

Douglas Emmett

ANNUAL REPORT 2019

Dear Fellow Shareholders,

I am very proud of the results our team delivered in 2019:

- We grew our FFO by 6.3%, our AFFO by 18%, our same property cash NOI by 7.5%, and raised our dividend by 8%.
- We signed 804 office leases, with straight line rents averaging 28% higher than the prior lease for the same space.
- We significantly strengthened our balance sheet by refinancing almost \$2 billion of debt. At year end, we had no floating rate debt and no maturities before 2023. Our weighted average interest rate is only 3%, and our pool of unencumbered assets has increased to 41% of our office portfolio.
- We moved forward with our multifamily development projects in Brentwood and Honolulu, which will add an aggregate of approximately 876 new units to our portfolio.
- We purchased a fantastic 350 unit multifamily asset in Westwood and completed the very successful lease up of our Moanalua multifamily development in Honolulu.



Our outstanding 2019 results capped a decade of outperformance. Over the last ten years,

- We grew our office portfolio by 38% from 13.3 million to 18.3 million square feet.
- We grew our multifamily portfolio by 45% to over 4,000 units.
- We grew our FFO per share by 65% and our AFFO per share by 95%.

As a result, our total shareholder return for the last decade was 304%, 45% higher than the RMS index and more than double the SNL US Office REIT Index.

As always, our success stems from disciplined acquisitions, thoughtful development and an operating platform that is second to none. We also have benefited from our consistent focus on sustainability, which is both an economic driver and a social goal. In 2019, we reduced our electrical usage per square foot by another 2%, bringing our total reduction since 2009 to more than 22%. The EPA certified almost 80% of our eligible office space as ENERGY STAR compliant, placing those buildings in the top 25 percent of office buildings nationwide in energy efficiency.

As this report was being sent to the printer, we stopped it to recognize that the world has changed recently as a result of the Coronavirus. Thankfully our balance sheet is strong, we have no maturities before 2023, and we have many sources of credit. Our focus is on our tenants, our employees, and protecting the long term value of our assets. We will face this challenge in the same way we have faced previous recessions - we will work hard to make sure that we emerge stronger and even better than we were before.

As I do every year, I promise that the Douglas Emmett team will continue to be committed to the high standards and work ethic that have been our hallmark for over 45 years.

Sincerely,

A handwritten signature in black ink, appearing to be 'J. Kaplan', written over a horizontal line.

Jordan L. Kaplan
President & CEO

DOUGLAS EMMETT, INC.

2019 ANNUAL REPORT

Table of Contents

	Page
Glossary	2
Forward Looking Statements	4
Business Description	5
Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	7
Selected Financial Data	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Quantitative and Qualitative Disclosures About Market Risk	25
Consolidated Financial Statements	26

This Annual Report contains certain non-GAAP financial measures within the meaning of Regulation G. The calculations of these non-GAAP financial measures may differ from those used by other REITs. The reasons for their use and reconciliations to the most directly comparable GAAP measures are included in pages 42-44 of the Form 10-K filed with the SEC on February 14, 2020.

Glossary

Abbreviations used in this Report:

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

Glossary

Defined terms used in this Report:

