



# Douglas Emmett

## ANNUAL REPORT 2017

Dear Fellow Shareholders,

We had an excellent year in 2017:

- We grew our Funds from Operations by 8.9% and our Adjusted Funds from Operations by 10.9%, raised our dividend by 9% and still have one of the best dividend coverage ratios in our peer group.
- We signed over 800 office leases, with straight line rents averaging 26.8% higher than the prior lease for the same space.
- We invested over \$300 million in acquisitions and in development projects, while simultaneously reducing our share of debt by over \$400 million and lowering our weighted-average annual fixed interest rate from 3.28% to 3.09%. With the exception of a loan on a residential development project, we have no term loans due until 2022.
- We purchased four great multi-tenant office buildings, two in Santa Monica and two in Beverly Hills, which fit perfectly with the strength of our small tenant operating platform. These acquisitions increased our market share to 71% in downtown Santa Monica, 27% in Beverly Hills and 28% across all our submarkets.
- Through continued investments in sustainability, we reduced our electrical usage per square foot by another 2.6%, our tenth consecutive year of lowering consumption. The EPA certified over 95% of our eligible office space as ENERGY STAR compliant, placing almost all of our buildings in the top 25 percent of office buildings nationwide in energy efficiency.
- At our Moanalua Hillside residential development in Honolulu, we completed and leased the first 60 units of our new 475 unit project. In Brentwood, we fully entitled our 376 unit, 34 story luxury apartment tower, the first new high rise residential property west of the 405 freeway in more than 40 years.

Looking forward, 2018 promises to be another strong year:

- The fundamentals in our markets remain strong, with rising rental rates reflecting robust demand across a diverse set of industries and virtually no overhang from new office space supply. Even after 10 years without any material new supply, the current construction pipeline in our submarkets still represents less than 50 basis points of existing supply.
- We expect to substantially complete our development project at Moanalua, including the remaining new apartments, a new fitness facility, a new pool and upgrades to the existing units. We have already begun construction on our new high rise in Brentwood.
- Construction is also underway at a number of accretive office property redevelopments and we are tracking potential acquisitions that could continue the strong external growth we have achieved in recent years.



As I do every year, I promise that the Douglas Emmett team will remain committed to the high standards that have been our hallmark for over 45 years and will work hard to deliver the same level of success.

Sincerely,

Jordan L. Kaplan  
President & CEO

# **DOUGLAS EMMETT, INC.**

## **ANNUAL REPORT**

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## Glossary

### Abbreviations used in this Report:

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

## Glossary

### Defined terms used in this Report:

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

## Forward Looking Statements

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

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

For further discussion of these and other risk factors see Item 1A. "Risk Factors" of our 2017 Annual Report on Form 10-K. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

## Business Description

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

At December 31, 2017, we owned a Consolidated Portfolio consisting of (i) a 16.5 million square foot office portfolio, (ii) 3,380 multifamily apartment units and (iii) fee interests in two parcels of land from which we receive rent under ground leases. We also manage and own equity interests in our unconsolidated Funds which, at December 31, 2017, owned an additional 1.8 million square feet of office space. We manage our unconsolidated Funds alongside our Consolidated Portfolio, and we therefore present the statistics for our office portfolio on a Total Portfolio basis. For more information, see Item 2 "Properties" of our 2017 Annual Report on Form 10-K. As of December 31, 2017, our portfolio consisted of the following (not including the two parcels of land from which we receive rent under ground leases):

	<b>Consolidated Portfolio</b>	<b>Total Portfolio</b>
<b><u>Office</u></b> (includes ancillary retail space)		
Wholly-owned properties	53	53
Consolidated JV properties	10	10
Unconsolidated Fund properties	—	8
	63	71
Rentable square feet (in thousands)	16,539	18,369
 <b><u>Multifamily</u></b>		
Wholly-owned properties	10	10
Units	3,380	3,380

### Business Strategy

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

- **Concentration of High Quality Office and Multifamily Properties in Premier Submarkets.**

First we select submarkets that are supply constrained, with high barriers to entry, key lifestyle amenities, proximity to high-end executive housing and a strong, diverse economic base. Virtually no entitled Class A office space is currently under construction in any of our targeted submarkets. Our submarkets are dominated by small, affluent tenants, whose rents are very small relative to their revenues and often not the paramount factor in their leasing decisions. At December 31, 2017, our office portfolio median size tenant was approximately 2,600 square feet. Our office tenants operate in diverse industries, including among others legal, financial services, entertainment, real estate, accounting and consulting, health services, retail, technology and insurance, reducing our dependence on any one industry. In 2015, 2016 and 2017, no tenant accounted for more than 10% of our total revenues.

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

Once we select a submarket, we follow a disciplined strategy of gaining substantial market share to provide us with extensive local transactional market information, pricing power in lease and vendor negotiations and an enhanced ability to identify and negotiate investment opportunities. As a result, we average approximately a 28% share of the Class A office space in our submarkets.

- **Proactive Asset and Property Management.**

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

### **Available Information**

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

Stuart McElhinney  
Vice President, Investor Relations  
310-255-7751  
[smcelhinney@douglasemmett.com](mailto:smcelhinney@douglasemmett.com)



## 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 NYSE under the symbol “DEI”. On December 29, 2017, the closing price of our common stock was \$41.06. The table below presents information for our common stock as reported by the NYSE:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2017</b>				
Dividend declared	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.25
Common Stock Price				
High	\$ 40.79	\$ 39.67	\$ 39.88	\$ 41.59
Low	\$ 35.98	\$ 37.12	\$ 36.60	\$ 39.13
<b>2016</b>				
Dividend declared	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.23
Common Stock Price				
High	\$ 31.00	\$ 35.53	\$ 38.71	\$ 39.25
Low	\$ 24.73	\$ 29.82	\$ 35.01	\$ 33.78

### Holders of Record

We had 16 holders of record of our common stock on February 9, 2018. Many of the shares of our common stock 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 quarterly dividends to common stockholders at the discretion of the board of directors. Dividend amounts depend upon our available cash flows, financial condition and capital requirements, annual distribution requirements under the REIT provisions of the Code, and such other factors as the board of directors deems relevant.

### Sales of Unregistered Securities

On December 20, 2017, in connection with the purchase of an office property located at 9401 Wilshire Boulevard, Beverly Hills, California, our Operating Partnership issued 2.6 million OP Units valued at \$105.7 million to the seller of the office property, as partial consideration for the purchase. Each OP Unit can be exchanged into one share of our common stock (or its cash equivalent at our option). This issuance did not involve underwriters, underwriter discounts or commissions or any public offering. We believe that the issuance of OP Units is exempt from the registration requirements of the Securities Act under Rule 506 of Regulation D promulgated under the Securities Act and Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering. There was no advertising, general promotion or other marketing undertaken in connection with the issuance. The investor represented and warranted that (i) it acquired the OP Units for investment purposes only and not for the purpose of further distribution; (ii) it had sufficient knowledge and experience in financial and business matters and the ability to bear the economic risk of its investment, and (iii) that the OP Units were taken for investment purposes and not with a view to resale in violation of applicable securities laws.

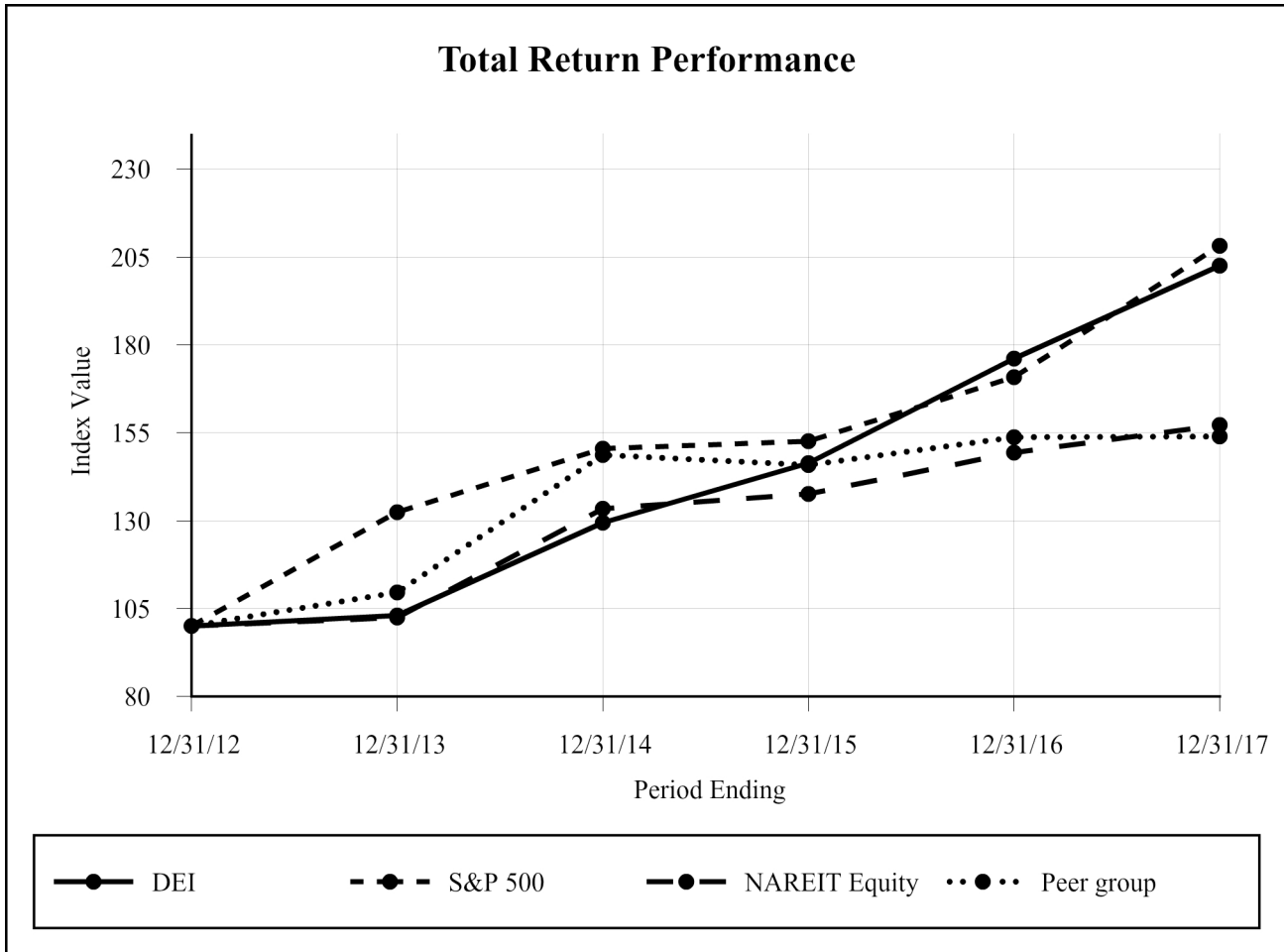
### Repurchases of Equity Securities

None.

## Performance Graph

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

The graph below compares the cumulative total return on our common stock from December 31, 2012 to December 31, 2017 to the cumulative total return of the S&P 500, NAREIT Equity and an appropriate “peer group” index (assuming a \$100 investment in our common stock and in each of the indexes on December 31, 2012, 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 presented in this graph is not necessarily indicative of, and is not intended to suggest, the total future return performance.



Index	Period Ending					
	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
DEI	100.00	103.05	129.41	146.30	176.06	202.53
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
NAREIT Equity <sup>(1)</sup>	100.00	102.47	133.35	137.61	149.33	157.14
Peer group <sup>(2)</sup>	100.00	109.58	148.67	145.80	153.75	153.94

(1) FTSE NAREIT Equity REITs index.

(2) Consists of Boston Properties, Inc. (BXP), Kilroy Realty Corporation (KRC), SL Green Realty Corp. (SLG), Vornado Trust (VNO) and Hudson Pacific Properties, Inc (HPP).

## Selected Financial Data

The table below presents selected consolidated financial and operating data and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements included in pages 10 and 27 of this Report, respectively.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
<b>Consolidated Statements of Operations Data (In thousands):</b>					
Total office revenues	\$ 715,546	\$ 645,633	\$ 540,975	\$ 519,405	\$ 514,583
Total multifamily revenues	\$ 96,506	\$ 96,918	\$ 94,799	\$ 80,117	\$ 76,936
Total revenues	\$ 812,052	\$ 742,551	\$ 635,774	\$ 599,522	\$ 591,519
Operating income	\$ 241,023	\$ 220,817	\$ 189,527	\$ 167,854	\$ 178,691
Net income attributable to common stockholders	\$ 94,443	\$ 85,397	\$ 58,384	\$ 44,621	\$ 45,311
<b>Per Share Data:</b>					
Net income attributable to common stockholders per share - basic	\$ 0.58	\$ 0.57	\$ 0.40	\$ 0.31	\$ 0.32
Net income attributable to common stockholders per share - diluted	\$ 0.58	\$ 0.55	\$ 0.39	\$ 0.30	\$ 0.31
<b>Weighted average common shares outstanding (in thousands):</b>					
Basic	160,905	149,299	146,089	144,013	142,556
Diluted	161,230	153,190	150,604	148,121	145,844
Dividends declared per common share	\$ 0.94	\$ 0.89	\$ 0.85	\$ 0.81	\$ 0.74

	As of December 31,				
	2017	2016	2015	2014	2013
<b>Balance Sheet Data (In thousands):</b>					
Total assets	\$ 8,292,641	\$ 7,613,705	\$ 6,066,161	\$ 5,938,973	\$ 5,830,044
Secured notes payable and revolving credit facility, net	\$ 4,117,390	\$ 4,369,537	\$ 3,611,276	\$ 3,419,667	\$ 3,223,395
<b>Property Data:</b>					
Number of consolidated properties <sup>(1)</sup>	73	69	64	63	61

(1) All properties are wholly-owned by our Operating Partnership, except for ten office properties owned by our consolidated JVs. The consolidated properties do not include the eight properties owned by our unconsolidated Funds.

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and related notes on page 27 of this Report. Our results of operations for the years ended December 31, 2017, 2016 and 2015 were affected by property acquisitions and dispositions - see Note 3 to our consolidated financial statements in this Report for more information.

### Business Description

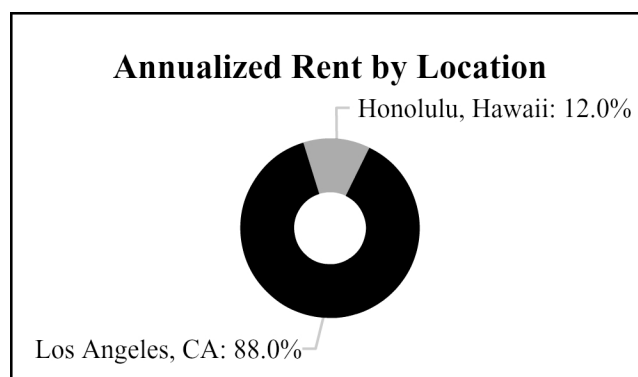
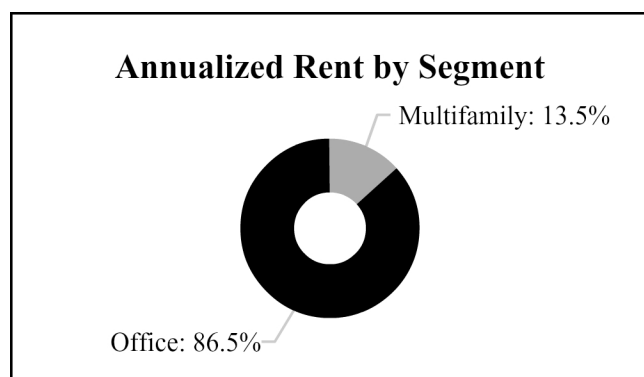
Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and in Honolulu, Hawaii. We focus on owning, acquiring, developing and managing a substantial 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. As of December 31, 2017, our portfolio consisted of the following:

	<u>Consolidated<sup>(1)</sup></u>	<u>Total Portfolio<sup>(2)</sup></u>
<b><u>Office</u></b>		
Class A Properties <sup>(3)</sup>	63	71
Rentable square feet (in thousands)	16,539	18,369
Leased rate	91.5%	91.4%
Occupied rate	89.9%	89.8%
<b><u>Multifamily</u></b>		
Properties	10	10
Units	3,380	3,380
Leased rate	98.8%	98.8%
Occupied rate	96.4%	96.4%

- (1) Our Consolidated Portfolio includes the properties in our consolidated results. We own 100% of these properties except for ten office properties totaling 2.8 million square feet, which we own through three consolidated JVs. Our Consolidated Portfolio also includes two parcels of land from which we receive ground rent from ground leases to the owners of a Class A office building and a hotel.
- (2) Our Total Portfolio includes our Consolidated Portfolio as well as eight properties totaling 1.8 million square feet owned by our unconsolidated Funds. See Note 5 to our consolidated financial statements in this Report for more information about our unconsolidated Funds.
- (3) Our office portfolio includes ancillary retail space.

### Annualized rent

As of December 31, 2017, annualized rent from our Consolidated Portfolio was derived as follows:



## Acquisitions, Financings, Developments and Repositionings

### Acquisitions

- During the second quarter of 2017, a consolidated JV that we manage and in which we own a 20% interest paid \$352.8 million to acquire two Class A office properties in Santa Monica, California.
- During the third quarter of 2017, the same consolidated JV paid \$177.0 million to acquire a Class A office property located in Beverly Hills, California.
- During the fourth quarter of 2017, we acquired a wholly-owned Class A office property located in Beverly Hills, California for \$143.6 million. We issued 2.6 million OP Units valued at \$105.7 million, assumed a \$32.3 million loan and paid \$4.7 million in cash to the seller.

See Note 3 to our consolidated financial statements in this Report for more information regarding these acquisitions.

