabilities disclosed as "Interest Rate Contracts":		
Derivatives designated as accounting hedges	$ 63,144	$ 100,294
Derivatives not designated as accounting hedges	—	—
Total derivative liabilities	$ 63,144	$ 100,294

(1) Included in the "other" line item of other assets. See Note 5.

9. Equity

We had 142.6 million shares of common stock and 29.1 million operating partnership units and fully-vested LTIP units outstanding as of December 31, 2013. Noncontrolling interests in our operating partnership relate to interests in our operating partnership that are not owned by us. Noncontrolling interests represented approximately 17% of our operating partnership as of December 31, 2013. A unit in our operating partnership and a share of our common stock have essentially the same economic characteristics, as they share equally in the total net income or loss distributions of our operating partnership. Investors who own units in our operating partnership have the right to cause our operating partnership to redeem any or all of their units in our operating partnership for an amount of cash per unit equal to the then current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis. Noncontrolling interests also include a one-third interest of a minority partner in a consolidated joint venture which owns an office building in Honolulu, Hawaii.

Equity Sales, Conversions and Repurchases

During 2011, approximately 714 thousand operating partnership units were converted to shares of our common stock, and we sold 6.2 million shares of our common stock in open market transactions under our ATM program for net proceeds of approximately $117.8 million after commissions and other expenses. During 2012, approximately 3.2 million units in our operating partnership were converted to shares of our common stock, and 6.9 million shares of our common stock were sold in open market transactions under our ATM program for net proceeds of approximately $128.3 million after commissions and other expenses. During 2013, approximately 1.4 million units in our operating partnership were exchanged for shares of our common stock and approximately 13 thousand units were redeemed for cash. We did not sell any shares of our common stock during 2013. During the third quarter of 2012, we instituted a new ATM program permitting sales of up to an additional $300.0 million of stock, none of which has been sold as of December 31, 2013.

The table below (in thousands) presents the net income attributable to common stockholders and transfers from the noncontrolling interests for the year ended December 31:

	2013	2012	2011
Net income attributable to common stockholders	$ 45,311	$ 22,942	$ 1,451
Transfers from the noncontrolling interests:			
Increase in common stockholders paid-in capital for redemption of operating partnership units	18,670	44,876	10,453
Change from net income attributable to common stockholders and transfers from noncontrolling interests	$ 63,981	$ 67,818	$ 11,904

The table below (in thousands) presents the changes in our AOCI balance, which consists solely of adjustments related to our cash flow hedges and the cash flow hedges of our unconsolidated Funds for the year ended December 31:

	2013	2012	2011
Balance at beginning of period	$ (82,991)	$ (89,180)	$ (58,765)
Other comprehensive income (loss) before reclassifications [1]	2,681	(50,788)	(124,504)
Amounts reclassified from accumulated other comprehensive income [2]	36,881	61,279	87,493
Net current period other comprehensive income (loss)	39,562	10,491	(37,011)
Less other comprehensive (income) loss attributable to noncontrolling interests	(7,125)	(4,302)	6,596
Other comprehensive income (loss) attributable to common stockholders	32,437	6,189	(30,415)
Balance at end of period	$ (50,554)	$ (82,991)	$ (89,180)

(1) Includes (i) fair value adjustments to our derivatives designated as cash flow hedges of $903 thousand, $(49.4) million and $(123.5) million in 2013 , 2012 and 2011, respectively, as well as (ii) our share of the fair value adjustments to derivatives designated as cash flow hedges of our unconsolidated Funds of $1.8 million, $(1.4) million and $(1.0) million in 2013, 2012 and 2011, respectively.

(2) Includes (i) a reclassification from AOCI to interest expense of $36.3 million, $55.7 million and $80.9 million in 2013, 2012 and 2011, respectively, of our derivatives designated as cash flow hedges, as well as (ii) a reclassification from AOCI to income (loss) including depreciation of our unconsolidated real estate funds of $549 thousand, $5.5 million and $6.6 million in 2013, 2012 and 2011, respectively, related to derivatives designated as cash flow hedges of our unconsolidated Funds.