Annualized Rent	Annualized cash base rent (excludes tenant reimbursements, parking and other revenue) before abatements under leases commenced as of the reporting date and expiring after the reporting date. Annualized Rent for our triple net office properties (in Honolulu and two single tenant buildings in Los Angeles) is calculated by adding expense reimbursements and estimates of normal building expenses paid by tenants to base rent. Annualized Rent does not include lost rent recovered from insurance and rent for building management use. Annualized Rent does include rent for a health club that we own and operate in Honolulu and our corporate headquarters in Santa Monica.
Consolidated Portfolio	Includes all of the properties included in our consolidated results, including our consolidated JVs.
Funds From Operations (FFO)	We calculate FFO in accordance with the standards established by NAREIT by excluding gains (or losses) on sales of investments in real estate, gains (or losses) from changes in control of investments in real estate, real estate depreciation and amortization (other than amortization of right-of-use assets for which we are the lessee and amortization of deferred loan costs), and impairment write-downs of real estate from our net income (including adjusting for the effect of such items attributable to consolidated JVs and unconsolidated Funds, but not for noncontrolling interests included in our Operating Partnership). FFO is a non-GAAP supplemental financial measure that we report because we believe it is useful to our investors. See Management's Discussion and Analysis of Financial Condition and Results of Operations on page 10 for a discussion of FFO.
Net Operating Income (NOI)	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 expenses, income from unconsolidated Funds, interest expense, gain from consolidation of JVs, gains (or losses) on sales of investments in real estate and net income attributable to noncontrolling interests. NOI is a non-GAAP supplemental financial measure that we report because we believe it is useful to our investors. See Management's Discussion and Analysis of Financial Condition and Results of Operations on page 10 for a discussion of our Same Property NOI.
Occupancy Rate	The percentage leased, excluding signed leases not yet commenced, as of the reporting date. Management space is considered leased and occupied, while space taken out of service during a repositioning is excluded from both the numerator and denominator for calculating percentage leased and occupied.
Recurring Capital Expenditures	Building improvements required to maintain revenues once a property has been stabilized, and excludes capital expenditures for (i) acquired buildings being stabilized, (ii) newly developed space, (iii) upgrades to improve revenues or operating expenses or significantly change the use of the space, (iv) casualty damage and (v) bringing the property into compliance with governmental or lender requirements.
Rentable Square Feet	Based on the BOMA remeasurement and consists of leased square feet (including square feet with respect to signed leases not commenced as of the reporting date), available square feet, building management use square feet and square feet of the BOMA adjustment on leased space.
Same Properties	Our consolidated 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 or were impacted by development activity that we believed significantly affected the properties' results during the comparative periods.
Short-Term Leases	Represents leases that expired on or before the reporting date or had a term of less than one year, including hold over tenancies, month to month leases and other short term occupancies.
Total Portfolio	Includes our Consolidated Portfolio plus the properties owned by our Fund.

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 developments caused by the Coronavirus (COVID-19) global pandemic;
- 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 business;
- 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 Part I in our 2019 Annual Report on Form 10-K filed with the SEC on February 14, 2020. 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 Fund, 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, 2019, we owned a Consolidated Portfolio consisting of (i) an 18.0 million square foot office portfolio, (ii) 4,161 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 Fund which, at December 31, 2019, owned an additional 0.4 million square feet of office space. We manage our unconsolidated Fund 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 Part I in our 2019 Annual Report on Form 10-K filed with the SEC on February 14, 2020. As of December 31, 2019, our portfolio consisted of the following (including ancillary retail space and excluding the two parcels of land from which we receive rent under ground leases):

<u>Office</u>	Consolidated Portfolio	Total Portfolio
Wholly-owned properties	53	53
Consolidated JV properties	17	17
Unconsolidated Fund properties	—	2
Total	70	72
Rentable square feet (in thousands)	17,960	18,346
<u>Multifamily</u>		
Wholly-owned properties	10	10
Consolidated JV properties	1	1
Total	11	11
Units	4,161	4,161

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 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, 2019, our office portfolio median size tenant was approximately 2,700 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 2017, 2018 and 2019, 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 39% share of the Class A office space in our submarkets based on the square feet of exposure in our total portfolio to each submarket.

- **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

We make available on our website at www.douglasemmett.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, 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

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 31, 2019, the closing price of our common stock was \$43.90. The table below presents the dividends declared for our common stock as reported by the NYSE:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<u>2019</u>				
Dividend declared	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.28
<u>2018</u>				
Dividend declared	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.26

Holder of Record

We had 13 holders of record of our common stock on February 7, 2020. 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.

Sales of Unregistered Securities

On November 21, 2019, we issued 332 thousand OP Units valued at \$14.4 million to existing investors in one of our previously unconsolidated Funds in connection with the purchase of equity in that Fund. 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 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(a)(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 investors represented and warranted that (i) they acquired the OP Units for investment purposes only and not for the purpose of further distribution, (ii) they 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.