### Financings

- During the second quarter of 2017:
  - We closed a secured, non-recourse \$550.0 million interest-only loan scheduled to mature in June 2027. The loan bears interest at LIBOR + 1.37%, which we have effectively fixed through an interest rate swap at 3.16% until June 2022. The loan is secured by four residential properties. Part of the proceeds were used to pay off an existing \$388.1 million loan that was secured by the same four properties.
  - One of our Funds closed a secured, non-recourse \$400.0 million interest-only loan scheduled to mature in July 2024. The loan bears interest at LIBOR + 1.65%, which we have effectively fixed at 3.44% for five years through an interest rate swap. The loan is secured by six office properties. Part of the proceeds were used to pay off an existing \$325.0 million loan that was secured by the same six properties.
  - We paid off a \$346.8 million loan that was scheduled to mature in August 2018.
  - We issued 9.1 million shares of common stock under our ATM program for net proceeds of \$346.0 million.
- During the third quarter of 2017:
  - We paid off a \$341.9 million loan that was scheduled to mature in March 2020.
  - We issued 6.6 million shares of common stock under our ATM program for net proceeds of \$247.4 million.
- During the fourth quarter of 2017:
  - A consolidated JV that we manage and in which we own a 20% interest closed a secured, non-recourse \$400.0 million interest-only loan scheduled to mature in December 2024. The loan bears interest at LIBOR + 1.30%, which we have effectively fixed at 3.47% for five years through an interest rate swap. The loan is secured by five office properties. Part of the proceeds were used to pay off an existing \$365.5 million loan that was secured by the same five properties.

See Notes 7 and 10 to our consolidated financial statements in this Report for more detail regarding our debt and equity, respectively. See Note 19 to our consolidated financial statements in this Report regarding financings that occurred in February 2018.

### Developments

We are developing two multifamily projects, one in our Brentwood submarket in Los Angeles, California, and one in Honolulu, Hawaii. Each development is on land which we already own:

- In West Los Angeles, we have received approval to build a high-rise apartment building with 376 apartments. We expect the cost of the development to be approximately \$180.0 million to \$200.0 million, which does not include the cost of the land or the existing underground parking garage, both of which we owned before beginning the project.
- At our Moanalua Hillside Apartments in Honolulu, we are building an additional 475 apartments (net of existing apartments removed), which we expect will cost approximately \$120.0 million excluding the cost of the land which we already owned before beginning the project. We also plan to invest additional capital to upgrade the existing apartments, improve the parking and landscaping, build a new leasing and management office, and construct a new recreation and fitness facility with a new pool. As of December 31, 2017, we had completed the construction of 60 apartments and placed them into service.



## 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 that 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. In addition to our Moanalua Hillside Apartments in Honolulu, described above under "Developments", as of December 31, 2017, we were repositioning two properties: (i) a 668,000 square foot office property in Woodland Hills, California, which included a 35,000 square foot gym, and (ii) an 80,000 square foot office property in Honolulu, Hawaii owned by a consolidated JV in which we own a two-thirds interest.

## Rental Rate Trends - Total Portfolio

### Office Rental Rates

The table below presents the average annual rental rate per leased square foot and the annualized lease transaction costs per leased square foot for leases executed in our total office portfolio during each period:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Average straight-line rental rate <sup>(1)(2)</sup>	\$44.48	\$43.21	\$42.65	\$35.93	\$34.72
Annualized lease transaction costs <sup>(3)</sup>	\$5.68	\$5.74	\$4.77	\$4.66	\$4.16

- (1) Because straight-line rent takes into account the full economic value of each lease, including rent concessions and 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 often significantly affected from period to period by factors such as the buildings, submarkets, and types of space and terms involved in the leases executed during the respective reporting period.
- (2) Reflects the weighted average straight-line annualized base rent (excludes tenant reimbursements, parking and other revenue) per leased square foot. For our triple net leases, annualized rent is calculated by adding estimated expense reimbursements to base rent.
- (3) Reflects the weighted average leasing commissions and tenant improvement allowances divided by the weighted average number of years for the leases.

### Office Rent Roll

The table below presents the rent roll for new and renewed leases per leased square foot executed in our total office portfolio during the year ended December 31, 2017:

Rent Roll <sup>(1)(2)</sup>	Straight-line Rent	Starting Cash Rent	Expiring Cash Rent
Leases signed during the period	\$44.48	\$42.81	N/A
Prior leases for the same space	\$35.07	\$34.33	\$38.68
Percentage change	26.8%	24.7%	10.7% <sup>(3)</sup>

- (1) Represents the average initial stabilized cash and straight-line rents on new and renewal leases signed during the quarter compared to the prior lease on the same space, excluding short-term leases and leases on space where the prior lease was terminated more than a year before signing of the new lease.
- (2) Our office rent roll can fluctuate from period to period as a result of changes in our submarkets, buildings and term of the expiring leases, making these metrics difficult to predict.
- (3) The percentage change for expiring cash rent represents the comparison between the starting cash rent on leases executed during the respective period and the expiring cash rent on the prior leases for the same space.

## Multifamily Rental Rates

The table below presents the average annual rental rate per leased unit for new tenants:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Average annual rental rate - new tenants <sup>(1)</sup>	\$ 28,501	\$ 28,435	\$ 27,936	\$ 28,870	\$ 27,392

- (1) 2016 and 2015 include the impact of a property acquisition in Honolulu at the end of 2014, so the numbers are not directly comparable with prior years.

## Multifamily Rent Roll

During 2017, average rent on leases to new tenants was 2.2% higher for the same unit at the time it became vacant.

## Occupancy Rates - Total Portfolio

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

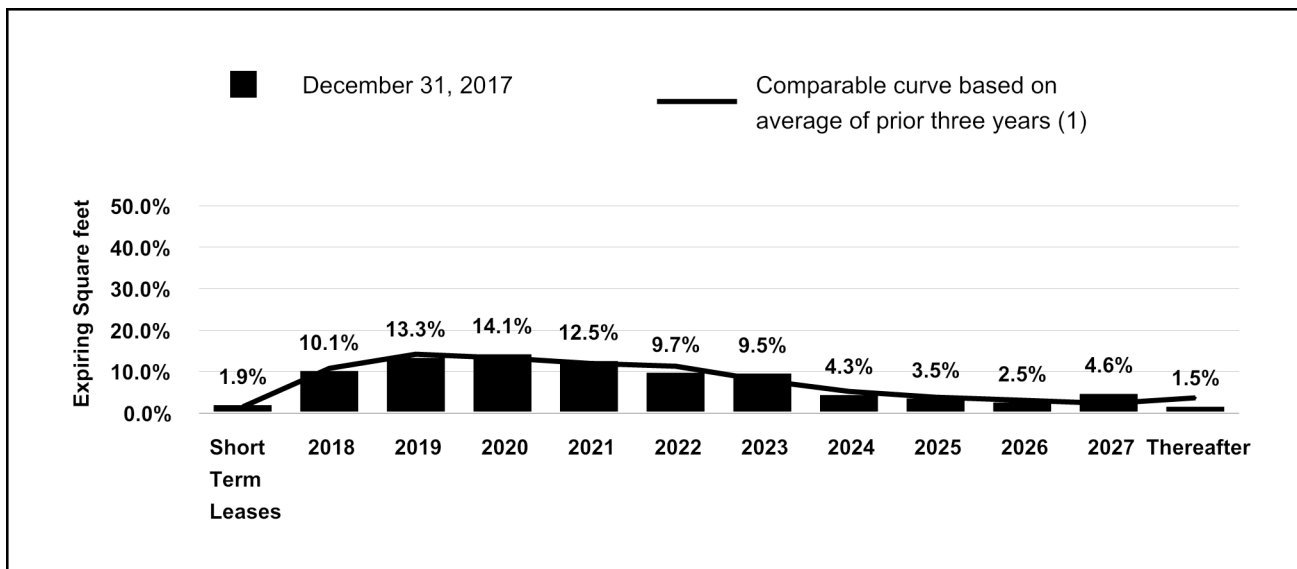
Occupancy Rates <sup>(1)</sup> as of:	December 31,				
	2017	2016	2015	2014	2013
Office portfolio	89.8%	90.4%	91.2%	90.5%	90.4%
Multifamily portfolio	96.4%	97.9%	98.0%	98.2%	98.7%

Average Occupancy Rates <sup>(1)(2)</sup> :	Year Ended December 31,				
	2017	2016	2015	2014	2013
Office portfolio	89.5%	90.6%	90.9%	90.0%	89.7%
Multifamily portfolio	97.2%	97.6%	98.2%	98.5%	98.6%

- (1) Occupancy rates include the impact of property acquisitions, most of whose occupancy rates at the time of acquisition were below that of our existing portfolio.
- (2) Average occupancy rates are calculated by averaging the occupancy rates at the end of each of the quarters in the period and at the end of the quarter immediately prior to the start of the period.

## Office Lease Expirations

As of December 31, 2017, assuming non-exercise of renewal options and early termination rights, we expect to see expiring square footage in our total office portfolio as follows:



- (1) Average of the percentage of leases at December 31, 2014, 2015, and 2016 with the same remaining duration as the leases for the labeled year had at December 31, 2017. Acquisitions are included in the prior year average commencing in the quarter after the acquisition.

## Results of Operations

### Comparison of 2017 to 2016

	(In thousands)			Percentage	Commentary
	2017	2016	Favorable (Unfavorable)		
<b>Revenues</b>					
Office rental revenue	\$ 552,846	\$ 498,214	\$ 54,632	11.0 %	The increase was due to rental revenues of \$45.6 million from properties that we acquired in 2016 and 2017 and an increase in rental revenues of \$12.1 million from the properties that we owned throughout both periods, partially offset by a decrease of \$3.1 million in rental revenues from a property that we sold during 2016. The increase from properties that we owned throughout both periods was primarily due to an increase in rental rates, partially offset by a decrease in occupancy and a decrease of \$1.5 million in the accretion from below-market leases.
Office tenant recoveries	\$ 54,006	\$ 46,847	\$ 7,159	15.3 %	The increase was due to tenant recoveries of \$3.4 million from properties that we acquired in 2016 and 2017 and an increase in tenant recoveries of \$3.8 million from the properties that we owned throughout both periods. The increase from properties that we owned throughout both periods was primarily due to an increase in recoverable operating costs.
Office parking and other income	\$ 108,694	\$ 100,572	\$ 8,122	8.1 %	The increase was due to parking and other income of \$5.1 million from properties that we acquired in 2016 and 2017 and an increase of \$3.5 million in parking and other income from properties that we owned throughout both periods, partially offset by a decrease of \$0.5 million in parking and other income from a property that we sold during 2016. The increase in parking and other income from properties that we owned throughout both periods primarily reflects increases in rates, partially offset by a decrease in occupancy.
Multifamily revenue	\$ 96,506	\$ 96,918	\$ (412)	(0.4)%	The decrease was due to a decrease of \$2.8 million in the accretion from below-market leases, partially offset by an increase of \$2.4 million in rental revenues and parking income. The decrease in the accretion from below-market leases was due to the completion in the fourth quarter 2016 of the amortization of below-market lease intangibles recorded at the time of our IPO. The increase in rental revenues and parking income was primarily due to an increase in rental rates.
<b>Operating expenses</b>					
Office rental expenses	\$ 233,633	\$ 214,546	\$ (19,087)	(8.9)%	The increase was due to rental expenses of \$17.3 million from properties that we acquired during 2016 and 2017 and an increase of \$3.2 million from properties that we owned throughout both periods, partially offset by a decrease of \$1.4 million from a property that we sold during 2016. The increase from properties that we owned throughout both periods was primarily due to an increase in personnel expenses, utilities and real estate taxes, partially offset by a decrease in parking expenses.
Multifamily rental expenses	\$ 24,401	\$ 23,317	\$ (1,084)	(4.6)%	The increase was due to a prior year excise tax refund of \$0.5 million in 2016 which offset expenses in that year and increases in scheduled services, personnel expenses and utilities in 2017.

	<u>(In thousands)</u>			Percentage	Commentary
	2017	2016	Favorable (Unfavorable)		
General and administrative	\$ 36,234	\$ 34,957	\$ (1,277)	(3.7)%	The increase was primarily due to an increase in personnel expenses.
Depreciation and amortization	\$ 276,761	\$ 248,914	\$ (27,847)	(11.2)%	The increase was primarily due to depreciation and amortization of \$24.6 million from properties that we acquired during 2016 and 2017 and an increase of \$3.7 million from properties that we owned throughout both periods, partially offset by a decrease of \$0.5 million from a property that we sold during 2016. The increase from the properties that we owned throughout both periods was primarily due to an increase in building improvements, tenant improvements and leasing commissions.
<b><u>Non-Operating Income and Expenses</u></b>					
Other income	\$ 9,712	\$ 8,759	\$ 953	10.9 %	The increase was primarily due to an increase in interest income and revenue from the health club that we own and operate.
Other expenses	\$ (7,037)	\$ (9,477)	\$ 2,440	25.7 %	The decrease was primarily due to \$2.8 million of acquisition-related expenses incurred in connection with the acquisition of properties by our consolidated JVs in 2016. We commenced capitalizing acquisition-related expenses in 2017 as a result of a change in accounting policy - see Note 2 to our consolidated financial statements in this Report.
Income, including depreciation, from unconsolidated real estate funds	\$ 5,905	\$ 7,812	\$ (1,907)	(24.4)%	The decrease was primarily due to an increase in interest expense and loan costs for one of our unconsolidated Funds related to a 2017 loan refinancing.
Interest expense	\$(145,176)	\$(146,148)	\$ 972	0.7 %	The decrease was due to a decrease in our Operating Partnership interest expense of \$13.3 million as a result of lower debt balances, partially offset by interest expense of \$12.3 million from debt related to our consolidated JV property acquisitions in 2016 and 2017.
Gains on sales of investments in real estate	\$ —	\$ 14,327	\$ (14,327)	(100.0)%	In 2016 we sold (i) a thirty-percent ownership interest in one of our consolidated JVs to a third party investor and recognized a gain of \$1.1 million, (ii) a thirty-five percent ownership interest in one of our consolidated JVs to a third party investor and recognized a gain of \$0.6 million and (iii) a wholly-owned office property and recognized a gain of \$12.7 million.



## Comparison of 2016 to 2015

	(In thousands)			Percentage	Commentary
	2016	2015	Favorable (Unfavorable)		
<b><u>Revenues</u></b>					
Office rental revenue	\$ 498,214	\$ 412,448	\$ 85,766	20.8 %	The increase was primarily due to rental revenues of \$77.2 million from properties that we acquired in 2015 and 2016 and an increase in rental revenues of \$9.4 million from the properties that we owned throughout both periods, partially offset by a decrease of \$0.8 million in rental revenues from a property that we sold during 2016. The increase in rental revenue from the properties that we owned throughout both periods was primarily due to an increase in rental rates, which was partially offset by a decrease of \$4.0 million in the accretion from below-market leases.
Office tenant recoveries	\$ 46,847	\$ 43,139	\$ 3,708	8.6 %	The increase was primarily due to tenant recoveries of \$4.4 million from properties that we acquired in 2015 and 2016, partially offset by a decrease of \$0.7 million in tenant recoveries for the properties that we owned throughout both periods. The decrease in tenant recoveries from the properties that we owned throughout both periods was primarily due to lower recoverable operating costs.
Office parking and other income	\$ 100,572	\$ 85,388	\$ 15,184	17.8 %	The increase was primarily due to parking and other income of \$10.4 million from properties that we acquired in 2015 and 2016, and an increase of \$4.9 million in parking and other income from properties that we owned throughout both periods, partially offset by a decrease in parking and other income of \$0.2 million from a property that we sold during 2016. The increase in parking and other income from the properties that we owned throughout both periods primarily reflects increases in rates.
Multifamily revenue	\$ 96,918	\$ 94,799	\$ 2,119	2.2 %	The increase was primarily due to increases in rental rates.
<b><u>Operating expenses</u></b>					
Office rental expenses	\$ 214,546	\$ 186,556	\$ (27,990)	(15.0)%	The increase was due to rental expenses of \$30.2 million from properties that we acquired in 2015 and 2016, partially offset by a decrease of \$1.7 million from properties that we owned throughout both periods and a decrease of \$0.5 million from a property that we sold during 2016. The decrease from properties that we owned throughout both periods was primarily due to a decrease in utilities expense.
Multifamily rental expenses	\$ 23,317	\$ 23,862	\$ 545	2.3 %	The decrease was primarily due to a prior year excise tax refund of \$0.5 million in 2016, which offset expenses in that year.

	(In thousands)			Percentage	Commentary
	2016	2015	Favorable (Unfavorable)		
General and administrative	\$ 34,957	\$ 30,496	\$ (4,461)	(14.6)%	The increase was primarily due to payroll taxes of \$1.5 million related to the exercise of options as well as a \$2.2 million increase in equity compensation expense.
Depreciation and amortization	\$ 248,914	\$ 205,333	\$ (43,581)	(21.2)%	The increase was primarily due to depreciation and amortization of \$40.4 million from properties that we acquired in 2015 and 2016.
<b><u>Non-Operating Income and Expenses</u></b>					
Other income	\$ 8,759	\$ 15,228	\$ (6,469)	(42.5)%	The decrease was primarily due \$6.6 million of accelerated accretion that we recognized in 2015 related to an above-market ground lease for which we acquired the underlying fee interest in the land in the first quarter of 2015 (Harbor Court Land).
Other expenses	\$ (9,477)	\$ (8,241)	\$ (1,236)	(15.0)%	The increase reflects the acquisition-related expenses for six office properties that our consolidated JVs acquired in 2016 compared to the acquisition-related expenses for only one wholly-owned office property that we acquired in 2015.
Income, including depreciation, from unconsolidated real estate funds	\$ 7,812	\$ 7,694	\$ 118	1.5 %	The increase was primarily due to an increase in rental revenues, which primarily reflects an increase in rental rates.
Interest expense	\$(146,148)	\$(135,453)	\$ (10,695)	(7.9)%	The increase was due to interest expense of \$14.2 million from new debt related to our JV acquisitions in 2016, partially offset by a decrease in interest expense of \$3.5 million for our Operating Partnership as a result of refinancing at lower interest rates in 2015 and 2016.
Gains on sales of investments in real estate	\$ 14,327	\$ —	\$ 14,327	100.0 %	In 2016 we sold (i) a thirty-percent ownership interest in one of our consolidated JVs to a third party investor and recognized a gain of \$1.1 million, (ii) a thirty-five percent ownership interest in one of our consolidated joint ventures to a third party investor and recognized a gain of \$0.6 million and (iii) a wholly-owned office property and recognized a gain of \$12.7 million.