During the fourth quarter of 2012, we increased our quarterly dividend from $0.15 per share to $0.18 per share, so that we paid aggregate dividends of $0.72 per share during 2013. Earnings and profits, which determine the taxability of distributions to stockholders, may differ from income reported for financial reporting purposes, due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, and compensation expense, and in the basis of depreciable assets and estimated useful lives used to compute depreciation. Our common stock dividends are classified for United States federal income tax purposes as follows (unaudited):

Record Date	Paid Date	Dividend Per Share	Ordinary Income	Capital Gain	Return of Capital
12/31/2012	1/15/2013	$0.18	$0.0486	$—	$0.1314
3/28/2013	4/15/2013	0.18	0.0486	—	0.1314
6/28/2013	7/15/2013	0.18	0.0486	—	0.1314
9/30/2013	10/15/2013	0.18	0.0486	—	0.1314
	Total:	**$0.72**	**$0.1944**	**$—**	**$0.5256**

10. Earnings Per Share

We calculate basic EPS by dividing the net income attributable to common stockholders for the year by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing the net income attributable to common stockholders and holders of equity in our consolidated operating partnership for the year by the weighted average number of common shares and dilutive instruments outstanding during the year using the treasury stock method. The table below presents the calculation of basic and diluted EPS:

	Year Ended December 31,		
	2013	2012	2011
Numerator (in thousands):			
Net income attributable to common stockholders	$ 45,311	$ 22,942	$ 1,451
Add back: Net income attributable to noncontrolling interests in our Operating Partnership	9,021	4,965	366
Numerator for diluted net income attributable to all equity holders	$ 54,332	$ 27,907	$ 1,817
Denominator (in thousands):			
Weighted average shares of common stock outstanding - basic	142,556	139,791	126,187
Effect of dilutive securities[1]:			
Operating partnership units and vested long term incentive plan (LTIP) units	28,381	30,251	31,840
Stock options	3,288	2,487	1,412
Unvested LTIP units	577	591	527
Weighted average shares of common stock and common stock equivalents outstanding - diluted	174,802	173,120	159,966
Basic earnings per share:			
Net income attributable to common stockholders per share	$ 0.32	$ 0.16	$ 0.01
Diluted earnings per share:			
Net income attributable to common stockholders per share	$ 0.31	$ 0.16	$ 0.01

(1) Diluted shares are calculated in accordance with GAAP, and represent ownership in our company through shares of common stock, units in our operating partnership, and other convertible equity instruments.

11. Stock-Based Compensation

2006 Omnibus Stock Incentive Plan

The Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan, as amended, our stock incentive plan, permits us to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, dividend equivalent rights and other stock-based awards. We had an aggregate of 18.9 million shares available for grant as of December 31, 2013, although “full value” awards (such as deferred stock awards, restricted stock awards and LTIP unit awards) are counted against our stock incentive plan overall limits as two shares (rather than one), while options and Stock Appreciation Rights are counted as one share (0.9 shares for options or Stock Appreciation Rights with terms of five years or less). The number of shares reserved under our stock incentive plan is also subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that are forfeited or canceled from awards under our stock incentive plan also will be available for future awards.

Our stock incentive plan is administered by the compensation committee of our board of directors. The compensation committee may interpret our stock incentive plan and may make all determinations necessary or desirable for the administration of our plan. The committee has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of our stock incentive plan. All full-time and part-time officers, employees, directors and other key persons (including consultants and prospective employees) are eligible to participate in our stock incentive plan.

Other stock-based awards under our stock incentive plan include awards that are valued in whole or in part by reference to shares of our common stock, including convertible preferred stock, convertible debentures and other convertible or exchangeable securities, partnership interests in a subsidiary or our operating partnership, awards valued by reference to book value, fair value or performance of a subsidiary and any class of profits interest or limited liability company membership interest. We have made certain awards in the form of a separate series of units of limited partnership interests in our operating partnership called long term incentive plan units ("LTIP Units"), which can be granted either as free-standing awards or in tandem with other awards under our stock incentive plan. Our LTIP Units were valued by reference to the value of our common stock at the time of grant, and are subject to such conditions and restrictions as the compensation committee may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives.