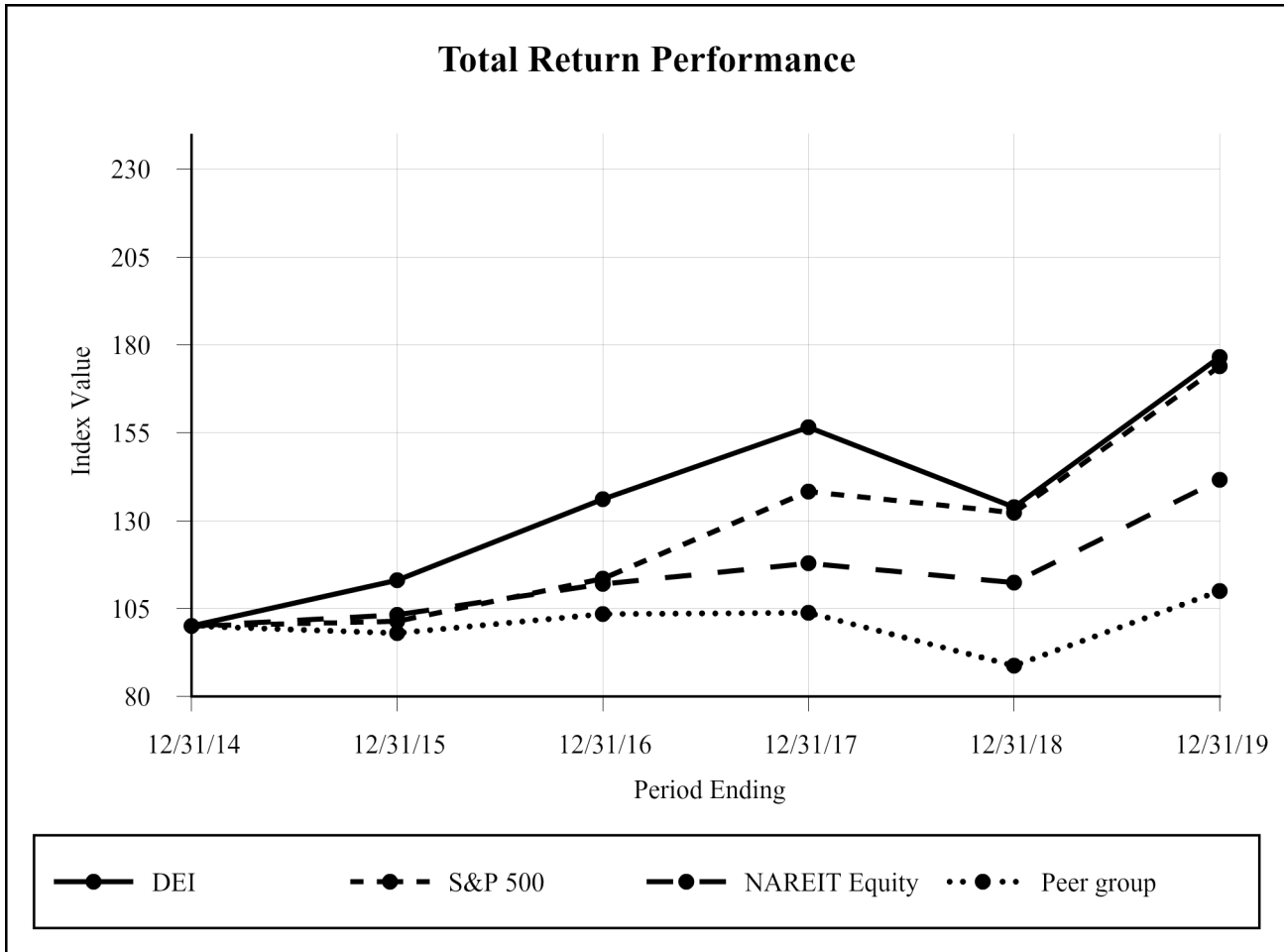
Repurchases of Equity Securities

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, 2014 to December 31, 2019 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, 2014, 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					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
DEI	100.00	113.05	136.10	156.57	133.80	176.56
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
NAREIT Equity ⁽¹⁾	100.00	103.20	111.99	117.84	112.39	141.61
Peer group ⁽²⁾	100.00	97.97	103.38	103.81	88.76	110.00