## Non-GAAP Supplemental Financial Measure: FFO

### Usefulness to Investors

We report FFO because it is a widely reported measure of the performance of equity REITs, and is also used by some investors to identify trends in occupancy rates, rental rates and operating costs from year to year, and to compare our performance with other REITs. FFO is a non-GAAP financial measure for which we believe that net income is the most directly comparable GAAP financial measure. FFO has limitations as a measure of our performance because it excludes depreciation and amortization of real estate, and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures, tenant improvements 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. FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a measure of our liquidity or cash flow, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends. Other REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to the FFO of other REITs. See "Results of Operations" for a discussion of the items that impacted our net income.

### Comparison of 2017 to 2016

Our FFO increased by \$29.0 million, or 8.9%, to \$354.7 million for 2017 compared to \$325.7 million for 2016, which was primarily due to (i) an increase in operating income from our office portfolio due to property acquisitions in 2016 and 2017 and increasing rental rates, (ii) a decrease in other expenses as a result of acquisition-related costs we expensed in 2016, while similar costs were capitalized in 2017 as a result of the adoption of an ASU in 2017, and (iii) a decrease in interest expense due to lower debt balances, partially offset by (a) a decrease in the operating income from our multifamily portfolio due to a decrease in the accretion from below-market leases due to the completion in 2016 of the amortization of below-market lease intangibles recorded at the time of our IPO, and an excise tax refund of \$0.5 million that reduced our multifamily operating expenses in 2016, (b) an increase in general and administrative expenses due an increase in personnel costs, and (c) a decrease in the FFO of our Funds due to an increase in interest expense and loan costs related to the refinancing of a loan for one of our Funds during 2017.

### Comparison of 2016 to 2015

Our FFO increased by \$35.8 million, or 12.4%, to \$325.7 million for 2016 compared to \$289.9 million for 2015. Excluding \$6.6 million of accelerated non-cash accretion of an above-market ground lease from the acquisition of the Harbor Court Land in 2015, our FFO increased by \$42.4 million or 15.0%, which was primarily due to (i) an increase in operating income from our office portfolio due to property acquisitions in 2015 and 2016 and (ii) an increase in operating income from our multifamily portfolio due to higher rental rates, partially offset by (a) an increase in general and administrative expenses due to an increase in personnel costs, (b) an increase in interest expense due to new debt related to our JV property acquisitions and (c) an increase in acquisition-related expenses due to our JV property acquisitions in 2016.

### Reconciliation to GAAP

The table below reconciles our FFO, which reflects the FFO attributable to our common stockholders and noncontrolling interests in our Operating Partnership (which includes our share of our consolidated JVs and our unconsolidated Funds):

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Net income attributable to common stockholders	\$ 94,443	\$ 85,397	\$ 58,384
Depreciation and amortization of real estate assets	276,761	248,914	205,333
Net income attributable to noncontrolling interests	9,984	10,693	10,371
Adjustments attributable to unconsolidated funds <sup>(1)</sup>	16,220	16,016	15,919
Adjustments attributable to consolidated JVs <sup>(2)</sup>	(42,674)	(20,961)	(97)
Gain on sale of investment in real estate	—	(14,327)	—
<b>FFO</b>	<b>\$ 354,734</b>	<b>\$ 325,732</b>	<b>\$ 289,910</b>

(1) Adjusts for our share of our unconsolidated Funds depreciation and amortization of real estate assets.

(2) Adjusts for the net income and depreciation and amortization of real estate assets that is attributable to the noncontrolling interests in our consolidated JVs.

## Non-GAAP Supplemental Financial Measure: Same Property NOI

### Usefulness to Investors

We report Same Property NOI to facilitate a comparison of our operations between reported periods. Many investors use Same Property NOI to evaluate our operating performance and to compare our operating performance with other REITs, because it can reduce the impact of investing transactions on operating trends. NOI is a non-GAAP financial measure for which we believe that net income is the most directly comparable GAAP financial measure. We report NOI because it is a widely recognized measure of the performance of equity REITs, and is used by some investors to identify trends in occupancy rates, rental rates and operating costs and to compare our operating performance with that of other REITs. NOI has limitations as a measure of our performance because it excludes depreciation and amortization expense, and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures, tenant improvements 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 Same Property NOI in the same manner. As a result, our Same Property NOI may not be comparable to the Same Property NOI of other REITs. Same Property NOI should be considered only as a supplement to net income as a measure of our performance and should not be used as a measure of our liquidity or cash flow, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

### Comparison of 2017 to 2016:

Our 2017 same properties included 51 office properties, aggregating 13.0 million rentable square feet, and 9 multifamily properties with an aggregate 2,640 units:

(In thousands)	2017	2016	Favorable (Unfavorable)	Percentage	Commentary
Office revenues	\$ 551,651	\$ 531,734	\$ 19,917	3.7 %	The increase was primarily due to an increase in rental and parking rates, as well as higher tenant recovery revenues reflecting increased recoverable operating costs.
Office expenses	(176,916)	(173,977)	(2,939)	(1.7)%	The increase was primarily due to an increase in personnel expenses, utilities and real estate taxes, partially offset by a decrease in parking expenses.
Office NOI	374,735	357,757	16,978	4.7 %	
Multifamily revenues	81,927	82,328	(401)	(0.5)%	The decrease was primarily due to a decrease of \$2.8 million in the accretion from below-market leases, partially offset by an increase in rental revenues and parking and other income. The decrease in the accretion from below-market leases was due to the completion in 2016 of the amortization of below-market lease intangibles recorded at the time of our IPO. The increase in rental revenues and parking and other income was primarily due to an increase in rental rates.
Multifamily expenses	(19,969)	(19,229)	(740)	(3.8)%	The increase was primarily due to an excise tax refund of \$0.5 million in 2016 which offset other operating expenses.
Multifamily NOI	61,958	63,099	(1,141)	(1.8)%	
<b>Total NOI</b>	<b>\$ 436,693</b>	<b>\$ 420,856</b>	<b>\$ 15,837</b>	<b>3.8 %</b>	

## Reconciliation to GAAP

(In thousands)	2017	2016
<b>Same Property NOI</b>	\$ 436,693	\$ 420,856
Non-comparable office revenues	163,895	113,899
Non-comparable office expenses	(56,717)	(40,569)
Non-comparable multifamily revenues	14,579	14,590
Non-comparable multifamily expenses	(4,432)	(4,088)
<b>NOI</b>	554,018	504,688
General and administrative	(36,234)	(34,957)
Depreciation and amortization	(276,761)	(248,914)
<b>Operating income</b>	241,023	220,817
Other income	9,712	8,759
Other expenses	(7,037)	(9,477)
Income, including depreciation, from unconsolidated real estate funds	5,905	7,812
Interest expense	(145,176)	(146,148)
<b>Income before gains</b>	104,427	81,763
Gains on sales of investments in real estate	—	14,327
<b>Net income</b>	104,427	96,090
Less: Net income attributable to noncontrolling interests	(9,984)	(10,693)
<b>Net income attributable to common stockholders</b>	\$ 94,443	\$ 85,397

## Comparison of 2016 to 2015

Our 2016 same properties included 50 office properties, aggregating 12.7 million rentable square feet, and 9 multifamily properties with an aggregate 2,640 units:

(In thousands)	2016	2015	Favorable (Unfavorable)	Percentage	Commentary
Office revenues	\$ 521,553	\$ 508,649	\$ 12,904	2.5%	The increase was primarily due to an increase in rental and parking rates, partially offset by a decrease in tenant recovery revenues due to lower recoverable operating costs.
Office expenses	(170,899)	(172,361)	1,462	0.8%	The decrease was primarily due to a decrease in utilities expense as a result of efficiency improvements.
Office NOI	350,654	336,288	14,366	4.3%	
Multifamily revenues	82,328	80,177	2,151	2.7%	The increase was primarily due to an increase in rental rates.
Multifamily expenses	(19,229)	(19,687)	458	2.3%	The decrease was primarily due to an excise tax refund of \$0.5 million in 2016, which partly offset other operating expenses in that year.
Multifamily NOI	63,099	60,490	2,609	4.3%	
<b>Total NOI</b>	<b>\$ 413,753</b>	<b>\$ 396,778</b>	<b>\$ 16,975</b>	<b>4.3%</b>	



## Reconciliation to GAAP

(In thousands)	2016	2015
<b>Same Property NOI</b>	\$ 413,753	\$ 396,778
Non-comparable office revenues	124,080	32,326
Non-comparable office expenses	(43,647)	(14,195)
Non-comparable multifamily revenues	14,590	14,622
Non-comparable multifamily expenses	(4,088)	(4,175)
<b>NOI</b>	504,688	425,356
General and administrative	(34,957)	(30,496)
Depreciation and amortization	(248,914)	(205,333)
<b>Operating income</b>	220,817	189,527
Other income	8,759	15,228
Other expenses	(9,477)	(8,241)
Income, including depreciation, from unconsolidated real estate funds	7,812	7,694
Interest expense	(146,148)	(135,453)
<b>Income before gains</b>	81,763	68,755
Gains on sales of investments in real estate	14,327	—
<b>Net income</b>	96,090	68,755
Less: Net income attributable to noncontrolling interests	(10,693)	(10,371)
<b>Net income attributable to common stockholders</b>	\$ 85,397	\$ 58,384

## Liquidity and Capital Resources

### Short-term liquidity

Excluding acquisitions, development projects and debt refinancings, we expect to meet our short-term liquidity requirements through cash on hand, cash generated by operations, and our revolving credit facility. See Note 7 to our consolidated financial statements in this Report for more information regarding our revolving credit facility.

### Long-term liquidity

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, development projects and debt refinancings. We do not expect to have sufficient funds on hand to cover these long-term cash requirements due to the requirement to distribute a substantial majority of our income on an annual basis imposed by REIT federal tax rules. We plan to meet our long-term liquidity needs through long-term secured non-recourse indebtedness, the issuance of equity securities, including common stock and OP Units, as well as property dispositions and JV transactions. We have an ATM program which would allow us, subject to market conditions, to sell up to \$400.0 million of common stock as of the date of this Report.

To mitigate the impact of changing interest rates on our cash flows from operations, some of our long-term secured loans carry fixed interest rates, and we generally enter into interest rate swap agreements with respect to our loans with floating interest rates. These swap agreements generally expire between one to two years before the maturity date of the related loan, during which time we can refinance the loan without any interest penalty. See Notes 7 and 9 to our consolidated financial statements in this Report for more information regarding our debt and derivative contracts, respectively.

## Contractual obligations as of December 31, 2017

(In thousands)	Payment due by period				
	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Term loan principal payments <sup>(1)</sup>	\$ 4,152,308	\$ 9,064	\$ 860,796	\$ 1,041,616	\$ 2,240,832
Ground lease payments <sup>(2)</sup>	50,576	733	1,466	1,466	46,911
Development purchase commitments <sup>(3)</sup>	53,080	53,080	—	—	—
Capital expenditures and tenant improvements purchase commitments <sup>(4)</sup>	16,030	16,030	—	—	—
<b>Total</b>	<b>\$ 4,271,994</b>	<b>\$ 78,907</b>	<b>\$ 862,262</b>	<b>\$ 1,043,082</b>	<b>\$ 2,287,743</b>

- (1) Reflects the future principal payments due on our secured notes payable and revolving credit facility, excluding any maturity extension options. For more information regarding our debt and the interest rates that determine our periodic interest payments see Note 7 to our consolidated financial statements in this Report.
- (2) Reflects the future minimum ground lease payments. See Note 16 to our consolidated financial statements in this Report.
- (3) See "Acquisitions, Financings, Developments and Repositionings" for a discussion of our developments.
- (4) Reflects the aggregate remaining contractual commitment for capital expenditure projects and repositionings, as well as tenant improvements. See "Acquisitions, Financings, Developments and Repositionings" for a discussion of our repositionings.

### Off-Balance Sheet Arrangements

#### Unconsolidated Funds Debt

Our unconsolidated Funds have their own non-recourse debt, and we have made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve-outs for loans related to both of our unconsolidated Funds. We have also guaranteed the related swaps. Our Funds have agreed to indemnify us for any amounts that we would be required to pay under these agreements. As of December 31, 2017, all of the obligations under these loans and swap agreements have been performed in accordance with the terms of those agreements. For information regarding our Funds and Funds' debt, see Notes 5 and 17, respectively, to our consolidated financial statements in this Report.

## Cash Flows

### Comparison of 2017 to 2016

(In thousands)	2017	2016	Increase (Decrease)	Percentage
Cash flows provided by operating activities <sup>(1)</sup>	\$ 402,697	\$ 339,449	\$ 63,248	18.6 %
Cash flows used in investing activities <sup>(2)</sup>	\$ (669,595)	\$ (1,366,169)	\$ (696,574)	(51.0)%
Cash flows provided by financing activities <sup>(3)</sup>	\$ 330,616	\$ 1,037,849	\$ (707,233)	(68.1)%

- (1) Our cash flows provided by operating activities are primarily dependent upon the occupancy and rental rates of our portfolio, the collectability of rent and recoveries from our tenants, and the level of our operating expenses and general and administrative costs. The increase was primarily due to (i) an increase in operating income from our office portfolio due to acquisitions in 2016 and 2017 and increasing rental rates, (ii) an increase in the operating distributions from our Funds, (iii) a decrease in other expenses as a result of acquisition-related costs we expensed in 2016, while similar costs were capitalized in 2017 as a result of the adoption of an ASU in 2017, and (iv) a decrease in interest expense due to lower debt balances, partially offset by (a) a decrease in the operating income from our multifamily portfolio due to an excise tax refund that reduced our multifamily operating expenses in 2016, and (b) an increase in general and administrative expenses due to an increase in personnel costs.
- (2) Our cash flows used in investing activities are generally used to fund property acquisitions, developments and redevelopment projects, and recurring and non-recurring capital expenditures. The decrease was primarily due to a decrease of \$1.08 billion paid for properties acquired, partially offset by \$348.2 million that we received during 2016 from the sale of investments in real estate.
- (3) Our cash flows provided by financing activities are generally impacted by our borrowings and capital activities, as well as dividends and distributions paid to common stockholders and noncontrolling interests, respectively. The decrease was primarily due to a decrease of \$1.06 billion in net borrowings and a decrease in contributions from non-controlling interests in our JVs of \$175.5 million, partially offset by an increase of \$543.8 million from the net proceeds from the issuance of common stock.

### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP, and which requires us to make estimates of certain items which affect the reported amounts of our assets, liabilities, revenues and expenses. While we believe that our estimates are based upon reasonable assumptions and judgments at the time that they are made, some of our estimates could prove to be incorrect, and those differences could be material. Below is a discussion of our critical accounting policies, which are the policies we believe require the most significant estimates and judgment. See Note 2 to our consolidated financial statements included in this Report for the summary of our significant accounting policies.

### Investment in Real Estate

We allocate the purchase price, which includes the capitalized transaction costs, of acquired properties to: (i) land, (ii) buildings and improvements, (iii) tenant improvements and identifiable intangible assets such as in-place at-market leases, (iv) acquired above- and below-market ground and tenant leases, and if applicable (v) assumed debt, based upon our estimates of expected future cash flows and other valuation techniques. We estimate the relative fair values of the tangible assets on an “as-if-vacant” basis. The estimated relative fair value of acquired in-place at-market leases are the estimated costs to lease the property to the occupancy level at the date of acquisition, including the fair value of leasing commissions and legal costs. We evaluate the time period over which we expect such occupancy level to 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 and below-market ground and tenant leases are recorded as an asset or liability based upon 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 paid or received pursuant to the in-place ground or tenant leases, respectively, and our estimate of fair market rental rates for the corresponding in-place leases, over the remaining non-cancelable term of the leases. Assumed debt is recorded at fair value based upon the present value of the expected future payments.

These estimates require significant judgment, involve complex calculations, and the allocations have a direct and material impact on our results of operations because, for example, (i) there would be less depreciation if we allocate more value to land (which is not depreciated), or (ii) if we allocate more value to buildings than to tenant improvements, the depreciation would be recognized over a much longer time period, because buildings are depreciated over a longer time period than tenant improvements.

### **Impairment of Long-Lived Assets**

We assess our investment in real estate and our investment in our Funds for impairment on a periodic basis, and whenever events or changes in circumstances indicate that the carrying value of our investments may not be recoverable. If the undiscounted future cash flows expected to be generated by the asset are less than the carrying value of the asset, and our evaluation indicates that we may be unable to recover the carrying value, then we would record an impairment loss to the extent that the carrying value exceeds the estimated fair value of the asset. Our estimates of future cash flows are based in part upon assumptions regarding future occupancy, rental rates and operating costs, and could differ materially from actual results. We record real estate held for sale at the lower of carrying value or estimated fair value, less costs to sell, and similarly recognize impairment losses if we believe that we cannot recover the carrying value. Our evaluation of market conditions for assets held for sale requires significant judgment, and our expectations could differ materially from actual results. Impairment losses would reduce our net income and could be material. We did not record any impairment losses for our long-lived assets during 2017, 2016 or 2015.

### **Revenue Recognition for Tenant Recoveries**

Our tenant recovery revenues for recoverable operating expenses are recognized as revenue in the period that the recoverable expenses are incurred. Subsequent to year-end, we perform reconciliations on a lease-by-lease basis and bill or credit each tenant for any differences between the estimated expenses we billed to the tenant and the actual expenses incurred. Estimating tenant recovery revenues requires an in-depth analysis of the complex terms of each underlying lease. Examples of estimates and judgments made when determining the amounts recoverable include:

- estimating the recoverable expenses;
- estimating the impact of changes to expense and occupancy during the year;
- estimating the fixed and variable components of operating expenses for each building;
- conforming recoverable expense pools to those used in the base year for the underlying lease; and
- judging whether an expense or capital expenditure is recoverable pursuant to the terms of the underlying lease.

These estimates require significant judgment and involve complex calculations. If our estimates prove to be incorrect, then our tenant recovery revenues and net income could be materially and adversely affected in future periods when we perform our reconciliations. The impact of changing our current year tenant recovery billings by 5% would result in a change to our tenant recovery revenues and net income of \$2.1 million, \$2.0 million and \$1.7 million during 2017, 2016 and 2015, respectively.