We grant equity compensation as a part of the annual incentive compensation to our key employees each year, a portion of which is fully vested at the date of grant, and the remainder of which vests in three equal annual installments over the three calendar years following the grant. We accrue compensation expense during each year for the portion of the annual bonuses which we expect to pay out in the form of immediately vested equity grants. Grants with respect to years prior to 2012, were awarded shortly after the respective year end, but commencing in 2012, we awarded the grants before the respective year end. Compensation expense for LTIP Units which are not vested at the grant date is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. Compensation expense for options which are not vested at the grant date is recognized on a straight-line basis over the requisite service period for the entire award. Certain amounts of equity compensation expense are capitalized for employees who provide leasing and construction services.

We granted LTIP Units to key employees totaling approximately 644 thousand in 2013, 1.2 million in 2012 and 623 thousand in 2011.

Each year, we grant LTIP Units to our non-employee directors which vest ratably over the year of grant in lieu of cash retainers; these awards totaled approximately 19 thousand in 2013, 46 thousand in 2012 and 23 thousand in 2011. Every three years, we also make long-term grants of LTIP Units to our non-employee directors vesting over the next three years. We made aggregate grants of this type to our directors of approximately 54 thousand units at the end of 2012. When a new director joins our board, we make pro rata grants vesting over the remainder of the three years; those grants totaled 1 thousand LTIP units in 2012 and 7 thousand units in 2011.

Total net equity compensation expense during 2013, 2012 and 2011 for equity grants was $10.0 million, $10.6 million, and $8.0 million, respectively. These amounts do not include (i) capitalized equity compensation totaling $800 thousand, $561 thousand, and $578 thousand during 2013, 2012 and 2011, respectively, and (ii) equity grants fully vested at the time of grant issued during 2013, 2012 and 2011 totaling $4.1 million, $3.0 million, and $2.8 million, respectively, to satisfy a portion of the annual bonuses that were accrued during the prior year. Total net equity compensation expense is include in general and administrative expenses in the consolidated statements of operations.

We calculate the fair value of the LTIP Units granted using the market value of our common stock on the date of grant, and a discount estimated by a third-party consultant for post-vesting restrictions. The total grant date fair value of LTIP Units which vested in 2013, 2012 and 2011 was $10.9 million, $13.5 million and $8.1 million, respectively. Total unrecognized compensation cost related to nonvested option and LTIP Unit awards was $9.1 million at December 31, 2013. This expense will be recognized over a weighted-average term of twenty-one months.

The following is a summary of certain information with respect to outstanding stock options granted under our stock incentive plan:

Stock Options:	**Number of Stock Options (thousands)**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contract Life (months)**	**Total Intrinsic Value (thousands)**
Outstanding at December 31, 2010	12,540	$ 18.10	84	$ 18,698
Granted	—			
Outstanding at December 31, 2011	12,540	18.10	72	26,051
Granted	—			
Outstanding at December 31, 2012	12,540	18.10	59	65,177
Granted	—			
Outstanding at December 31, 2013	12,540	18.10	47	65,051
Exercisable at December 31, 2013	12,540	18.10	47	$ 65,051

The following is a summary of certain information with respect to outstanding unvested LTIP Units granted under our stock incentive plan:

Unvested LTIP Units:	**Number of Units (thousands)**	**Weighted Average Grant Date Fair Value**
Outstanding at December 31, 2010	627	$ 11.99
Granted	653	12.62
Vested	(676)	12.01
Forfeited	(1)	14.92
Outstanding at December 31, 2011	603	12.64
Granted	1,255	15.26
Vested	(965)	13.76
Forfeited	(2)	17.43
Outstanding at December 31, 2012	891	15.12
Granted	663	15.26
Vested	(785)	14.15
Forfeited	(15)	21.52
Outstanding at December 31, 2013	754	15.63

12. Fair Value of Financial Instruments

Our estimates of the fair value of financial instruments at December 31, 2013 and 2012 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The FASB fair value framework includes a hierarchy that distinguishes between assumptions based on market data obtained from sources independent of the reporting entity, and the reporting entity's own assumptions about market-based inputs. Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable either directly or indirectly for similar assets and liabilities in active markets. Level 3 inputs are unobservable assumptions generated by the reporting entity.