(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 on pages 10 and 26 of this Report, respectively.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Consolidated Statements of Operations Data (In thousands):					
Total office revenues	\$ 816,755	\$ 777,931	\$ 715,546	\$ 645,633	\$ 540,975
Total multifamily revenues	\$ 119,927	\$ 103,385	\$ 96,506	\$ 96,918	\$ 94,799
Total revenues	\$ 936,682	\$ 881,316	\$ 812,052	\$ 742,551	\$ 635,774
Operating income	\$ 242,708	\$ 251,944	\$ 241,023	\$ 220,817	\$ 189,527
Net income attributable to common stockholders	\$ 363,713	\$ 116,086	\$ 94,443	\$ 85,397	\$ 58,384
Per Share Data:					
Net income attributable to common stockholders per share - basic	\$ 2.09	\$ 0.68	\$ 0.58	\$ 0.57	\$ 0.40
Net income attributable to common stockholders per share - diluted	\$ 2.09	\$ 0.68	\$ 0.58	\$ 0.55	\$ 0.39
Weighted average common shares outstanding (in thousands):					
Basic	173,358	169,893	160,905	149,299	146,089
Diluted	173,358	169,902	161,230	153,190	150,604
Dividends declared per common share	\$ 1.06	\$ 1.01	\$ 0.94	\$ 0.89	\$ 0.85

	As of December 31,				
	2019	2018	2017	2016	2015
Consolidated Balance Sheet Data (In thousands):					
Total assets	\$ 9,349,301	\$ 8,261,709	\$ 8,292,641	\$ 7,613,705	\$ 6,066,161
Secured notes payable and revolving credit facility, net	\$ 4,619,058	\$ 4,134,030	\$ 4,117,390	\$ 4,369,537	\$ 3,611,276
Property Data:					
Number of consolidated properties ⁽¹⁾	81	73	73	69	64

(1) Excludes properties owned by our unconsolidated Fund(s).

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 26 of this Report. Our results of operations for the years ended December 31, 2019 and 2018 were affected by a property acquisition, consolidation of a JV, development activity, repositionings and loan refinancings - see Acquisitions, Financings, Developments and Repositionings further below.

Business Description

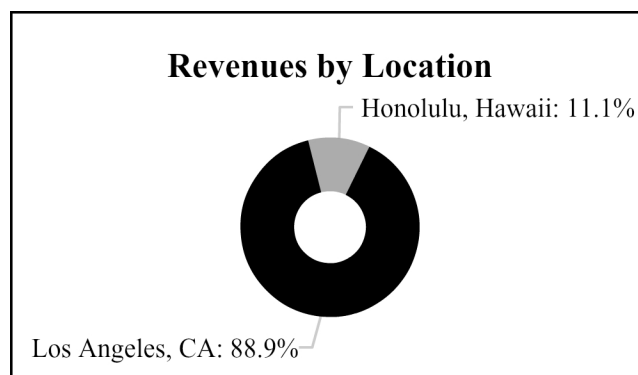
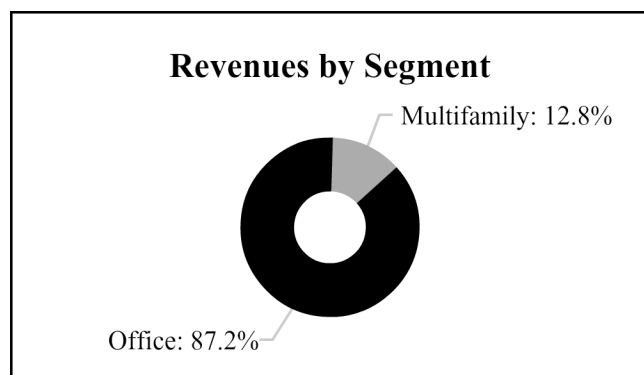
Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. Through our interest in our Operating Partnership and its subsidiaries, our consolidated JVs and our unconsolidated Fund, we are one of the largest owners and operators of high-quality office and multifamily properties 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, 2019, our portfolio consisted of the following (including ancillary retail space):

	<u>Consolidated Portfolio⁽¹⁾</u>	<u>Total Portfolio⁽²⁾</u>
<u>Office</u>		
Class A Properties	70	72
Rentable Square Feet (in thousands)	17,960	18,346
Leased rate	93.3%	93.3%
Occupied rate	91.5%	91.4%
<u>Multifamily</u>		
Properties	11	11
Units	4,161	4,161
Leased rate	98.1%	98.1%
Occupied rate	95.2%	95.2%

- (1) Our Consolidated Portfolio includes the properties in our consolidated results. Through our subsidiaries, we own 100% of these properties, except for seventeen office properties totaling 4.3 million square feet and one residential property with 350 apartments, which we own through four consolidated JVs. Our Consolidated Portfolio also includes two land parcels 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 two properties totaling 0.4 million square feet owned by our unconsolidated Fund. See Note 6 to our consolidated financial statements in this Report for more information about our unconsolidated Fund.