### **Allowances for Tenant and Deferred Rent Receivables**

Our estimates regarding the adequacy of our allowances for uncollectible tenant and deferred rent receivables requires significant judgment, including the creditworthiness of specific tenants and general economic trends and conditions. For most of our tenants, our only security are their security deposits or letters of credit, and in some cases we do not require any security deposit or letter of credit. If our allowances are not sufficient to cover the unsecured losses from our tenants who fail to make contractual payments, our revenues and net income could be materially and adversely affected in future periods. As of December 31, 2017, 2016 and 2015, the total of our allowances was \$6.5 million, \$7.8 million and \$8.3 million, respectively. The impact of changing the allowances by 5% would result in a change to our revenues and net income of \$323 thousand, \$390 thousand and \$414 thousand during 2017, 2016 and 2015, respectively.

## **Stock-Based Compensation**

We award stock-based compensation to certain employees and non-employee directors in the form of LTIP Units. We recognize the fair value of the awards over the requisite vesting period, which is based upon service. The fair value of the awards is based upon the market value of our common stock on the grant date and a discount for post-vesting restrictions. Our estimate of the discount for post-vesting restrictions requires significant judgment. If our estimate of the discount is too high or too low it would result in the fair value of the awards that we make being too low or too high, respectively, which would result in an under- or over-expense of stock-based compensation, respectively, and this under- or over-expensing of stock-based compensation could be material to our net income. Stock-based compensation expense was \$18.5 million, \$17.4 million and \$15.2 million for 2017, 2016 and 2015, respectively. The impact of changing the discount rate by 5% would result in a change to our stock-based compensation expense and net income of \$924 thousand, \$872 thousand and \$762 thousand during 2017, 2016 and 2015, respectively.

## **Quantitative and Qualitative Disclosures about Market Risk**

We use derivative instruments to hedge interest rate risk related to our floating rate borrowings. However, our use of these instruments exposes us to credit risk from the potential inability of our counterparties to perform under the terms of those agreements. We attempt to minimize this credit risk by contracting with a variety of high-quality financial counterparties. See Notes 7 and 9 to our consolidated financial statements in this Report for more information regarding our debt and derivatives. At December 31, 2017, 3.5% of our debt was unhedged floating rate debt. A fifty-basis point change in the one month USD LIBOR interest rate would result in an annual impact to our earnings (through interest expense) of \$735 thousand. We calculate interest sensitivity by multiplying the amount of unhedged floating rate debt by fifty-basis points.



## Consolidated Financial Statements

### 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 US GAAP. Our management, including the undersigned CEO and CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In conducting its assessment, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control—Integrated Framework (2013 Framework). Based on this assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting was effective based on those criteria.

Management, including our CEO and CFO, 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, 2017, 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 32, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2017.

*/s/ JORDAN L. KAPLAN*

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Jordan L. Kaplan

President and CEO

*/s/ MONA M. GISLER*

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Mona M. Gisler

CFO

February 16, 2018

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Douglas Emmett, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Douglas Emmett, Inc. (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 2017, 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) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated February 16, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1995.

Los Angeles, California

February 16, 2018

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Douglas Emmett, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited Douglas Emmett, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Douglas Emmett, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Douglas Emmett, Inc. as of December 31, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes and our report dated February 16, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### **Definition and Limitations of Internal Control Over Financial Reporting**

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.

/s/ Ernst & Young LLP

Los Angeles, California

February 16, 2018

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Investment in real estate:		
Land	\$ 1,062,345	\$ 1,022,340
Buildings and improvements	7,886,201	7,221,124
Tenant improvements and lease intangibles	756,190	696,197
Property under development	124,472	58,459
Investment in real estate, gross	9,829,208	8,998,120
Less: accumulated depreciation and amortization	(2,012,752)	(1,789,678)
Investment in real estate, net	7,816,456	7,208,442
Cash and cash equivalents	176,645	112,927
Tenant receivables, net	2,980	2,165
Deferred rent receivables, net	106,021	93,165
Acquired lease intangible assets, net	4,293	5,147
Interest rate contract assets	60,069	35,656
Investment in unconsolidated real estate funds	107,735	144,289
Other assets	18,442	11,914
<b>Total Assets</b>	<b>\$ 8,292,641</b>	<b>\$ 7,613,705</b>
<b>Liabilities</b>		
Secured notes payable and revolving credit facility, net	\$ 4,117,390	\$ 4,369,537
Interest payable, accounts payable and deferred revenue	103,947	75,229
Security deposits	50,414	45,990
Acquired lease intangible liabilities, net	75,635	67,191
Interest rate contract liabilities	807	6,830
Dividends payable	42,399	34,857
Total liabilities	4,390,592	4,599,634
<b>Equity</b>		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value, 750,000,000 authorized, 169,564,927 and 151,530,210 outstanding at December 31, 2017 and December 31, 2016, respectively	1,696	1,515
Additional paid-in capital	3,272,539	2,725,157
Accumulated other comprehensive income	43,099	15,156
Accumulated deficit	(879,810)	(820,685)
Total Douglas Emmett, Inc. stockholders' equity	2,437,524	1,921,143
Noncontrolling interests	1,464,525	1,092,928
Total equity	3,902,049	3,014,071
<b>Total Liabilities and Equity</b>	<b>\$ 8,292,641</b>	<b>\$ 7,613,705</b>

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2017	2016	2015
<b>Revenues</b>			
Office rental			
Rental revenues	\$ 552,846	\$ 498,214	\$ 412,448
Tenant recoveries	54,006	46,847	43,139
Parking and other income	108,694	100,572	85,388
Total office revenues	715,546	645,633	540,975
Multifamily rental			
Rental revenues	89,039	89,996	87,907
Parking and other income	7,467	6,922	6,892
Total multifamily revenues	96,506	96,918	94,799
Total revenues	812,052	742,551	635,774
<b>Operating Expenses</b>			
Office expenses	233,633	214,546	186,556
Multifamily expenses	24,401	23,317	23,862
General and administrative	36,234	34,957	30,496
Depreciation and amortization	276,761	248,914	205,333
Total operating expenses	571,029	521,734	446,247
Operating income	241,023	220,817	189,527
Other income	9,712	8,759	15,228
Other expenses	(7,037)	(9,477)	(8,241)
Income, including depreciation, from unconsolidated real estate funds	5,905	7,812	7,694
Interest expense	(145,176)	(146,148)	(135,453)
Income before gains	104,427	81,763	68,755
Gains on sales of investments in real estate	—	14,327	—
Net income	104,427	96,090	68,755
Less: Net income attributable to noncontrolling interests	(9,984)	(10,693)	(10,371)
Net income attributable to common stockholders	\$ 94,443	\$ 85,397	\$ 58,384
Net income attributable to common stockholders per share – basic	\$ 0.58	\$ 0.57	\$ 0.40
Net income attributable to common stockholders per share – diluted	\$ 0.58	\$ 0.55	\$ 0.39

See accompanying notes to the consolidated financial statements.

**Douglas Emmett, Inc.**  
**Consolidated Statements of Comprehensive Income**  
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	\$ 104,427	\$ 96,090	\$ 68,755
Other comprehensive income: cash flow hedges	34,290	40,474	24,850
Comprehensive income	138,717	136,564	93,605
Less: Comprehensive income attributable to noncontrolling interests	(16,331)	(26,726)	(14,417)
Comprehensive income attributable to common stockholders	<u>\$ 122,386</u>	<u>\$ 109,838</u>	<u>\$ 79,188</u>

See accompanying notes to the consolidated financial statements.

**Douglas Emmett, Inc.**  
**Consolidated Statements of Equity**  
(In thousands, except share data)

		<b>Year Ended December 31,</b>		
		<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Shares of Common Stock</b>	Beginning balance	151,530	146,919	144,869
	Conversion of OP Units	1,059	1,753	1,776
	Issuance of common stock	15,687	1,400	—
	Exercise of stock options	1,289	1,458	274
	<b>Ending balance</b>	<b>169,565</b>	<b>151,530</b>	<b>146,919</b>
<b>Common Stock</b>	Beginning balance	\$ 1,515	\$ 1,469	\$ 1,449
	Conversion of OP Units	11	17	17
	Issuance of common stock	157	14	—
	Exercise of stock options	13	15	3
	<b>Ending balance</b>	<b>\$ 1,696</b>	<b>\$ 1,515</b>	<b>\$ 1,469</b>
<b>Additional Paid-in Capital</b>	Beginning balance	\$ 2,725,157	\$ 2,706,753	\$ 2,678,798
	Conversion of OP Units	14,231	23,043	23,686
	Repurchase of OP Units	(6,763)	(498)	—
	Issuance of common stock	593,011	49,365	—
	Proceeds from exercise of stock options	—	—	4,269
	Taxes paid on exercise of stock options	(53,097)	(53,506)	—
	<b>Ending balance</b>	<b>\$ 3,272,539</b>	<b>\$ 2,725,157</b>	<b>\$ 2,706,753</b>
<b>AOCI</b>	Beginning balance	\$ 15,156	\$ (9,285)	\$ (30,089)
	Cash flow hedge fair value adjustments	27,943	24,441	20,804
	<b>Ending balance</b>	<b>\$ 43,099</b>	<b>\$ 15,156</b>	<b>\$ (9,285)</b>
<b>Accumulated Deficit</b>	Beginning balance	\$ (820,685)	\$ (772,726)	\$ (706,700)
	Net income attributable to common stockholders	94,443	85,397	58,384
	Dividends	(153,568)	(133,356)	(124,410)
	<b>Ending balance</b>	<b>\$ (879,810)</b>	<b>\$ (820,685)</b>	<b>\$ (772,726)</b>
<b>Noncontrolling Interests</b>	Beginning balance	\$ 1,092,928	\$ 355,337	\$ 370,266
	Net income attributable to noncontrolling interests	9,984	10,693	10,371
	Cash flow hedge fair value adjustments	6,347	16,033	4,046
	Contributions	284,248	459,752	—
	Sales of equity interests in consolidated JVs	—	291,028	—
	Distributions	(38,101)	(35,478)	(23,265)
	Issuance of OP Units for cash	—	—	1,000
	Issuance of OP Units for acquisition of real estate	105,687	—	—
	Conversion of OP Units	(14,242)	(23,060)	(23,703)
	Repurchase of OP Units with cash	(3,341)	(328)	—
	Stock-based compensation	21,015	18,951	16,622
	<b>Ending balance</b>	<b>\$ 1,464,525</b>	<b>\$ 1,092,928</b>	<b>\$ 355,337</b>
<b>Total Equity</b>	Beginning balance	\$ 3,014,071	\$ 2,281,548	\$ 2,313,724
	Net income	104,427	96,090	68,755
	Cash flow hedge fair value adjustments	34,290	40,474	24,850
	Issuance of common stock, net	593,168	49,379	—
	Issuance of OP Units for cash	—	—	1,000
	Issuance of OP Units for acquisition of real estate	105,687	—	—
	Repurchase of OP Units with cash	(10,104)	(826)	—
	Taxes paid on exercise of stock options	(53,084)	(53,491)	—
	Exercise of stock options	—	—	4,272
	Contributions	284,248	459,752	—
	Sales of equity interests in consolidated JVs	—	291,028	—
	Dividends	(153,568)	(133,356)	(124,410)
	Distributions	(38,101)	(35,478)	(23,265)
	Stock-based compensation	21,015	18,951	16,622
	<b>Ending balance</b>	<b>\$ 3,902,049</b>	<b>\$ 3,014,071</b>	<b>\$ 2,281,548</b>
	Dividends declared per common share	\$ 0.94	\$ 0.89	\$ 0.85



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

	Year Ended December 31,		
	2017	2016	2015
<b>Operating Activities</b>			
Net income	\$ 104,427	\$ 96,090	\$ 68,755
Adjustments to reconcile net income to net cash provided by operating activities:			
Income, including depreciation, from unconsolidated real estate funds	(5,905)	(7,812)	(7,694)
Gain from insurance recoveries for damage to real estate	—	—	(82)
Gains on sales of investments in real estate	—	(14,327)	—
Depreciation and amortization	276,761	248,914	205,333
Net accretion of acquired lease intangibles	(18,006)	(18,198)	(19,100)
Straight-line rent	(12,855)	(13,599)	(4,840)
Increase in the allowance for doubtful accounts	406	422	223
Deferred loan cost amortized and written off	10,834	8,927	6,969
Non-cash market value adjustments on interest rate contracts	51	(196)	(66)
Amortization of stock-based compensation	18,478	17,448	15,234
Operating distributions from unconsolidated real estate funds	5,905	2,668	1,068
Change in working capital components:			
Tenant receivables	(1,221)	(680)	13
Interest payable, accounts payable and deferred revenue	24,942	10,712	4,557
Security deposits	4,424	7,307	1,233
Other assets	(5,544)	1,773	(176)
Net cash provided by operating activities	<u>402,697</u>	<u>339,449</u>	<u>271,427</u>
<b>Investing Activities</b>			
Capital expenditures for improvements to real estate	(108,326)	(91,826)	(75,541)
Capital expenditures for developments	(63,018)	(27,720)	(3,720)
Insurance recoveries for damage to real estate	—	—	82
Property acquisitions	(537,669)	(1,619,759)	(89,906)
Deposits for property acquisitions	—	—	(75,000)
Proceeds from sale of investments in real estate, net	—	348,203	—
Proceeds from repayment of note receivable	—	—	1,000
Loans to related parties	—	—	(2,000)
Loan payments received from related parties	—	763	2,719
Contributions to unconsolidated real estate funds	—	—	(11)
Acquisitions of additional interests in unconsolidated real estate funds	(4,142)	—	—
Capital distributions from unconsolidated real estate funds	43,560	24,170	10,788
Net cash used in investing activities	<u>(669,595)</u>	<u>(1,366,169)</u>	<u>(231,589)</u>
<b>Financing Activities</b>			
Proceeds from borrowings	1,410,500	2,109,500	1,614,400
Repayment of borrowings	(1,698,544)	(1,335,580)	(1,415,528)
Loan cost payments	(11,442)	(24,586)	(14,232)
Contributions from noncontrolling interests in consolidated JVs	284,248	459,752	—
Distributions paid to noncontrolling interests	(38,101)	(35,478)	(23,265)
Dividends paid to common stockholders	(146,026)	(130,821)	(122,510)
Proceeds from exercise of stock options	—	—	4,272
Taxes paid on exercise of stock options	(53,084)	(53,491)	—
Repurchase of OP Units	(10,104)	(826)	—
Proceeds from issuance of common stock, net	593,169	49,379	—
Net cash provided by financing activities	<u>330,616</u>	<u>1,037,849</u>	<u>43,137</u>
Increase in cash and cash equivalents	63,718	11,129	82,975
Cash and cash equivalents - beginning balance	112,927	101,798	18,823
Cash and cash equivalents - ending balance	<u>\$ 176,645</u>	<u>\$ 112,927</u>	<u>\$ 101,798</u>

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

**Supplemental Cash Flows Information**

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>			
Cash paid for interest, net of capitalized interest	\$ 135,824	\$ 137,884	\$ 128,178
Capitalized interest paid	\$ 2,745	\$ 1,193	\$ 940
<b>Non-cash Investing Transactions</b>			
Accrual increase (decrease) for capital expenditures for improvements to real estate and developments	\$ 3,776	\$ 7,182	\$ (1,504)
Capitalized stock-based compensation for improvements to real estate and developments	\$ 2,537	\$ 1,503	\$ 1,358
Removal of fully depreciated and amortized tenant improvements and lease intangibles	\$ 53,687	\$ 146,739	\$ 33,115
Removal of fully amortized acquired lease intangible assets	\$ 414	\$ 1,306	\$ 220
Removal of fully accreted acquired lease intangible liabilities	\$ 5,057	\$ 56,278	\$ 49,576
Settlement of note receivable in exchange for land and building acquired	\$ —	\$ —	\$ 26,500
Issuance of OP Units for acquisition of real estate	\$ 105,687	\$ —	\$ 1,000
Application of deposit to acquisition of real estate	\$ —	\$ 75,000	\$ 2,500
<b>Non-cash Financing Transactions</b>			
Gain (loss) from market value adjustments - consolidated derivatives	\$ 16,512	\$ 14,192	\$ (11,549)
Gain (loss) from market value adjustments - unconsolidated Funds' derivatives	\$ 3,275	\$ 8	\$ (1,922)
Assumption of term loan for acquisition of real estate	\$ 36,460	\$ —	\$ —
Accrual for dividends declared	\$ 153,568	\$ 133,356	\$ 124,410
Common stock issued in exchange for OP Units	\$ 14,242	\$ 23,060	\$ 23,703

See accompanying notes to the consolidated financial statements.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Overview**

**Organization and Business Description**

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and Honolulu, Hawaii. Through our interest in our Operating Partnership and its subsidiaries, our consolidated JVs and our unconsolidated Funds, we focus on owning, acquiring, developing and managing a significant market share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities. The terms "us," "we" and "our" as used in the financial statements refer to Douglas Emmett, Inc. and its subsidiaries on a consolidated basis.

At December 31, 2017, we owned a Consolidated Portfolio consisting of (i) a 16.5 million square foot office portfolio, (ii) 3,380 multifamily apartment units and (iii) fee interests in two parcels of land from which we receive rent under ground leases. We also manage and own equity interests in our unconsolidated Funds which, at December 31, 2017, owned an additional 1.8 million square feet of office space. We manage our unconsolidated Funds alongside our Consolidated Portfolio, and we therefore present the statistics for our office portfolio on a Total Portfolio basis. As of December 31, 2017, our portfolio consisted of the following properties (not including two parcels of land from which we receive rent under ground leases):

	<b>Consolidated Portfolio</b>	<b>Total Portfolio</b>
<b><u>Office</u></b> (includes ancillary retail space)		
Wholly-owned properties	53	53
JV properties	10	10
Fund properties	—	8
	63	71
 <b><u>Multifamily</u></b>		
Wholly-owned properties	10	10
<b>Total</b>	73	81

**Basis of Presentation**

The accompanying financial statements are the consolidated financial statements of Douglas Emmett, Inc. and its subsidiaries, including our Operating Partnership and our consolidated JVs. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements. Our Operating Partnership and consolidated JVs are VIEs and we are the primary beneficiary. As of December 31, 2017, the total consolidated assets, liabilities and equity of the VIEs was \$8.29 billion (of which \$7.82 billion related to investment in real estate), \$4.39 billion and \$3.90 billion (of which \$1.46 billion related to noncontrolling interests), respectively.