The carrying amounts for cash and cash equivalents, tenant receivables, deferred rent receivables, interest payable, accounts payable and accrued liabilities, security deposits and dividends payable approximate fair value because of the short-term nature of these instruments.

We have typically financed our capital needs through short-term lines of credit and long-term secured mortgages. See Note 6. We calculate the fair value of our secured notes payable by calculating the credit-adjusted present value of the principal and interest payments related to our debt using current market interest rates (assuming the loans are outstanding through maturity) and any changes to underlying collateral. We have determined that the fair value of our secured notes payable is calculated using Level 2 inputs under the fair value hierarchy. At December 31, 2013, the aggregate fair value of our secured notes payable was estimated to be approximately $3.26 billion, compared to their carrying value of $3.24 billion. As of December 31, 2012, the aggregate fair value of our secured notes payable was estimated to be approximately $3.51 billion, compared to their carrying value of $3.44 billion.

We use interest rate swaps and caps to manage interest rate risk resulting from variable interest payments on our floating rate debt. See Note 8. These financial instruments are carried on our balance sheet at fair value based on assumptions used by market participants in pricing the asset or liability. The valuation of our interest rate swaps and caps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. We have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

We did not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2013.

The table below (in thousands) presents the derivative liabilities presented in our financial statements at their estimated fair value on a gross basis without reflecting any net settlement positions with the same counterparty:

	December 31, 2013	
	Assets	Liabilities
Level 1 - Quoted Prices in Active Markets for Identical Assets and Liabilities	$ —	$ —
Level 2 - Significant Other Observable Inputs	—	63,144
Level 3 - Significant Unobservable Inputs	—	—
Fair Value of Derivative Instruments	$ —	$ 63,144

13. Future Minimum Lease Receipts

We lease space to tenants primarily under non-cancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in our consolidated statements of operations as tenant recoveries.

We also lease space to certain tenants under noncancelable leases that provide for percentage rents based upon tenant revenues. Percentage rental income totaled $576 thousand for 2013, $658 thousand for 2012 and $591 thousand for 2011.

Future minimum base rentals on our non-cancelable office and ground operating leases at December 31, 2013 were as follows (in thousands):

Twelve months ending December 31:	
2014	$ 360,780
2015	312,956
2016	264,782
2017	215,556
2018	162,365
Thereafter	416,088
Total future minimum base rentals	$ 1,732,527

The above future minimum lease receipts exclude residential leases, which typically have a term of one year or less, as well as tenant reimbursements, amortization of deferred rent receivables, and amortization of acquired above/below-market lease intangibles. Some leases are subject to termination options, generally upon payment of a termination fee. The preceding table assumes that these termination options are not exercised.

14. Future Minimum Lease Payments

We currently lease portions of the land underlying two of our office properties. We expensed ground lease payments of $2.2 million for 2013, 2012 and 2011. We have a purchase option on one of these two leases, which we may exercise at any time prior to May 31, 2014 for a purchase price of $27.5 million. Because we have the ability and the intent to exercise this option, we have excluded payments under this lease from the future minimum rent payments in the table below. The following is a schedule (in thousands) of our minimum ground lease payments as of December 31, 2013:

Twelve months ending December 31:	
2014	$ 733
2015	733
2016	733
2017	733
2018	733
Thereafter	49,843
Total future minimum lease payments	$ 53,508

15. Commitments and Contingencies

Legal Proceedings

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

Concentration of Credit Risk

Our properties are located in Los Angeles County, California and Honolulu, Hawaii. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. We perform ongoing credit evaluations of our tenants for potential credit losses. In addition, we have financial instruments that subject us to credit risk, which consist primarily of accounts receivable, deferred rents receivable and interest rate contracts. We maintain our cash and cash equivalents at high quality financial institutions with investment grade ratings. Interest bearing accounts at each U.S. banking institution are insured by the Federal Deposit Insurance Corporation up to $250 thousand. We have not experienced any losses on our deposited cash.