Revenues by Segment and Location

During the year ended December 31, 2019, revenues from our Consolidated Portfolio was derived as follows:



Acquisitions, Financings, Developments and Repositionings

Acquisitions

On June 7, 2019, we acquired The Glendon, a residential community in Westwood with 350 apartments and approximately 50,000 square feet of retail, for \$365.1 million. On June 28, 2019, we completed the contribution of the property to a consolidated JV that we manage and in which we own a twenty percent capital interest. The acquisition and related working capital was funded with a \$160.0 million interest-only loan, a \$44.0 million capital contribution by us and a \$176.0 million capital contribution by other investors. See second quarter financing transactions below for more information regarding the funding for this acquisition. See Note 3 to our consolidated financial statements in this Report for more information regarding this acquisition.

On November 21, 2019, we acquired an additional 16.3% of the equity in one of our previously unconsolidated Funds, Fund X, in exchange for \$76.9 million in cash and 332 thousand OP Units valued at \$14.4 million, which increased our ownership in the Fund to 89.0%. In connection with this transaction, we restructured the Fund with the one remaining institutional investor. The new JV is a VIE, and as a result of the amended operating agreement, we became the primary beneficiary of the VIE and commenced consolidating the JV on November 21, 2019. The JV owns six Class A office properties totaling 1.5 million square feet in the prime Los Angeles submarkets of Beverly Hills, Santa Monica, Sherman Oaks/Encino and Warner Center. The JV also owns an interest of 9.4% in our remaining unconsolidated Fund, Partnership X, which owns two additional Class A office properties totaling 386,000 square feet in Beverly Hills and Brentwood. The results of the consolidated JV are included in our operating results from November 21, 2019.

Financings

- During the first quarter of 2019:
 - In March 2019, we renewed our \$400.0 million revolving credit facility, releasing two previously encumbered properties, lowering the borrowing rate and unused facility fees, and extending the maturity date. The renewed facility bears interest at LIBOR + 1.15% and matures on August 21, 2023.
- During the second quarter of 2019:
 - We closed a secured, non-recourse \$255.0 million interest-only loan scheduled to mature in June 2029. The loan bears interest at LIBOR + 0.98%, which we have effectively fixed through an interest rate swap at 3.26% until June 2027. We used the proceeds to pay off a \$145.0 million loan that was scheduled to mature in October 2019.
 - We closed a secured, non-recourse \$125.0 million interest-only loan scheduled to mature in June 2029. The loan bears interest at LIBOR + 0.98%, which we have effectively fixed through interest rate swaps at 2.55% until December 2020, which then increases to 3.25% until June 2027. We used the proceeds to pay off a \$115.0 million loan that was scheduled to mature in December 2025.
 - We closed a secured, non-recourse \$160.0 million interest-only loan scheduled to mature in June 2029. The loan bears interest at LIBOR + 0.98%, which we have effectively fixed through an interest rate swap at 3.25% until July 2027. We used the proceeds to partially fund the acquisition of The Glendon property. This loan has been assumed by the consolidated JV to which we contributed The Glendon property.
 - We entered into a forward interest rate swap to extend the fixed-rate period for a term loan with a principal balance of \$102.4 million, scheduled to mature in April 2025, for three years. We also entered into forward interest rate swaps with an initial notional amount of \$75.0 million, effective as of September 2019 and scheduled to mature in August 2025, fixing one-month LIBOR at 1.97%, to hedge the \$415.0 million term-loan we closed in the third quarter - see third quarter financing transactions below.
 - We issued 4.9 million shares of our common stock under our ATM program for net proceeds of \$201.0 million. We used a portion of the funds to partially fund the acquisition of The Glendon property, and a portion of the funds to pay off a \$220.0 million loan in the third quarter - see third quarter financing transactions below.
 - Other investors in the consolidated JV to which we contributed The Glendon property contributed \$176.0 million to the JV to fund the acquisition of the property, and we contributed \$44.0 million to the JV.
- During the third quarter of 2019:
 - We paid off a \$220.0 million loan scheduled to mature in December 2023 and terminated the related interest rate swaps.
 - We closed a secured, non-recourse \$415.0 million interest-only loan scheduled to mature in August 2026. The loan bears interest at LIBOR + 1.10%, which we have effectively fixed through interest rate swaps at 2.58% until

April 2020, which then increases to 3.07% until August 2025. Part of the proceeds were used to pay-off a \$340.0 million loan scheduled to mature in April 2022.