The accompanying financial statements have been prepared pursuant to the rules and regulations of the SEC in conformity with US GAAP as established by the FASB in the ASC. 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 or class of properties, square footage, per square footage amounts, apartment units 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 PCAOB.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

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

**Investment in Real Estate**

We account for property acquisitions as asset acquisitions, and include the acquired properties results of operations in our results of operations from the respective acquisition date. We allocate the purchase price, which includes the capitalized transaction costs, to: (i) land, (ii) buildings and improvements, (iii) tenant improvements and identifiable intangible assets such as in-place at-market leases, (iv) acquired above- and below-market ground and tenant leases (including for renewal options), and if applicable (v) assumed debt, based upon our estimates of expected future cash flows and other valuation techniques. Our estimates are based upon expected future cash flows and other valuation techniques.

We estimate the relative fair values of the tangible assets on an “as-if-vacant” basis. The estimated relative fair value of acquired in-place at-market leases are the estimated costs to lease the property to the occupancy level at the date of acquisition, including the fair value of leasing commissions and legal costs. We evaluate the time period over which we expect such occupancy level to 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- and below-market ground and tenant leases 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 paid or received pursuant to the in-place ground or tenant leases, respectively, and our estimate of the fair market rental rates for the corresponding in-place leases, over the remaining non-cancelable term of the lease. Assumed debt is recorded at fair value based upon the present value of the expected future payments. See Note 3 for our property acquisition disclosures.

Buildings and improvements are depreciated on a straight-line basis using an estimated life of forty years for buildings and fifteen years for improvements, and are carried on our balance sheet, offset by the related accumulated depreciation and any impairment charges, until they are sold. Tenant improvements are depreciated on a straight-line basis over the life of the related lease, with any remaining balance depreciated in the period of any early lease termination. Acquired in-place leases are amortized on a straight line basis over the weighted average remaining term of the acquired in-place leases, and are carried on our balance sheet, offset by the related accumulated amortization, until the related building is either sold or impaired. Lease intangibles are amortized on a straight-line basis over the related lease term, with any remaining balance amortized in the period of any early lease termination. Acquired above- and below-market tenant leases are amortized/accreted on a straight line basis 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 revenue. Acquired above- and below-market ground leases, from which we earn ground rent income, are amortized/accreted on a straight line basis over the life of the related lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to rental revenue. Acquired above- and below-market ground leases, for which we incur ground rent expense, are accreted/ amortized over the life of the related lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to expense.

When assets are sold or retired, their cost and related accumulated depreciation or amortization are removed from our balance sheet with the resulting gains or losses, if any, reflected in our results of operations for the respective period. Repairs and maintenance are recorded as expense when incurred.

Properties are classified as held for sale in our consolidated balance sheets when they meet certain requirements, including the approval of the sale of the property, the marketing of the property for sale, and our expectation that the sale will likely occur within the next 12 months. Properties classified as held for sale are carried at the lower of their carrying value or fair value less costs to sell, and we also cease to depreciate the property. As of December 31, 2017 and 2016, we did not have any properties held for sale.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

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 the activities that are necessary to begin 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. Capitalized costs are included in Property under development in our consolidated balance sheets. Once major construction activity has ceased and the development or redevelopment property is in the lease-up phase, the capitalized costs are transferred to (i) Land, (ii) Building and improvements and (iii) Tenant improvements and lease intangibles on our consolidated balance sheets as the historical cost of the property. During 2017, 2016 and 2015, we capitalized \$66.0 million, \$31.6 million and \$3.7 million of costs related to our developments, respectively, which included \$2.7 million, \$1.2 million and \$940 thousand of capitalized interest, respectively.

**Investment in Unconsolidated Real Estate Funds**

We manage and hold equity interests in three Funds: Fund X, Partnership X and the Opportunity Fund. As of December 31, 2017, we held direct and indirect equity interests of 69.4% of Fund X, 24.3% of Partnership X and 6.2% of the Opportunity Fund. We account for our investments in the Funds using the equity method because we have significant influence but not control over the Funds, and our Funds do not qualify as VIEs. Our investment balance includes our share of the net assets of the combined Funds, acquisition basis difference, additional basis for capital raising costs, our share of our Funds' accumulated other comprehensive income (loss) related to our Funds' derivatives, and notes receivable from our Funds. As of December 31, 2017 and 2016, the total basis difference was \$2.9 million. See Note 5 for our Fund disclosures.

**Impairment of Long-Lived Assets**

We periodically assess whether there has been any impairment in the carrying value of our properties and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. An impairment charge would be recorded if events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and the decline is other-than-temporary. Recoverability of the carrying value of our properties is measured by a comparison of the carrying value to the undiscounted future cash flows expected to be generated by the property. If the carrying value exceeds the estimated undiscounted future cash flows, an impairment loss is recorded equal to the difference between the property's carrying value and its fair value based on the estimated discounted future cash flows. We also perform a similar periodic assessment for our investments in our Funds. Based upon such periodic assessments, no impairments occurred during 2017, 2016 or 2015.

**Cash and Cash Equivalents**

We consider short-term investments with maturities of three months or less when purchased to be cash equivalents.

**Revenue and Gain Recognition**

We recognize revenue when four basic criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services are rendered, (iii) the fee is fixed and determinable and (iv) collectibility is reasonably assured. All of our tenant 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. If a lease is canceled then the deferred rent is recognized over the new remaining lease term. We recognized straight line rent of \$12.9 million, \$13.6 million and \$4.8 million during 2017, 2016 and 2015, respectively. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments are recognized on a monthly basis when earned.

Lease termination fees, which are included in rental revenues in the consolidated statements of operations, are recognized on a straight line basis over the new remaining lease term when the related lease is canceled. We recognized lease termination revenue of \$2.1 million, \$2.4 million and \$2.2 million during 2017, 2016 and 2015, respectively.

Tenant improvements constructed, and owned by us, and reimbursed by tenants are recorded as our assets, and the related revenue, which is included in rental revenues in the consolidated statements of operations, is recognized over the related lease term. We recognized revenue for leasehold improvements of \$2.6 million, \$2.6 million and \$1.9 million during 2017, 2016 and 2015, respectively.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

Estimated tenant recoveries for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenue on a gross basis in the period that the recoverable expenses are incurred. Subsequent to year-end, we perform reconciliations on a lease-by-lease basis and bill or credit each tenant for any differences between the estimated expenses we billed to the tenant and the actual expenses incurred.

Recognition of gains on sales of investments in 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. See Note 3 for our property disposition disclosures.

**Allowances for Tenant Receivables and Deferred Rent Receivables**

We present our tenant receivables and deferred rent receivables net of allowances on our consolidated balance sheets. Tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes, and other costs recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds the cumulative cash rents billed to date under the lease agreement. We consider many factors when evaluating the level of allowances necessary, including evaluations of individual tenant receivables, historical loss activity, current economic conditions and other relevant factors. We generally obtain letters of credit or security deposits from our tenants. The table below presents our allowances and security obtained from our tenants:

(In thousands)	December 31, 2017	December 31, 2016
Allowance for tenant receivables	\$ 3,062	\$ 2,656
Allowance for deferred rent receivables	\$ 3,405	\$ 5,144
Letters of credit from our tenants	\$ 25,212	\$ 25,535
Cash security deposits from our tenants	\$ 50,414	\$ 45,990

The table below presents the impact of the changes in our allowances on our results of operations:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Tenant receivables allowance - decrease in net income	\$ (406)	\$ (422)	\$ (223)
Deferred rent receivables allowance - increase (decrease) in net income	\$ 1,739	\$ 898	\$ (242)

**Insurance Recoveries**

Insurance recoveries related to property damage are recorded as other income when payment is either received or receipt is determined to be probable.

**Interest Income**

Interest income from our short-term money market fund investments is recognized on an accrual basis. Interest income is included in other income in the consolidated statements of operations.

**Loan Costs**

Loan costs incurred directly with the issuance of secured notes payable and revolving credit facilities are deferred and amortized to interest expense over the respective loan or credit facility term. Any unamortized amounts are written off upon early repayment of the secured notes payable, and the related cost and accumulated amortization are removed from our balance sheet.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

To the extent that a refinancing is considered an exchange of debt with the same lender, we account for loan costs based upon whether the old debt is determined to be modified or extinguished for accounting purposes. If the old debt is determined to be modified then we (i) continue to defer and amortize any unamortized deferred loan costs associated with the old debt at the time of the modification over the new term of the modified debt, (ii) defer and amortize the lender costs incurred in connection with the modification over the new term of the modified debt, and (iii) expense all other costs associated with the modification. If the old debt is determined to be extinguished then we (i) write off any unamortized deferred loan costs associated with the extinguished debt at the time of the extinguishment and remove the related cost and accumulated amortization from our balance sheet, (ii) expense all lender costs associated with the extinguishment, and (iii) defer and amortize all other costs incurred directly in connection with the extinguishment over the term of the new debt.

In circumstances where we modify or exchange our revolving credit facility with the same lender, we account for the loan costs based upon whether the borrowing capacity of the new arrangement is (a) equal to or greater than the borrowing capacity of the old arrangement, or (b) less than the borrowing capacity of the old arrangement (borrowing capacity is defined as the product of the remaining term and the maximum available credit). If the borrowing capacity of the new arrangement is greater than or equal to the borrowing capacity of the old arrangement, then we (i) continue to defer and amortize the unamortized deferred loan costs from the old arrangement over the term of the new arrangement and (ii) defer all lender and other costs incurred directly in connection with the new arrangement over the term of the new arrangement. If the borrowing capacity of the new arrangement is less than the borrowing capacity of the old arrangement, then we (i) write off any unamortized deferred loan costs at the time of the transaction related to the old arrangement in proportion to the decrease in the borrowing capacity of the old arrangement and (ii) defer all lender and other costs incurred directly in connection with the new arrangement over the term of the new arrangement.

Deferred loan costs are presented on the balance sheet as a deduction from the carrying amount of our secured notes payable and revolving credit facility. All loan costs expensed and deferred loan costs amortized are included in interest expense in our consolidated statements of operations. See Note 7 for our loan cost disclosures.

#### **Debt Discounts and Premiums**

Debt discounts and premiums related to recording debt assumed in connection with property acquisitions at fair value are generally amortized and accreted, respectively, on a straight-line basis over the remaining term of the related loan, which approximates the effective interest method. The amortization/accretion is included in interest expense in our consolidated statements of operations.

#### **Derivative Contracts**

We make use of interest rate swap and cap contracts to manage the risk associated with changes in interest rates on our floating-rate debt. 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 also make use of interest rate caps to limit our exposure to interest rate increases on our floating-rate debt. We do not speculate in derivatives and we do not make use of any other derivative instruments.

When entering into derivative agreements, we generally elect to designate them as cash flow hedges for accounting purposes. Changes in fair value of hedging instruments designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) (AOCI), which is a component of equity outside of earnings, and any hedge ineffectiveness is recorded as interest expense. For our Funds' hedging instruments designated as cash flow hedges, we record our share of the changes in fair value of the hedging instrument in AOCI and our share of any hedge ineffectiveness is recorded in income, including depreciation, from unconsolidated real estate funds in our consolidated statements of operations. Amounts recorded in AOCI related to our designated hedges are reclassified to interest expense as interest payments are made on the hedged floating rate debt. Amounts reported in AOCI related to our Funds' hedges are reclassified to income, including depreciation, from unconsolidated real estate funds, as interest payments are made by our Funds on their hedged floating rate debt. Changes in fair value of hedging instruments not designated as cash flow hedges are recorded as interest expense. We present our derivatives on the balance sheet at fair value on a gross basis. Our share of the fair value of our Funds' derivatives is included in our investment in unconsolidated real estate funds on our consolidated balance sheet. See Note 9 for our derivative disclosures.



**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Stock-Based Compensation**

We account for stock-based compensation, including stock options and LTIP Units, using the fair value method of accounting. The estimated fair value of stock options and LTIP Units is amortized over any vesting period, which is based upon service. See Note 12 for our stock-based compensation disclosures.

**EPS**

We calculate basic EPS by dividing the net income attributable to common stockholders for the period by the weighted average number of common shares outstanding during the respective period. We calculate diluted EPS by dividing the net income attributable to common stockholders for the period by the weighted average number of common shares and dilutive instruments outstanding during the respective period using the treasury stock method. Unvested LTIP Units contain non-forfeitable rights to dividends and we account for them as participating securities and include them in the computation of basic and diluted EPS using the two-class method. See Note 11 for our EPS disclosures.

**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 services for our office segment include primarily rental of office space and other tenant services, including parking and storage space rental. The services for our multifamily segment include primarily rental of apartments and other tenant services, including parking and storage space rental. See Note 14 for our segment disclosures.

**Income Taxes**

We have elected to be taxed as a REIT under the Code, commencing with our initial taxable year ended 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 various other requirements imposed by the Code relating to matters such as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided that 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 are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. We have elected to treat two of our subsidiaries as TRSs, which generally may engage in any business, including the provision of customary or non-customary services to 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. Neither of our TRSs had any significant tax provisions or deferred income tax items for 2017, 2016 or 2015. Our subsidiaries (other than our TRS), including our Operating Partnership, are partnerships, disregarded entities, QRS or REITs, as applicable, for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from disregarded entities or flow-through entities is reportable in the income tax returns of the respective owners. Accordingly, no income tax provision is included in our consolidated financial statements for these entities.

**New Accounting Pronouncements**

Changes to GAAP are established by the FASB in the form of ASUs. We consider the applicability and impact of all ASUs.

**ASUs Adopted During 2017**

ASU No. 2016-07, "Simplifying the Transition to the Equity Method of Accounting", which amends "Investments-Equity Method and Joint Ventures" (Topic 323), simplifies the transition to the equity method of accounting by eliminating the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for equity method accounting as a result of an increase in the level of ownership or degree of influence. This ASU requires that the investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for equity method accounting. We adopted the ASU in the first quarter of 2017 and it did not have a material impact on our financial statements.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting", which amends "Compensation-Stock Compensation" (Topic 718), simplifies the accounting for several aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. We adopted the ASU in the first quarter of 2017 and it did not have a material impact on our financial statements.

ASU No. 2016-17, "Interests Held Through Related Parties That Are Under Common Control", provides guidance regarding the consolidation of VIEs. We adopted the ASU in the first quarter of 2017 and it did not have a material impact on our financial statements.

ASU No. 2017-01, "Clarifying the Definition of a Business", provides guidance with evaluating whether acquisition and disposal transactions should be accounted for as assets or businesses. The ASU generally requires that our property acquisitions be accounted for as asset purchases, and the related acquisition expenses be capitalized as part of the respective asset. We historically accounted for our property acquisitions as business combinations and expensed the related acquisition expenses as incurred. We adopted the ASU in the first quarter of 2017 and it did not have a material impact on our financial statements.

**Recently Issued ASUs**

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The primary difference between Topic 842 and current GAAP is the recognition of lease assets and liabilities by lessees for leases classified as operating leases under current GAAP. The accounting applied by lessors is largely unchanged from current GAAP. For example, the vast majority of operating leases will remain classified as operating leases, and lessors will continue to recognize lease income for those leases on a straight-line basis over the lease term. Topic 842 requires an entity to separate the lease components from the non-lease components (for example, maintenance services or other activities that transfer a good or service to the customer) in a contract. Only the lease components must be accounted for in accordance with Topic 842. The consideration in the contract is allocated to the lease and non-lease components on a relative standalone price basis for lessees, or in accordance with the allocation guidance in Topic 606 for lessors. Topic 842 defines initial direct costs of a lease (which may be capitalized) as costs that would not have been incurred had the lease not been executed. Costs to negotiate a lease that would have been incurred regardless of whether the lease was executed, such as fixed employee salaries, are not considered to be initial direct costs, and may not be capitalized. This ASU is effective for annual and interim periods beginning after December 15, 2018, which for us would be the first quarter of 2019, and early adoption is permitted. This ASU is required to be adopted using a modified retrospective approach which includes optional practical expedients related to leases that commenced before the effective date. We are currently evaluating the impact of this ASU on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which provides guidance for the accounting of revenue from contracts with customers, and supersedes Topic 605, "Revenue Recognition", and most industry-specific guidance throughout the industry topics of the Codification. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 by one year. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", which amends Topic 606 and clarifies the guidance for principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Identifying Performance Obligations and Licensing" which amends Topic 606 and provides guidance for identifying performance obligations and licensing. In May 2016, the FASB issued ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients" which amends Topic 606 and provides guidance for a variety of revenue recognition related topics. In February 2017, the FASB issued ASU No. 2017-05 "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" (Subtopic 610-20), which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. These ASUs are effective for annual and interim periods beginning after December 15, 2017, which for us is the first quarter of 2018. The amendments are required to be applied on a retrospective basis. We completed our evaluation of the ASUs and we do not expect the ASUs to have a material impact on our financial statements.

The FASB has not issued any other ASUs during 2017 and 2018 that we expect to be applicable and have a material impact on our financial statements.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**3. Investment in Real Estate**

We account for our property acquisitions as asset acquisitions. Prior to January 1, 2017, we accounted for our property acquisitions as business combinations. The acquired properties results of operations are included in our results of operations from the respective acquisition dates.

**2017 Acquisitions**

During 2017, (i) a consolidated JV that we manage and in which we own an equity interest acquired three Class A office properties (1299 Ocean Avenue, 429 Santa Monica Boulevard and 9665 Wilshire Boulevard), for which investors contributed \$284.0 million directly to the JV, and (ii) we acquired one wholly-owned Class A office property (9401 Wilshire Boulevard). The table below summarizes the purchase price allocations for the acquisitions. The contract and purchase prices differ due to prorations and similar matters.