Asset Retirement Obligations

Conditional asset retirement obligations represent a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within our control. A liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site assessments and investigations have identified twenty properties in our consolidated portfolio containing asbestos, which would have to be removed in compliance with applicable environmental regulations if these properties undergo major renovations or are demolished. As of December 31, 2013, the obligations to remove the asbestos from these properties have indeterminable settlement dates, and we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligation.

Guarantees

On April 30, 2013, one of our Funds closed a $325.0 million loan to refinance an existing loan. The new loan matures on May 1, 2018, and carries interest that is effectively fixed by an interest rate swap which matures on May 1, 2017. We made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve outs under this loan, and guaranteed the related swap, although we have an indemnity from the Fund for any amounts that we would be required to pay under these agreements. As of December 31, 2013 the maximum future payments under the swap agreement were approximately $6.6 million. As of December 31, 2013, all obligations under the loan and swap agreements have been performed by the Fund in accordance with the terms of those agreements.

Tenant Concentrations

In 2013, 2012 and 2011, no tenant accounted for more than 10% of our total rental revenue and tenant recoveries.

16. Segment Reporting

Segment information is prepared on the same basis that we review information for operational decision-making purposes. We operate in two business segments: (i) the acquisition, redevelopment, ownership and management of office real estate and (ii) the acquisition, redevelopment, ownership and management of multifamily real estate. The services for our office segment primarily include rental of office space and other tenant services, including parking and storage space rental. The services for our multifamily segment include rental of apartments and other tenant services, including parking and storage space rental.

Asset information by segment is not reported because we do not use this measure to assess performance or make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses and interest expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

Segment profit is not a measure of operating income or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Not all companies may calculate segment profit in the same manner. We consider segment profit to be an appropriate supplemental measure to net income because it can assist both investors and management in understanding the core operations of our properties.

The table below (in thousands) presents the operating activity of our reportable segments:

	Year Ended December 31,		
	2013	2012	2011
Office Segment			
Rental revenue	$ 514,600	$ 505,276	$ 505,077
Rental expense	(174,952)	(170,725)	(168,869)
Segment profit	339,648	334,551	336,208
Multifamily Segment			
Rental revenue	76,936	73,723	70,260
Rental expense	(19,928)	(19,672)	(19,012)
Segment profit	57,008	54,051	51,248
Total profit from all segments	$ 396,656	$ 388,602	$ 387,456

The table below (in thousands) is a reconciliation of the total profit from all segments to net income attributable to common stockholders:

	Year Ended December 31,		
	2013	2012	2011
Total profit from all segments	$ 396,656	$ 388,602	$ 387,456
General and administrative expenses	(26,614)	(27,943)	(29,286)
Depreciation and amortization	(191,351)	(184,849)	(205,696)
Other income	6,402	2,821	3,179
Other expenses	(4,199)	(1,883)	(2,073)
Income (loss), including depreciation, from unconsolidated real estate funds	3,098	(1,710)	(2,867)
Interest expense	(130,548)	(146,693)	(148,455)
Acquisition-related expenses	(607)	—	—
Net income	52,837	28,345	2,258
Less: Net income attributable to noncontrolling interests	(7,526)	(5,403)	(807)
Net income attributable to common stockholders	$ 45,311	$ 22,942	$ 1,451

17. Quarterly Financial Information (unaudited)

The tables below (in thousands, except per share amounts) present selected quarterly information for 2013 and 2012:

	Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Total revenue	$ 145,458	$ 148,716	$ 149,686	$ 147,676
Net income before noncontrolling interests	14,612	14,978	12,743	10,504
Net income attributable to common stockholders	12,082	13,635	10,751	8,843
Net income per common share - basic	$ 0.08	$ 0.10	$ 0.08	$ 0.06
Net income per common share - diluted	$ 0.08	$ 0.09	$ 0.07	$ 0.06
Weighted average shares of common stock outstanding - basic	142,440	142,581	142,598	142,603
Weighted average shares of common stock outstanding - diluted	174,579	175,252	174,756	174,600