(In thousands)	1299 Ocean	429 Santa Monica	9665 Wilshire	9401 Wilshire <sup>(1)</sup>
Submarket	Santa Monica	Santa Monica	Beverly Hills	Beverly Hills
Acquisition date	April 25	April 25	July 20	December 20
Contract price	\$ 275,800	\$ 77,000	\$ 177,000	\$ 143,647
Building square footage	206	87	171	146
<b>Investment in real estate:</b>				
Land	\$ 22,748	\$ 4,949	\$ 5,568	\$ 6,740
Buildings and improvements	260,188	69,286	175,960	144,467
Tenant improvements and lease intangibles	5,010	3,248	1,112	7,843
Acquired above- and below-market leases, net	(10,683)	(722)	(4,339)	(11,559)
Assumed debt <sup>(2)</sup>	—	—	—	(36,460)
Net assets and liabilities acquired	<u>\$ 277,263</u>	<u>\$ 76,761</u>	<u>\$ 178,301</u>	<u>\$ 111,031</u>

(1) We issued OP Units to the seller in connection with the acquisition of 9401 Wilshire. See Note 10 for more information.

(2) We assumed a loan from the seller in connection with the acquisition of 9401 Wilshire. At the date of acquisition, the loan had a fair value of \$36.5 million and a principal balance of \$32.3 million. See Note 7 for more information.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**2016 Acquisitions**

**Westwood Portfolio Acquisition**

On February 29, 2016 (Acquisition Date), a consolidated JV which we manage and in which we own an equity interest acquired four Class A office properties located in Westwood, California (Westwood Portfolio) for a contract price of \$1.34 billion. As of the Acquisition Date, we had contributed sixty-percent of the equity to the JV, which was subsequently reduced to thirty-percent on May 31, 2016 (Sell Down Date) when we sold half of our ownership interest to a third party investor. The table below summarizes our purchase accounting and funding sources for the acquisition. The contract and purchase price differ due to proration and similar matters.

(in thousands)	Actual at Closing <sup>(1)</sup>	Pro Forma Sell Down Adjustments <sup>(2)</sup>	Pro Forma
Building square footage	1,725		1,725
<b>Use of funds:</b>			
Land	\$ 94,996		\$ 94,996
Buildings and improvements	1,236,786		1,236,786
Tenant improvements and lease intangibles	50,439		50,439
Acquired above- and below-market leases, net <sup>(3)</sup>	(49,708)		(49,708)
Net assets and liabilities acquired	<u>\$ 1,332,513</u>		<u>\$ 1,332,513</u>
<b>Source of funds:</b>			
Cash on hand <sup>(4)</sup>	\$ 153,745	\$ —	\$ 153,745
Credit facility <sup>(5)</sup>	290,000	(240,000)	50,000
Non-recourse term loan, net <sup>(6)</sup>	568,768	—	568,768
Noncontrolling interests	320,000	240,000	560,000
Total source of funds	<u>\$ 1,332,513</u>	<u>\$ —</u>	<u>\$ 1,332,513</u>

- (1) Reflects the purchase of the Westwood Portfolio on the Acquisition Date when we contributed sixty-percent of the equity to the consolidated JV.
- (2) Reflects our sale of thirty-percent of the equity in the JV on the Sell Down Date, presented as of the Acquisition Date, treated as in-substance real estate, which reduced our ownership interest in the JV to thirty-percent. We sold the interest for the \$240.0 million we contributed plus an additional \$1.1 million to compensate us for the cost of holding the investment. We recognized a gain on the sale of \$1.1 million. We used the proceeds from the sale to pay down the balance owed on our revolving credit facility.
- (3) As of the Acquisition Date, the weighted average remaining life of the acquired above- and below-market leases was approximately 4.4 years.
- (4) Cash paid included a \$75.0 million deposit, \$67.5 million paid at closing, and \$11.2 million spent on loan costs in connection with securing the \$580.0 million term loan.
- (5) Reflects borrowings using our credit facility, which bears interest at LIBOR + 1.40%. See Note 7 for information regarding our credit facility.
- (6) Reflects 100% (not our pro rata share) of a \$580.0 million interest-only non-recourse loan, net of deferred loan costs of \$11.2 million incurred to secure the loan. The loan has a seven-year term and is secured by the Westwood Portfolio. Interest on the loan is floating at LIBOR + 1.40%, which has been effectively fixed at 2.37% per annum for five years through interest rate swaps. See Note 7 for information regarding this loan.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

The table below presents the revenues and net income attributable to common stockholders from the Westwood Portfolio included in the consolidated statement of operations from the Acquisition Date:

(in thousands)	Year Ended December 31,	
	2017	2016
Total office revenues	\$ 96,106	\$ 80,464
Net income attributable to common stockholders <sup>(1)</sup>	\$ 6,346	\$ 2,998

(1) Excluding transaction costs, net income attributable to common stockholders was \$6.3 million and \$5.0 million for the years ended December 31, 2017 and 2016, respectively.

The table below presents the historical results of Douglas Emmett, Inc. and the Westwood Portfolio on a combined basis as if the acquisition was completed on January 1, 2015, based on our thirty-percent ownership interest and includes adjustments that give effect to events that are (i) directly attributable to the acquisition, (ii) expected to have a continuing impact on us, and (iii) are factually supportable. The pro forma reflects the hypothetical impact of the acquisition on us and does not purport to represent what our results of operations would have been had the acquisition occurred on January 1, 2015, or project the results of operations for any future period. The information does not reflect cost savings or operating synergies that may result from the acquisition or the costs to achieve any such potential cost savings or operating synergies. Transaction costs related to the acquisition have been excluded.

(in thousands, except per share information)	Year Ended December 31,	
	2016	2015
Pro forma revenues	\$ 755,878	\$ 724,596
Pro forma net income attributable to common stockholders	\$ 84,319	\$ 59,374
Pro forma net income attributable to common stockholders per share – basic	\$ 0.56	\$ 0.40
Pro forma net income attributable to common stockholders per share – diluted	\$ 0.55	\$ 0.39

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Other 2016 Acquisitions**

During 2016, a consolidated JV which we manage and in which we own an equity interest acquired two Class A office properties. As of July 21, 2016, we had contributed fifty-five percent of the equity to the JV, which was reduced to twenty-percent when we sold thirty-five percent to a third party investor for \$51.6 million, which included \$194 thousand to compensate us for the cost of holding the investment. We recognized a gain of \$587 thousand on the sale, which is included in Gains on sales of investments in real estate in our consolidated statements of operations. In addition to purchasing a thirty-five percent interest from us, investors contributed \$139.8 million to the JV. Including the effect of the sale of our interest, investors now hold an aggregate of eighty-percent of the capital interests in the JV. As part of the acquisitions, the JV borrowed a \$146.0 million under a three year, interest only, non-recourse loan bearing interest at LIBOR + 1.55%. The loan was secured by the acquired properties. The loan was refinanced in 2017. See Note 7. The table below summarizes the purchase accounting for the acquisitions. The contract and purchase prices differ due to prorations and similar matters.

(in thousands)	<u>12100 Wilshire</u>	<u>233 Wilshire</u>
Submarket	Brentwood	Santa Monica
Acquisition date	July 21	September 27
Contract price	\$ 225,000	\$ 139,500
Building square footage	365	129
<b>Investment in real estate:</b>		
Land	\$ 20,164	\$ 9,263
Buildings and improvements	199,698	126,938
Tenant improvements and lease intangibles	9,057	3,488
Acquired above- and below-market leases, net	(4,523)	(1,838)
Net assets and liabilities acquired	<u>\$ 224,396</u>	<u>\$ 137,851</u>

**2016 Disposition**

During 2016, we sold a 168,000 square foot Class A office property located in Sherman Oaks, California with a carrying value of \$42.8 million for a contract price of \$56.7 million, and we incurred transaction costs of \$1.2 million resulting in a net gain of \$12.7 million. The gain is included in Gains on sales of investments in real estate in our consolidated statements of operations.

**2015 Acquisitions**

During 2015, we (i) acquired the fee interest in the land (Harbor Court Land) under one of our office buildings, and (ii) purchased a wholly-owned Class A office property (First Financial Plaza). We recognized \$6.6 million of accretion of an above-market ground lease related to the purchase of the Harbor Court Land, which is included in Other income in the consolidated statement of operations. See Note 4. The table below summarizes the purchase accounting for the acquisitions. The contract and purchase prices differ due to prorations and similar matters.

(in thousands)	<u>Harbor Court Land<sup>(1)</sup></u>	<u>First Financial Plaza</u>
Submarket	Honolulu	Encino
Acquisition date	February 12	March 5
Contract price	\$ 27,500	\$ 92,400
Building square footage (if applicable)	N/A	227
<b>Investment in real estate:</b>		
Land	\$ 12,060	\$ 12,092
Buildings and improvements	15,440	75,039
Tenant improvements and lease intangibles	—	6,065
Acquired above and below-market leases, net	—	(790)
Net assets and liabilities acquired	<u>\$ 27,500</u>	<u>\$ 92,406</u>

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**4. Acquired Lease Intangibles**

**Summary of our Acquired Lease Intangibles**

The table below summarizes our above- and below-market leases:

(In thousands)	December 31, 2017	December 31, 2016
Above-market tenant leases	\$ 7,177	\$ 7,156
Accumulated amortization - above-market tenant leases	(3,846)	(2,988)
Above-market ground leases	1,152	1,152
Accumulated amortization - above-market ground leases	(190)	(173)
Acquired lease intangible assets, net	<u>\$ 4,293</u>	<u>\$ 5,147</u>
Below-market tenant leases	\$ 127,606	\$ 104,925
Accumulated accretion - below-market tenant leases	(55,428)	(41,241)
Above-market ground leases	4,017	4,017
Accumulated accretion - above-market ground leases	(560)	(510)
Acquired lease intangible liabilities, net	<u>\$ 75,635</u>	<u>\$ 67,191</u>

**Impact on the Consolidated Statements of Operations**

The table below summarizes the net amortization/accretion related to our above- and below-market leases:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Net accretion of above- and below-market tenant leases <sup>(1)</sup>	\$ 17,973	\$ 18,165	\$ 12,467
Amortization of above-market ground leases <sup>(2)</sup>	(17)	(17)	(17)
Accretion of above-market ground lease <sup>(3)</sup>	50	50	50
Accretion of above-market ground lease <sup>(4)</sup>	—	—	6,600
Total	<u>\$ 18,006</u>	<u>\$ 18,198</u>	<u>\$ 19,100</u>

- (1) Recorded as a net increase to office and multifamily rental revenues.  
(2) The amortization of the below-market rent we receive under this ground lease is recorded as an increase to office parking and other income.  
(3) The accretion of the above-market rent we pay under this ground lease is recorded as a decrease to office expense.  
(4) The accretion of the above-market rent we paid under this ground lease is recorded as an increase to other income. During 2015, we acquired the fee interest in the land (Harbor Court Land). See Note 3.

The table below presents the future net accretion related to our above- and below-market leases at December 31, 2017:

Year ending December 31:	Net increase to revenues	Decrease to expenses	Total
(In thousands)			
2018	\$ 18,794	\$ 50	\$ 18,844
2019	16,809	50	16,859
2020	13,987	50	14,037
2021	7,933	50	7,983
2022	4,361	50	4,411
Thereafter	6,001	3,207	9,208
Total	<u>\$ 67,885</u>	<u>\$ 3,457</u>	<u>\$ 71,342</u>



**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**5. Investments in Unconsolidated Real Estate Funds**

**Description of our Funds**

We manage and own equity interests in three unconsolidated Funds, the Opportunity Fund, Fund X and Partnership X, through which we and investors own eight office properties totaling 1.8 million square feet. We purchased a 3.7% interest in the Opportunity Fund during the second quarter of 2017 and 2.5% during the fourth quarter of 2017. The Opportunity Fund's only investment is a 13.1% interest in Fund X. At December 31, 2017, we held direct and indirect interests of 6.2% in the Opportunity Fund, 69.4% in Fund X and 24.3% in Partnership X. Our Funds pay us fees and reimburse us for certain expenses related to property management and other services we provide. We also receive distributions based on invested capital and on any profits that exceed certain specified cash returns to the investors. The table below presents cash distributions received from our Funds:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Operating distributions received	\$ 5,905	\$ 2,668	\$ 1,068
Capital distributions received	43,560	24,170	10,788
Total distributions received	<u>\$ 49,465</u>	<u>\$ 26,838</u>	<u>\$ 11,856</u>

**Summarized Financial Information for our Funds**

The tables below present selected financial information for the Funds on a combined basis. The amounts presented represent 100% (not our pro-rata share) of amounts related to the Funds, and are based upon historical acquired book value:

(In thousands)	December 31, 2017	December 31, 2016
Total assets	\$ 704,186	\$ 690,028
Total liabilities	\$ 523,767	\$ 448,544
Total equity	\$ 180,419	\$ 241,484

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Total revenues	\$ 75,896	\$ 73,171	\$ 69,702
Operating income	\$ 20,640	\$ 19,477	\$ 17,803
Net income	\$ 5,085	\$ 8,213	\$ 6,260

**6. Other Assets**

Other assets consisted of the following at December 31:

(In thousands)	December 31, 2017	December 31, 2016
Restricted cash	\$ 121	\$ 121
Prepaid expenses	9,235	6,779
Other indefinite-lived intangibles	1,988	1,988
Furniture, fixtures and equipment, net	1,155	1,093
Other	5,943	1,933
Total other assets	<u>\$ 18,442</u>	<u>\$ 11,914</u>

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**7. Secured Notes Payable and Revolving Credit Facility, Net**

The following table summarizes our secured notes payable and revolving credit facility:

Description	Maturity Date <sup>(1)</sup>	Principal Balance as of December 31, 2017 (In thousands)	Principal Balance as of December 31, 2016 (In thousands)	Variable Interest Rate	Fixed Interest Rate <sup>(2)</sup>	Swap Maturity Date
<b>Wholly Owned Subsidiaries</b>						
Term loan <sup>(3)</sup>	—	\$ —	\$ 1,000	—	—	—
Term loan <sup>(3)</sup>	—	—	349,933	—	—	—
Fannie Mae loans <sup>(3)</sup>	—	—	388,080	—	—	—
Term loan <sup>(3)</sup>	—	—	345,759	—	—	—
Term loan <sup>(4)</sup>	2/1/2019	146,974	149,911	N/A	4.00%	—
Term loan <sup>(4)</sup>	6/5/2019	280,721	285,000	N/A	3.85%	—
Fannie Mae loan	10/1/2019	145,000	145,000	LIBOR + 1.25%	N/A	—
Term loan <sup>(5)</sup>	4/15/2022	340,000	340,000	LIBOR + 1.40%	2.77%	4/1/2020
Term loan <sup>(5)</sup>	7/27/2022	180,000	180,000	LIBOR + 1.45%	3.06%	7/1/2020
Term loan <sup>(5)</sup>	11/1/2022	400,000	400,000	LIBOR + 1.35%	2.64%	11/1/2020
Term loan <sup>(5)</sup>	6/23/2023	360,000	360,000	LIBOR + 1.55%	2.57%	7/1/2021
Term loan <sup>(5)</sup>	12/23/2023	220,000	220,000	LIBOR + 1.70%	3.62%	12/23/2021
Term loan <sup>(5)</sup>	1/1/2024	300,000	300,000	LIBOR + 1.55%	3.46%	1/1/2022
Fannie Mae loan <sup>(5)</sup>	4/1/2025	102,400	102,400	LIBOR + 1.25%	2.84%	3/1/2020
Fannie Mae loans <sup>(5)</sup>	12/1/2025	115,000	115,000	LIBOR + 1.25%	2.76%	12/1/2020
Fannie Mae loans <sup>(5)</sup>	6/1/2027	550,000	—	LIBOR + 1.37%	3.16%	6/1/2022
Term loan <sup>(4)</sup>	6/1/2038	32,213	—	N/A	4.55%	—
Revolving credit facility <sup>(6)</sup>	8/21/2020	—	—	LIBOR + 1.40%	N/A	—
<b>Total Wholly Owned Subsidiary Debt</b>		<b>3,172,308</b>	<b>3,682,083</b>			
<b>Consolidated JVs</b>						
Term loan <sup>(3)</sup>	—	—	146,000	—	—	—
Term loan <sup>(5)</sup>	2/28/2023	580,000	580,000	LIBOR + 1.40%	2.37%	3/1/2021
Term loan <sup>(5)</sup>	12/20/2024	400,000	—	LIBOR + 1.30%	3.47%	1/1/2023
<b>Total Consolidated Debt <sup>(7)</sup></b>		<b>4,152,308</b>	<b>4,408,083</b>			
Unamortized loan premium, net		4,191	—			
Deferred loan costs, net		(39,109)	(38,546)			
<b>Total Consolidated Debt, net</b>		<b>\$ 4,117,390</b>	<b>\$ 4,369,537</b>			

Except as otherwise noted below, each loan (including our revolving credit facility) is non-recourse and secured by one or more separate collateral pools consisting of one or more properties, and requires monthly payments of interest only with the outstanding principal due upon maturity.

- (1) Maturity dates include the effect of extension options.
- (2) Includes the effect of interest rate swaps and excludes the effect of prepaid loan costs. See Note 9 for details of our interest rate swaps. See below for details of our loan costs.
- (3) At December 31, 2017, these loans have been paid off.
- (4) Requires monthly payments of principal and interest. Principal amortization is based upon a 30-year amortization schedule.
- (5) Loan agreement includes a zero-percent LIBOR floor. The corresponding swaps do not include such a floor.
- (6) \$400.0 million revolving credit facility. Unused commitment fees range from 0.15% to 0.20%.
- (7) See Note 13 for our fair value disclosures.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Debt Statistics**

The following table summarizes our fixed and floating rate debt:

(In thousands)	Principal Balance as of December 31, 2017	Principal Balance as of December 31, 2016
Aggregate swapped to fixed rate loans	\$ 3,547,400	\$ 2,985,480
Aggregate fixed rate loans	459,908	1,131,603
Aggregate floating rate loans	145,000	291,000
Total Debt	<u>\$ 4,152,308</u>	<u>\$ 4,408,083</u>

The following table summarizes certain debt statistics:

Statistics for consolidated loans with interest fixed under the terms of the loan or a swap	
Principal balance (in billions)	\$4.01
Weighted average remaining life (including extension options)	5.8 years
Weighted average remaining fixed interest period	3.3 years
Weighted average annual interest rate	3.09%

**Future Principal Payments**

At December 31, 2017, the minimum future principal payments due on our secured notes payable and revolving credit facility were as follows:

Year ending December 31:	Excluding Maturity Extension Options	Including Maturity Extension Options <sup>(1)</sup>
(In thousands)		
2018	\$ 9,064	\$ 9,064
2019	565,041	565,041
2020	295,755	755
2021	790	790
2022	1,040,826	920,826
Thereafter	2,240,832	2,655,832
Total future principal payments	<u>\$ 4,152,308</u>	<u>\$ 4,152,308</u>

(1) Our loan agreements generally require that we meet certain minimum financial thresholds to be able to extend the loan maturity.

**Loan Costs**

Deferred loan costs are net of accumulated amortization of \$18.0 million and \$15.4 million at December 31, 2017 and December 31, 2016, respectively. The table below presents the impact of loan costs included in interest expense in our consolidated statements of operations:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Loan costs expensed	\$ 2,359	\$ 1,441	\$ 278
Deferred loan cost amortization	9,033	7,608	6,969
Total	<u>\$ 11,392</u>	<u>\$ 9,049</u>	<u>\$ 7,247</u>

## 8. Interest Payable, Accounts Payable and Deferred Revenue

Interest payable, accounts payable and deferred revenue consisted of the following as of December 31:

(In thousands)	December 31, 2017	December 31, 2016
Interest payable	\$ 9,829	\$ 9,561
Accounts payable and accrued liabilities	62,741	36,880
Deferred revenue	31,377	28,788
Total interest payable, accounts payable and deferred revenue	<u>\$ 103,947</u>	<u>\$ 75,229</u>

## 9. Derivative Contracts

### Derivative Summary

As of December 31, 2017, all of our interest rate swaps, which include the interest rate swaps of our consolidated JVs and our unconsolidated Funds, were designated as cash flow hedges:

	Number of Interest Rate Swaps	Notional (In thousands)
Consolidated derivatives <sup>(1)</sup>	25	\$ 3,547,400
Unconsolidated Funds' derivatives <sup>(2)</sup>	4	\$ 510,000

(1) The notional amount includes 100%, not our pro-rata share, of our consolidated JVs' derivatives.

(2) The notional amount includes 100%, not our pro-rata share, of our unconsolidated Funds' derivatives.

### Credit-risk-related Contingent Features

We have agreements with each of our interest rate swap 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. As of December 31, 2017, there have been no events of default with respect to our interest rate swaps or our consolidated JVs' or unconsolidated Funds' interest rate swaps. We do not post collateral for our swaps in a liability position. The fair value of our interest rate swaps in a liability position, including accrued interest and excluding any adjustments for credit risk, was as follows:

(In thousands)	December 31, 2017	December 31, 2016
Consolidated derivatives <sup>(1)</sup>	\$ 915	\$ 7,689
Unconsolidated Funds' derivatives <sup>(2)</sup>	\$ —	\$ —

(1) Includes 100%, not our pro-rata share, of our consolidated JVs' derivatives.

(2) Our unconsolidated Funds' did not have any derivatives in a liability position.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Counterparty Credit Risk**

We are subject to credit risk from the counterparties on our interest rate swap and cap contracts. We seek to minimize our credit risk by entering into agreements with a variety of high quality counterparties with investment grade ratings. We do not receive collateral for our contracts in an asset position. The fair value of our interest rate swaps in an asset position, including accrued interest and excluding any adjustments for credit risk, was as follows:

(In thousands)	December 31, 2017	December 31, 2016
Consolidated derivatives <sup>(1)</sup>	\$ 60,093	\$ 35,144
Unconsolidated Funds' derivatives <sup>(2)</sup>	\$ 9,350	\$ 3,724

(1) Includes 100%, not our pro-rata share, of our consolidated JVs' derivatives.

(2) Includes 100%, not our pro-rata share, of our unconsolidated Funds' derivatives.

**Impact of Hedges on AOCI and Consolidated Statements of Operations**

The table below presents the effect of our derivative instruments on our AOCI and results of operations:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b>Derivatives Designated as Cash Flow Hedges:</b>			
Gain (loss) recorded in AOCI - consolidated derivatives <sup>(1)(5)</sup>	\$ 16,512	\$ 14,192	\$ (11,549)
Gain (loss) recorded in AOCI - unconsolidated Funds' derivatives <sup>(2)(5)</sup>	\$ 3,275	\$ 8	\$ (1,922)
Loss reclassified from AOCI - consolidated derivatives <sup>(3)(5)</sup>	\$ (13,976)	\$ (25,917)	\$ (37,390)
Loss reclassified from AOCI - unconsolidated Funds' derivatives <sup>(4)(5)</sup>	\$ (527)	\$ (357)	\$ (931)
(Loss) gain recorded - consolidated derivatives <sup>(6)</sup>	\$ (51)	\$ 196	\$ 66
<b>Derivatives Not Designated as Cash Flow Hedges:</b>			
Gain (loss) recorded as interest expense <sup>(7)</sup>	\$ —	\$ —	\$ —

(1) Represents the effective portion of the change in fair value of our interest rate swaps.

(2) Represents our share of the effective portion of the change in fair value of our unconsolidated Funds' interest rate swaps.

(3) Reclassified from AOCI as an increase to Interest expense.

(4) Reclassified from AOCI as an increase to Income, including depreciation, from unconsolidated real estate funds (our share).

(5) See the reconciliation of our AOCI in Note 10.

(6) Represents the ineffective portion of the change in fair value of our interest rate swaps, which is recorded as a decrease (increase) to interest expense. Our unconsolidated Funds did not have any ineffectiveness related to their interest rate swaps.

(7) We and our unconsolidated Funds do not have any derivatives that are not designated as cash flow hedges.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Future Reclassifications from AOCI**

At December 31, 2017, our estimate of the AOCI related to derivatives designated as cash flow hedges, that will be reclassified to earnings during the next year as interest rate swap payments are made, is presented in the table below:

**(In thousands)**

Consolidated derivatives <sup>(1)</sup>	\$ (8,916)
Unconsolidated Funds' derivatives <sup>(2)</sup>	\$ (166)

- 
- (1) Reclassified as an increase (decrease) to Interest expense.
- (2) Reclassified as an (increase) decrease to Income, including depreciation, from unconsolidated real estate funds (our share).

**10. Equity**

**Transactions**

**2017 Transactions**

During 2017 we, or our Operating Partnership, (i) acquired 1.1 million OP Units in exchange for issuing an equal number of shares of our common stock to the holders of the OP Units, (ii) issued 1.3 million shares of our common stock for the exercise of 3.9 million stock options on a net settlement basis (net of the exercise price and related taxes), (iii) issued 15.7 million shares of our common stock under our ATM program for net proceeds of \$593.2 million, and (iv) issued 2.6 million OP Units valued at \$105.7 million in connection with the acquisition of the 9401 Wilshire office property, of which we subsequently acquired 248 thousand OP Units for \$10.1 million in cash. One of our JVs acquired three office properties, 1299 Ocean Avenue, 429 Santa Monica and 9665 Wilshire, for which investors contributed \$284.0 million directly to the JV.

**2016 Transactions**

During 2016 we (i) acquired 1.8 million OP Units in exchange for issuing an equal number of shares of our common stock to the holders of OP Units, (ii) acquired 25 thousand OP Units for \$826 thousand in cash, (iii) issued 1.5 million shares of our common stock for the exercise of 7.6 million stock options on a net settlement basis (net of the exercise price and related taxes), (iv) issued 1.4 million shares of our common stock under our ATM program for net proceeds of \$49.4 million.

We also created two JVs to acquire various properties: (i) in the JV which acquired the Westwood Portfolio, investors acquired an aggregate of seventy-percent of the capital interests, as a result of contributing \$320 million directly to the JV for a forty-percent interest and acquiring a thirty-percent interest from us for \$241.1 million, (resulting in a gain of \$1.1 million), and (ii) in the second JV, which acquired two office properties, 12100 Wilshire and 233 Wilshire, investors acquired an aggregate of eighty-percent of the capital interests, as a result of contributing \$139.8 million directly to the JV and acquiring a thirty-five-percent interest from us for \$51.6 million (resulting in a gain of \$587 thousand).

**2015 Transactions**

During 2015 we, or our Operating Partnership, (i) acquired 1.8 million OP Units in exchange for issuing an equal number of shares of our common stock to the holders of the OP Units, (ii) issued 274 thousand shares of our common stock for the exercise of options for net proceeds of \$4.3 million at an average price of \$15.58 per share, and (iii) issued 34 thousand OP Units valued at \$1 million in connection with the acquisition of land (Harbor Court Land) under one of our office buildings.

See Note 3 for more information regarding our acquisitions and JV transactions.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Noncontrolling Interests**

Our noncontrolling interests consist of interests in our Operating Partnership and consolidated JVs which are not owned by us. Noncontrolling interests in our Operating Partnership consist of OP Units and fully-vested LTIP Units, and represented approximately 14% of our Operating Partnership's total interests as of December 31, 2017 when we and our Operating Partnership had 169.6 million shares of common stock and 27.8 million OP Units and fully-vested LTIP Units outstanding. A share of our common stock, an OP Unit and an LTIP Unit (once vested and booked up) have essentially the same economic characteristics, sharing equally in the distributions from our Operating Partnership. Investors who own OP Units have the right to cause our Operating Partnership to acquire their OP Units for an amount of cash per unit equal to the market value of one share of our common stock at the date of acquisition, or, at our election, exchange their OP Units for shares of our common stock on a one-for-one basis. LTIP Units have been granted to our key employees and non-employee directors as part of their compensation. These awards generally vest over the service period and once vested can generally be converted to OP Units.

**Changes in our Ownership Interest in our Operating Partnership**

The table below presents the impact on our equity from net income attributable to common stockholders and changes in our ownership interest in our Operating Partnership:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b>Net income attributable to common stockholders</b>	\$ 94,443	\$ 85,397	\$ 58,384
<b>Transfers from noncontrolling interests:</b>			
Exchange of OP Units with noncontrolling interests	14,242	23,060	23,703
Repurchase of OP Units from noncontrolling interests	(6,764)	(498)	—
Net transfers from noncontrolling interests	7,478	22,562	23,703
Change from net income attributable to common stockholders and transfers from noncontrolling interests	\$ 101,921	\$ 107,959	\$ 82,087

**AOCI Reconciliation<sup>(1)</sup>**

The table below presents a reconciliation of our AOCI, which consists solely of adjustments related to derivatives designated as cash flow hedges:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Beginning balance	\$ 15,156	\$ (9,285)	\$ (30,089)
Other comprehensive income (loss) before reclassifications - our derivatives	16,512	14,192	(11,549)
Other comprehensive income (loss) before reclassifications - our Fund's derivatives	3,275	8	(1,922)
Reclassifications from AOCI - our derivatives <sup>(2)</sup>	13,976	25,917	37,390
Reclassifications from AOCI - our Fund's derivatives <sup>(3)</sup>	527	357	931
Net current period OCI	34,290	40,474	24,850
Less: OCI attributable to noncontrolling interests	(6,347)	(16,033)	(4,046)
OCI attributable to common stockholders	27,943	24,441	20,804
Ending balance	\$ 43,099	\$ 15,156	\$ (9,285)

- (1) See Note 9 for the details of our derivatives and Note 13 for our derivative fair value disclosures.
- (2) Reclassification as an increase to Interest expense.
- (3) Reclassification as a decrease to Income, including depreciation, from unconsolidated real estate funds.



**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Dividends (unaudited)**

Our common stock dividends paid during 2017 are classified for federal income tax purposes as follows:

Record Date	Paid Date	Dividend Per Share	Ordinary Income Percentage	Capital Gain Percentage	Return of Capital Percentage
12/30/2016	1/13/2017	\$ 0.23	22.5%	—%	77.5%
3/31/2017	4/14/2017	0.23	22.5%	—%	77.5%
6/30/2017	7/14/2017	0.23	22.5%	—%	77.5%
9/29/2017	10/13/2017	0.23	22.5%	—%	77.5%
Total / Weighted Average		<u>\$ 0.92</u>	<u>22.5%</u>	<u>—%</u>	<u>77.5%</u>

**11. EPS**

The table below presents the calculation of basic and diluted EPS:

	Year Ended December 31,		
	2017	2016	2015
<b>Numerator (In thousands):</b>			
Net income attributable to common stockholders	\$ 94,443	\$ 85,397	\$ 58,384
Allocation to participating securities: Unvested LTIP Units	(626)	(468)	(312)
Numerator for basic and diluted net income attributable to common stockholders	<u>\$ 93,817</u>	<u>\$ 84,929</u>	<u>\$ 58,072</u>
<b>Denominator (In thousands):</b>			
Weighted average shares of common stock outstanding - basic	160,905	149,299	146,089
Effect of dilutive securities: Stock options <sup>(1)</sup>	325	3,891	4,515
Weighted average shares of common stock and common stock equivalents outstanding - diluted	<u>161,230</u>	<u>153,190</u>	<u>150,604</u>
<b>Basic EPS:</b>			
Net income attributable to common stockholders per share	\$ 0.58	\$ 0.57	\$ 0.40
<b>Diluted EPS:</b>			
Net income attributable to common stockholders per share	\$ 0.58	\$ 0.55	\$ 0.39

- (1) The following securities were excluded from the computation of the weighted average shares of common stock and common stock equivalents outstanding - diluted because the effect of including them would be anti-dilutive to the calculation of diluted EPS:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
OP Units	24,810	25,110	26,371
Vested LTIP Units	274	578	181

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**12. Stock-Based Compensation**

**2016 Omnibus Stock Incentive Plan**

The Douglas Emmett, Inc. 2016 Omnibus Stock Incentive Plan, our stock incentive plan (our "2016 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 5.3 million shares available for grant as of December 31, 2017. Awards such as LTIP Units, deferred stock and restricted stock, which deliver the full value of the underlying shares are counted against the Plan limits as two shares. Awards such as stock options and stock appreciation rights are counted as one share. The number of shares reserved under our 2016 Plan is also subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Shares of stock underlying any awards that are forfeited, canceled or otherwise terminated (other than by exercise) are added back to the shares of stock available for future issuance under the 2016 Plan. For options exercised, our policy is to issue common stock on a net settlement basis - net of the exercise price and related taxes.

Until it expired in 2016, we made grants under our 2006 Omnibus Stock Incentive Plan (our "2006 Plan"), which was substantially similar to our 2016 Plan. No further awards may be granted under our 2006 Plan, although awards granted under the 2006 Plan in the past and which are still outstanding will continue to be governed by the terms of our 2006 Plan.

Our 2016 and 2006 Plans (the "Plans") are administered by the compensation committee of our board of directors. The compensation committee may interpret our Plans and make all determinations necessary or desirable for the administration of our Plans. 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 2016 Plan. All officers, employees, directors and other key personnel (including consultants and prospective employees) are eligible to participate in our 2016 Plan.

We have made certain awards in the form of a separate series of units of limited partnership interests in our Operating Partnership called LTIP Units, which can be granted either as free-standing awards or in tandem with other awards under our 2016 Plan. Our LTIP Units are 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, and/or achievement of pre-established performance goals, financial metrics and other objectives. Once vested, LTIP Units can generally be converted to OP Units on a one for one basis.

**Employee Awards**

We grant stock-based compensation in the form of LTIP Units as a part of our annual incentive compensation to various employees each year, a portion which vests at the date of grant, and the remainder which vests in three equal annual installments over the three calendar years following the grant date. 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. We have also made long-term grants in the form of LTIP Units to certain employees, which generally vest in equal annual installments over four to five calendar years following the grant date, and some of these grants include a portion which vests at the date of grant. In aggregate, we granted 800 thousand, 704 thousand and 887 thousand LTIP Units to employees during 2017, 2016 and 2015, respectively.

**Non-Employee Director Awards**

As annual fees for their services, each of our non-employee directors receives a grant of LTIP Units that vests on a quarterly basis during the year the services are rendered, which is the calendar year following the grant date. We granted 28 thousand, 35 thousand and 35 thousand LTIP Units to our non-employee directors during 2017, 2016 and 2015, respectively. In the past, we made long-term grants of LTIP Units to our non-employee directors which vested over the following three years, and during 2015 we made a proportional long-term grant to a new director who joined our board of 1 thousand LTIP units, which vested during the remainder of 2015.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Compensation Expense**

Total stock-based compensation expense, net of capitalized amounts, was \$18.5 million, \$17.4 million and \$15.2 million during 2017, 2016 and 2015, respectively. Certain amounts of stock-based compensation expense are capitalized for employees who provide leasing and construction services. We capitalized \$2.5 million, \$1.5 million, and \$1.4 million during 2017, 2016 and 2015, respectively. At December 31, 2017, the total unrecognized stock-based compensation expense for unvested LTIP Unit awards was \$21.8 million, which will be recognized over a weighted-average term of two years.

**Stock-Based Award Activity**

The table below presents our outstanding stock options activity:

<b>Fully Vested Stock Options:</b>	<b>Number of Stock Options (Thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contract Life (Months)</b>	<b>Total Intrinsic Value (Thousands)</b>	<b>Intrinsic Value of Options Exercised (Thousands)</b>
Outstanding at December 31, 2014	11,809	\$ 17.98	36	\$ 123,017	
Exercised	(274)	\$ 15.58			\$ 3,989
Outstanding at December 31, 2015	11,535	\$ 18.04	23	\$ 151,569	
Exercised	(7,566)	\$ 20.98			\$ 104,108
Outstanding at December 31, 2016	3,969	\$ 12.43	27	\$ 95,770	
Exercised	(3,920)	\$ 12.43			\$ 102,963
Outstanding at December 31, 2017	49	\$ 12.66	16	\$ 1,375	
Exercisable at December 31, 2017	49	\$ 12.66	16	\$ 1,375	

The table below presents our unvested LTIP Units activity:

<b>Unvested LTIP Units:</b>	<b>Number of Units (Thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Grant Date Fair Value (Thousands)</b>
Outstanding at December 31, 2014	998	\$ 18.48	
Granted	922	\$ 20.26	\$ 18,673
Vested	(816)	\$ 18.59	\$ 15,165
Forfeited	(8)	\$ 24.86	\$ 200
Outstanding at December 31, 2015	1,096	\$ 19.85	
Granted	739	\$ 27.62	\$ 20,420
Vested	(778)	\$ 22.23	\$ 17,293
Forfeited	(17)	\$ 27.77	\$ 473
Outstanding at December 31, 2016	1,040	\$ 23.46	
Granted	828	\$ 29.89	\$ 24,745
Vested	(807)	\$ 25.40	\$ 20,497
Forfeited	(5)	\$ 31.36	\$ 172
Outstanding at December 31, 2017	1,056	\$ 26.98	

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**13. Fair Value of Financial Instruments**

Our estimates of the fair value of financial instruments were determined using available market information and widely used valuation methods. Considerable judgment is necessary to interpret market data and determine an estimated fair value. The use of different market assumptions or valuation methods may have a material effect on the estimated fair values. The FASB fair value framework hierarchy 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. The hierarchy is as follows:

- 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

As of December 31, 2017, we did not have any fair value estimates of financial instruments using Level 3 inputs.