	Three Months Ended			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Total revenue	$ 143,388	$ 146,468	$ 145,993	$ 143,150
Net income before noncontrolling interests	6,702	8,075	6,228	7,340
Net income attributable to common stockholders	5,386	6,527	5,055	5,974
Net income per common share - basic	$ 0.04	$ 0.05	$ 0.04	$ 0.04
Net income per common share - diluted	$ 0.04	$ 0.05	$ 0.04	$ 0.04
Weighted average shares of common stock outstanding - basic	138,399	139,651	140,301	140,795
Weighted average shares of common stock outstanding - diluted	171,816	173,193	173,825	173,660

18. Investments in Unconsolidated Real Estate Funds

We manage and own an equity interest in two Funds, Fund X and Partnership X, through which we and institutional investors own 8 buildings totaling 1.8 million square feet in our core markets. At December 31, 2013, we held a 68.61% interest in Fund X, and an aggregate 24.25% interest in the properties held by Partnership X.

During the first quarter of 2013, we acquired an additional 3.3% interest in Fund X, and an additional 0.9% interest in Partnership X, from an existing investor for an aggregate of approximately $8.0 million in cash. During the first quarter of 2012, we acquired an additional 16.3% interest in Fund X from existing investors for approximately $33.4 million in cash.

Our investment in our unconsolidated real estate funds includes a note receivable. On April 3, 2013, we loaned $2.9 million to a related party investor in connection with a capital call made by Fund X. The loan carries interest at one month LIBOR plus 2.5%, and is due and payable no later than April 1, 2017, with mandatory prepayments equal to any distributions with respect to the related party's interest in Fund X. As of December 31, 2013, the balance outstanding on the loan was $2.7 million.

The table below (in thousands) presents selected financial information for Fund X and Partnership X (on a combined basis). The accounting policies of Fund X and Partnership X are consistent with those of the Company. The amounts presented represent 100% (not our pro-rata share) of amounts related to these Funds, and are based upon historical acquired book value:

	Year Ended December 31,	
	2013	2012
Total revenues	$ 63,976	$ 61,475
Operating income	10,151	10,557
Net loss	(801)	(8,892)

	December 31, 2013	December 31, 2012
Total assets	$ 731,588	$ 741,490
Total liabilities	391,892	431,817
Total equity	339,696	309,673

OUR SENIOR MANAGEMENT

Dan A. Emmett
Executive Chairman

Jordan L. Kaplan
President & Chief Executive Officer

Kenneth M. Panzer
Chief Operating Officer

Theodore E. Guth
Chief Financial Officer

CORPORATE HEADQUARTERS

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Our SEC Filings, including
our latest 10-K and proxy statement, are
available on our website at

www.douglasemmett.com

OUR BOARD OF DIRECTORS

Dan A. Emmett
Chairman of the Board

Jordan L. Kaplan
President & Chief Executive Officer

Kenneth M. Panzer
Chief Operating Officer

Christopher H. Anderson
Real Estate Executive and Investor

Leslie E. Bider
Chief Executive Officer - PinnacleCare

Dr. David T. Feinberg
Chief Executive Officer UCLA Hospital System, Associate Vice Chancellor – UCLA Health Sciences

Thomas E. O'Hern
Senior Executive Vice President, Chief Financial Officer & Treasurer – Macerich Company

William E. Simon, Jr.
Co-chairman, William E. Simon & Sons, LLC

STOCK EXCHANGE

The New York Stock Exchange – NYSE
Ticker Symbol – DEI

LEGAL COUNSEL

Manatt I Phelps I Phillips LLP
Los Angeles, CA

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Los Angeles, CA

SHAREHOLDER ACCOUNT ASSISTANCE

Shareholder records are maintained by Douglas Emmett's Transfer Agent:

Computershare Investor Services, LLC
312.588.4990

ANNUAL MEETING

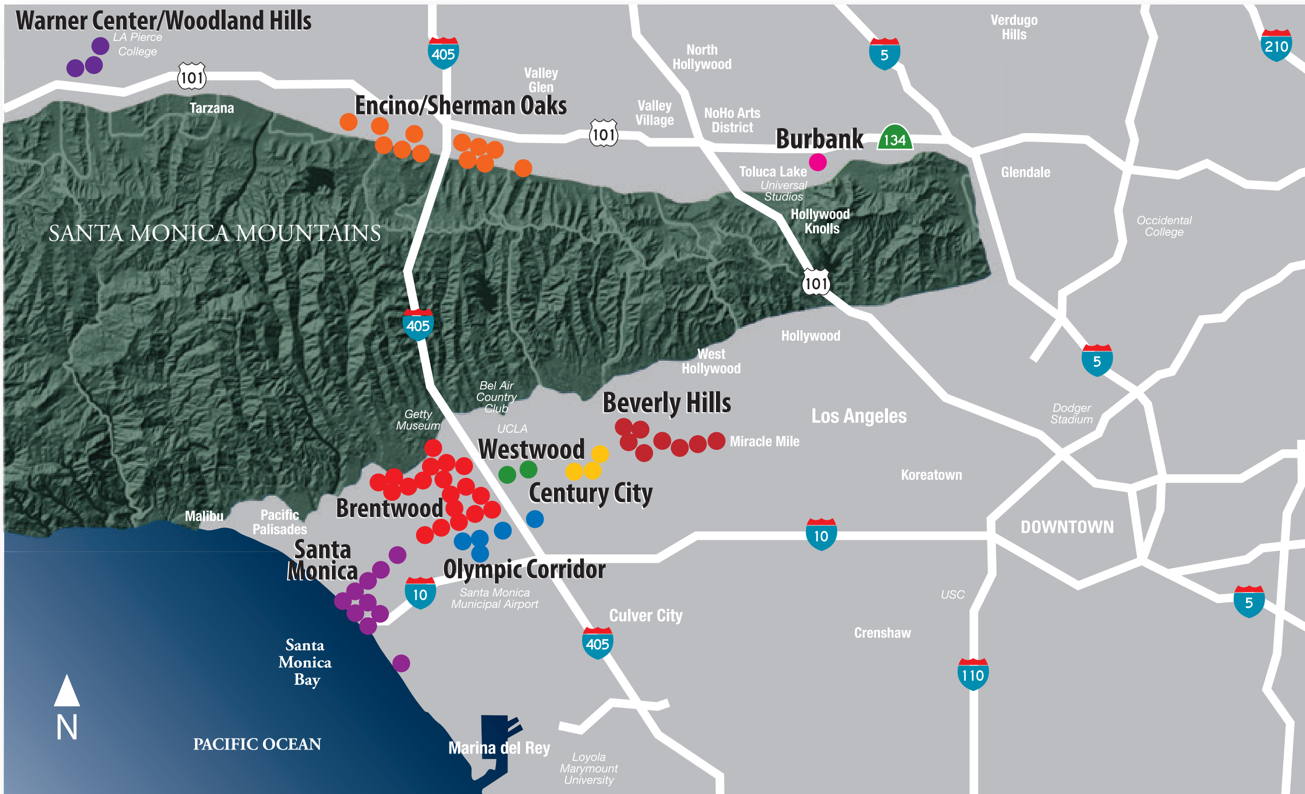
Le Meridien Delfina
530 Pico Boulevard
Santa Monica, CA 90405
May 29, 2014 9:00 a.m. (PDT)

At Douglas Emmett concern for the environment is ingrained in our corporate culture. We are committed to implementing and maintaining financially responsible sustainability programs in our properties. Through the years we have proactively introduced conservation and sustainability measures across our portfolio that have significantly reduced our energy consumption, increased our operational efficiencies and reduced our carbon footprint. We engage our service providers, suppliers, and tenants to join our mission and work with them to pursue opportunities where cost savings and social responsibility merge.

At Douglas Emmett we know that sustainability is a yard stick for both social responsibility and fiscal management. Simply put, thoughtful implementation of sustainable initiatives is good business.

Douglas Emmett

Map of Office and Residential Properties



Los Angeles Submarkets

- Warner Center/Woodland Hills
- Santa Monica
- Beverly Hills
- Westwood
- Burbank
- Century City
- Brentwood
- Encino/Sherman Oaks
- Olympic Corridor

Honolulu Submarket

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