**Financial instruments disclosed at fair value**

Short term financial instruments: The carrying amounts for cash and cash equivalents, tenant receivables, revolving credit line, interest payable, accounts payable, security deposits and dividends payable approximate fair value because of the short-term nature of these instruments.

Secured notes payable: See Note 7 for the details of our secured notes payable. We estimate the fair value of our secured notes payable, which includes the secured notes payable of our consolidated JVs, by calculating the credit-adjusted present value of the principal and interest payments for each secured note payable. The calculation incorporates observable market interest rates which we consider to be Level 2 inputs, assumes that the loans will be outstanding through maturity, and excludes any maturity extension options. The table below presents the estimated fair value of our secured notes payable:

(In thousands)	December 31, 2017	December 31, 2016
Fair value	\$ 4,195,489	\$ 4,429,224
Carrying value	\$ 4,156,499	\$ 4,408,083

**Financial instruments measured at fair value**

Derivative instruments: See Note 9 for the details of our derivatives. We present our derivatives on the balance sheet at fair value, on a gross basis, excluding accrued interest. We estimate the fair value of our derivative instruments by calculating the credit-adjusted present value of the expected future cash flows of each derivative. The calculation incorporates the contractual terms of the derivatives, observable market interest rates which we consider to be Level 2 inputs, and credit risk adjustments to reflect the counterparty's as well as our own nonperformance risk. Our derivatives are not subject to master netting arrangements. The table below presents the estimated fair value of our derivatives:

(In thousands)	December 31, 2017	December 31, 2016
<b>Derivative Assets:</b>		
Fair value - consolidated derivatives <sup>(1)</sup>	\$ 60,069	\$ 35,656
Fair value - unconsolidated Funds' derivatives <sup>(2)</sup>	\$ 9,437	\$ 3,605
<b>Derivative Liabilities:</b>		
Fair value - consolidated derivatives <sup>(1)</sup>	\$ 807	\$ 6,830
Fair value - unconsolidated Funds' derivatives <sup>(2)</sup>	\$ —	\$ —

(1) Consolidated derivatives, which include 100%, not our pro-rata share, of our consolidated JVs' derivatives, are included in interest rate contracts in our consolidated balance sheet. The fair value excludes accrued interest which is included in interest payable in the consolidated balance sheet.

(2) Represents 100%, not our pro-rata share, of our unconsolidated Funds' derivatives. Our pro-rata share of the amounts related to the unconsolidated Funds' derivatives is included in our Investment in unconsolidated real estate funds in our consolidated balance sheet. See Note 5 for more information regarding our unconsolidated Funds.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**14. Segment Reporting**

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in two business segments: (i) the acquisition, development, ownership and management of office real estate and (ii) the acquisition, development, 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. The table below presents the operating activity of our reportable segments:

(In thousands)	Year Ended December 31,		
	2017	2016	2015
<b><u>Office Segment</u></b>			
Total office revenues	\$ 715,546	\$ 645,633	\$ 540,975
Office expenses	(233,633)	(214,546)	(186,556)
Office segment profit	481,913	431,087	354,419
<b><u>Multifamily Segment</u></b>			
Total multifamily revenues	96,506	96,918	94,799
Multifamily expenses	(24,401)	(23,317)	(23,862)
Multifamily segment profit	72,105	73,601	70,937
Total profit from all segments	\$ 554,018	\$ 504,688	\$ 425,356

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

(In thousands)	Year Ended December 31,		
	2017	2016	2015
Total profit from all segments	\$ 554,018	\$ 504,688	\$ 425,356
General and administrative	(36,234)	(34,957)	(30,496)
Depreciation and amortization	(276,761)	(248,914)	(205,333)
Other income	9,712	8,759	15,228
Other expenses	(7,037)	(9,477)	(8,241)
Income, including depreciation, from unconsolidated real estate funds	5,905	7,812	7,694
Interest expense	(145,176)	(146,148)	(135,453)
Income before gains	104,427	81,763	68,755
Gains on sales of investments in real estate	—	14,327	—
Net income	104,427	96,090	68,755
Less: Net income attributable to noncontrolling interests	(9,984)	(10,693)	(10,371)
Net income attributable to common stockholders	\$ 94,443	\$ 85,397	\$ 58,384

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**15. Future Minimum Lease Rental Receipts**

We lease space to tenants primarily under non-cancelable operating leases that generally contain provisions for a base rent plus reimbursement of certain operating expenses, and we own fee interests in two parcels of land from which we receive rent under ground leases. The table below presents the future minimum base rentals on our non-cancelable office tenant and ground leases at December 31, 2017:

<b>Year Ending December 31,</b>	<b>(In thousands)</b>
2018	\$ 533,811
2019	487,373
2020	424,744
2021	334,173
2022	256,954
Thereafter	670,826
<b>Total future minimum base rentals<sup>(1)</sup></b>	<b>\$ 2,707,881</b>

(1) Does not include (i) residential leases, which typically have a term of one year or less, (ii) holdover rent, (iii) other types of rent such as storage rent and antenna rent, (iv) tenant reimbursements, (v) straight line rent, (vi) amortization/accretion of acquired above/below-market lease intangibles and (vii) percentage rents. The amounts assume that early termination options held by tenants are not exercised.

**16. Future Minimum Lease Rental Payments**

We pay rent under a ground lease which expires on December 31, 2086. The rent is fixed at \$733 thousand per year until February 28, 2019, and will then reset to the greater of the existing rent or market. We incurred rent expense of \$733 thousand during 2017, 2016 and 2015, respectively. The table below presents the future minimum ground lease payments as of December 31, 2017:

<b>Year ending December 31:</b>	<b>(In thousands)</b>
2018	\$ 733
2019	733
2020	733
2021	733
2022	733
Thereafter	46,911
<b>Total future minimum lease payments<sup>(1)</sup></b>	<b>\$ 50,576</b>

(1) The table above assumes that the rental payments will continue to be \$733 thousand per year after February 28, 2019.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**17. Commitments, Contingencies and Guarantees**

**Legal Proceedings**

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

**Concentration of Risk**

We are subject to credit risk with respect to our tenant receivables and deferred rent receivables related to our tenant leases. Our tenants' ability to honor the terms of their respective leases remains dependent upon economic, regulatory and social factors. We seek to minimize our credit risk from our tenant leases by (i) targeting smaller, more affluent tenants, from a diverse mix of industries, (ii) performing credit evaluations of prospective tenants, and (iii) obtaining security deposits or letters of credit from our tenants. In 2017, 2016 and 2015, no tenant accounted for more than 10% of our total revenues. See Note 2 for the details of our allowances for tenant receivables and deferred rent receivables.

All of our properties, including the properties of our consolidated JVs and unconsolidated Funds, are located in Los Angeles County, California and Honolulu, Hawaii, and we are therefore susceptible to adverse economic and regulatory developments, as well as natural disasters, in those markets.

We are also subject to credit risk with respect to our interest rate swap counterparties that we use to manage the risk associated with our floating rate debt. We do not post or receive collateral with respect to our swap transactions. See Note 9 for the details of our interest rate contracts. We seek to minimize our credit risk by entering into agreements with a variety of high quality counterparties with investment grade ratings.

We have significant cash balances invested in a variety of short-term money market funds that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments are not insured against loss of principal and there is no guarantee that our investments in these funds will be redeemable at par value. We also have significant cash balances in bank accounts with high quality financial institutions with investment grade ratings. Interest bearing bank accounts at each U.S. banking institution are insured by the FDIC up to \$250 thousand.

**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 have identified twenty-eight buildings in our Consolidated Portfolio, and four buildings owned by our unconsolidated Funds which contain asbestos, and would have to be removed in compliance with applicable environmental regulations if these properties are demolished or undergo major renovations. As of December 31, 2017, 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.

**Development and Other Contracts**

During 2016, we commenced building an additional 475 apartments (net of existing apartments removed) at our Moanalua Hillside Apartments in Honolulu, Hawaii. We are also investing additional capital to upgrade the existing apartments, improve the parking and landscaping, building a new leasing and management office, and construct a new recreation and fitness facility with a new pool. As of December 31, 2017, we had completed the construction of 60 apartments and placed them into service. In West Los Angeles, we plan to build a high-rise apartment building with 376 apartments. As of December 31, 2017, we had an aggregate remaining contractual commitment for these development projects of approximately \$53.1 million.

As of December 31, 2017, we had an aggregate remaining contractual commitment for capital expenditure projects, repositionings and tenant improvements of approximately \$16.0 million.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**Guarantees**

We have made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve-outs for our unconsolidated Funds' debt. We have also guaranteed the related swaps. Our Funds have agreed to indemnify us for any amounts that we would be required to pay under these agreements. As of December 31, 2017, all of the obligations under the related debt and swap agreements have been performed in accordance with the terms of those agreements. The table below summarizes our Funds' debt as of December 31, 2017. The amounts represent 100% (not our pro-rata share) of the amounts related to our Funds:

Fund <sup>(1)</sup>	Loan Maturity Date	Principal Balance (In millions)	Variable Interest Rate	Swap Fixed Interest Rate	Swap Maturity Date
Partnership X <sup>(2)(4)</sup>	3/1/2023	\$ 110.0	LIBOR + 1.40%	2.30%	3/1/2021
Fund X <sup>(3)(4)(5)</sup>	7/1/2024	400.0	LIBOR + 1.65%	3.44%	7/1/2022
		<u>\$ 510.0</u>			

- 
- (1) See Note 5 for more information regarding our unconsolidated Funds.
  - (2) Floating rate term loan, swapped to fixed, which is secured by two properties and requires monthly payments of interest only, with the outstanding principal due upon maturity. As of December 31, 2017, assuming a zero-percent LIBOR interest rate during the remaining life of the swap, the maximum future payments under the swap agreement were \$3.2 million.
  - (3) Floating rate term loan, swapped to fixed, which is secured by six properties and requires monthly payments of interest only, with the outstanding principal due upon maturity. As of December 31, 2017, assuming a zero-percent LIBOR interest rate during the remaining life of the swap, the maximum future payments under the swap agreement were \$32.7 million.
  - (4) Loan agreement includes a zero-percent LIBOR floor. The corresponding swaps do not include such a floor.
  - (5) Loan agreement includes the requirement to purchase an interest rate cap if one month LIBOR equals or exceeds 3.56% for fourteen consecutive days after the related swap matures.



**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**

**18. Quarterly Financial Information (unaudited)**

The tables below present selected quarterly information for 2017 and 2016:

(In thousands, except per share amounts)	Three Months Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Total revenue	\$ 194,481	\$ 199,632	\$ 208,749	\$ 209,190
Net income before noncontrolling interests	\$ 21,780	\$ 22,153	\$ 28,508	\$ 31,986
Net income attributable to common stockholders	\$ 19,049	\$ 20,244	\$ 25,614	\$ 29,536
Net income per common share - basic	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.17
Net income per common share - diluted	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.17
Weighted average shares of common stock outstanding - basic	152,490	155,898	165,471	169,521
Weighted average shares of common stock and common stock equivalents outstanding - diluted	153,655	155,952	165,520	169,562

(In thousands, except per share amounts)	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Total revenue	\$ 168,572	\$ 187,215	\$ 192,121	\$ 194,643
Net income before noncontrolling interests	\$ 16,046	\$ 21,780	\$ 35,798	\$ 22,466
Net income attributable to common stockholders	\$ 15,366	\$ 18,482	\$ 31,848	\$ 19,701
Net income per common share - basic	\$ 0.10	\$ 0.12	\$ 0.21	\$ 0.13
Net income per common share - diluted	\$ 0.10	\$ 0.12	\$ 0.21	\$ 0.13
Weighted average shares of common stock outstanding - basic	147,236	147,722	150,753	151,446
Weighted average shares of common stock and common stock equivalents outstanding - diluted	151,451	152,805	153,419	154,052

**19. Subsequent events**

In February 2018, we closed a secured, non-recourse \$335.0 million interest-only loan, scheduled to mature in March 2025. The loan bears interest at LIBOR + 1.3%, which was effectively fixed at 3.84% through interest rate swaps until March 2023. The loan is secured by a wholly-owned office property. We used the proceeds from the loan and our credit line to pay off two loans totaling \$426 million scheduled to mature in 2019.

## OUR SENIOR MANAGEMENT

**DAN A. EMMETT**  
*Executive Chairman*

**JORDAN L. KAPLAN**  
*President & Chief Executive Officer*

**KENNETH M. PANZER**  
*Chief Operating Officer*

**MONA M. GISLER**  
*Chief Financial Officer*

**KEVIN A. CRUMMY**  
*Chief Investment Officer*

## CORPORATE HEADQUARTERS

808 Wilshire Boulevard  
2<sup>nd</sup> Floor  
Santa Monica, CA 90401  
310.255.7700

## INVESTOR INFORMATION

For additional information, please contact:

Stuart McElhinney  
Vice President – Investor Relations  
smcelhinney@douglasemmett.com  
310.255.7751

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

[www.douglasemmett.com](http://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**  
*Retired Real Estate Executive and Investor*

**LESLIE E. BIDER**  
*Vice Chairman - PinnacleCare*

**DR. DAVID T. FEINBERG**  
*President & Chief Executive Officer – Geisinger Health System*

**VIRGINIA A. McFERRAN**  
*Partner, Optum Ventures*

**THOMAS E. O’HERN**  
*Senior Executive Vice President, Chief Financial Officer & Treasurer – Macerich Company*

**WILLIAM E. SIMON, JR.**  
*Partner, Massey Quick Simon & Co., LLC*

## STOCK EXCHANGE

The New York Stock Exchange – NYSE  
Ticker Symbol – DEI

## LEGAL COUNSEL

Manatt | Phelps | 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

808 Wilshire Boulevard  
2<sup>nd</sup> Floor  
Santa Monica, CA 90401  
May 31, 2018 9:00 a.m. (PDT)

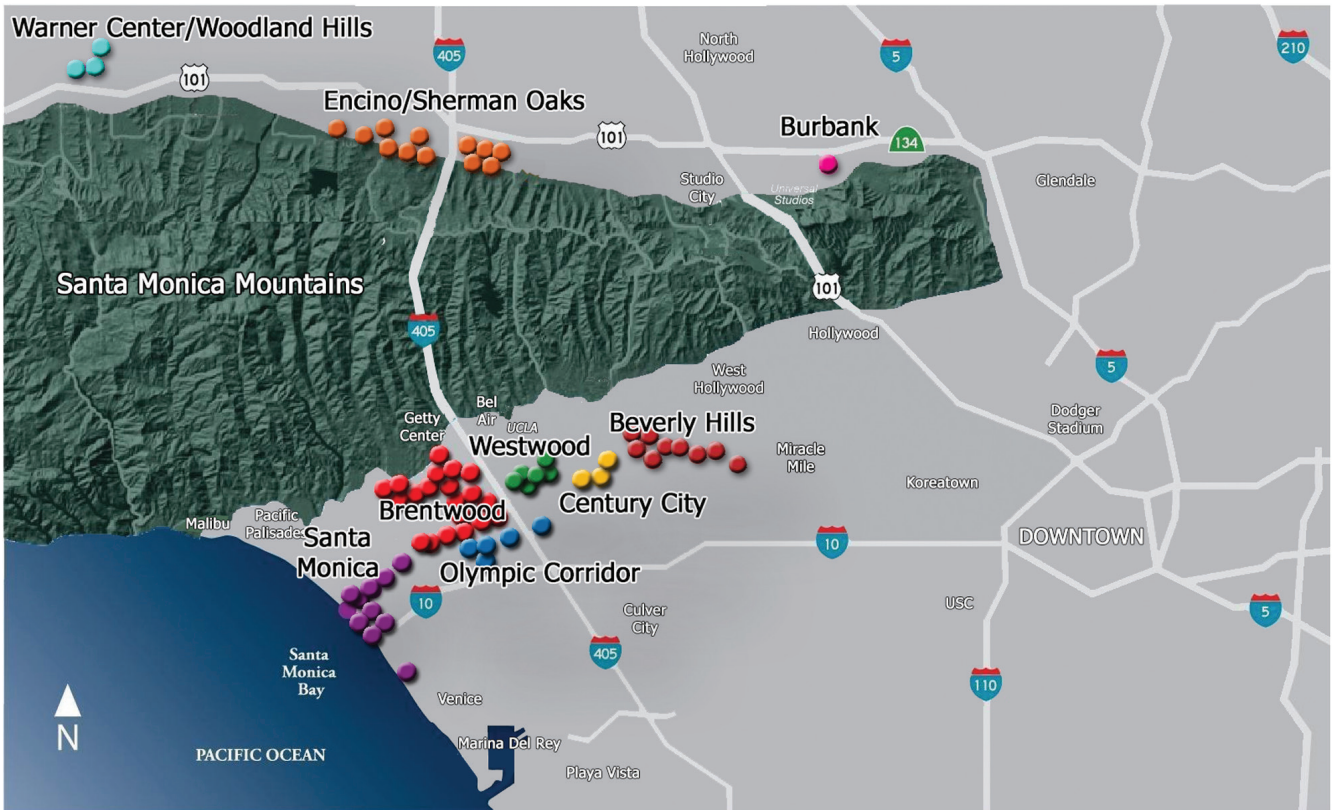


**At Douglas Emmett concern for the environment is ingrained in our corporate culture.** We are committed to implementing and maintaining financially responsible sustainability programs in our properties. Through the years we have proactively introduced conservation and sustainability measures across 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