- We closed a secured, non-recourse \$400.0 million interest-only loan scheduled to mature in September 2026. The loan bears interest at LIBOR + 1.15%, which we have effectively fixed through interest rate swaps at 2.44% until September 2024. The proceeds were used to pay-off a \$400.0 million loan scheduled to mature in November 2022.
- We closed a secured, non-recourse \$200.0 million interest-only loan scheduled to mature in September 2026. The loan bears interest at LIBOR + 1.20%, which we have effectively fixed through interest rate swaps at 2.77% until July 2020, which then decreases to 2.36% until October 2024. Part of the proceeds were used to pay off a \$180.0 million loan scheduled to mature in July 2022.
- During the fourth quarter of 2019
 - We closed a secured, non-recourse \$400.0 million interest-only loan scheduled to mature in November 2026. The loan bears interest at LIBOR + 1.15%, which we have effectively fixed through interest rate swaps at 2.18% until July 2021, which increases to 2.31% until October 2024. Part of the proceeds were used to pay off a \$360.0 million loan scheduled to mature in June 2023.

See Notes 8 and 10 to our consolidated financial statements in this Report for more information regarding our debt and derivatives, respectively.

Developments

- In West Los Angeles, we are building a 34 story high-rise apartment building with 376 apartments. The tower is being built on a site that is directly adjacent to an existing office building and a 712 unit residential property, both of which we own. We expect the cost of the development to be approximately \$180 million to \$200 million, which does not include the cost of the land which we have owned since 1997. As part of the project, we are investing additional capital to build a one-acre park on Wilshire Boulevard that will be available to the public and provide a valuable amenity to our surrounding properties and community. We expect construction to take about three years.
- At our Moanalua Hillside Apartments in Honolulu, we completed the construction of an additional 491 new apartments on 28 acres which now join our existing 680 apartments. We also invested additional capital to upgrade the existing buildings, improve the parking and landscaping, build a new leasing and management office, and construct a new fitness center and two pools.
- In downtown Honolulu, we are converting a 25 story, 490 thousand square foot office tower into approximately 500 apartments. We expect the conversion to occur in phases over a number of years as the office space is vacated. We currently estimate the construction costs to be approximately \$80 million to \$100.0 million, although the inherent uncertainties of development are compounded by the multi-year and phased nature of the conversion. Assuming timely city approvals, we expect the first units to be delivered in 2020. This project will help address the severe shortage of rental housing in Honolulu, and revitalize the central business district.

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. In addition, we may reposition properties already in our portfolio. 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. During the repositioning, the affected property may display depressed rental revenue and occupancy levels that impact our results and, therefore, comparisons of our performance from period to period.

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:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Average straight-line rental rate ⁽¹⁾⁽²⁾	\$49.65	\$48.77	\$44.48	\$43.21	\$42.65
Annualized lease transaction costs ⁽³⁾	\$6.02	\$5.80	\$5.68	\$5.74	\$4.77

- (1) These average rental rates are not directly comparable from year to year because the averages are 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. 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.
- (2) Reflects the weighted average straight-line Annualized Rent.
- (3) Reflects the weighted average leasing commissions and tenant improvement allowances divided by the weighted average number of years for the leases. Excludes leases substantially negotiated by the seller in the case of acquired properties and leases for tenants relocated from space being taken out of service.

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:

Rent Roll ⁽¹⁾⁽²⁾	Year Ended December 31, 2019		
	Expiring Rate ⁽²⁾	New/Renewal Rate ⁽²⁾	Percentage Change
Cash Rent	\$42.91	\$47.25	10.1%
Straight-line Rent	\$38.92	\$49.65	27.6%

- (1) Represents the average annual initial stabilized cash and straight-line rents per square foot on new and renewed leases signed during the year compared to the prior leases for the same space. Excludes Short Term Leases, leases where the prior lease was terminated more than a year before signing of the new lease, leases for tenants relocated from space being taken out of service, and leases in acquired buildings where we believe the information about the prior agreement is incomplete or where we believe base rent reflects other off-market inducements to the tenant that are not reflected in the prior lease document.
- (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.

Multifamily Rental Rates

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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Average annual rental rate - new tenants ⁽¹⁾	\$ 28,350	\$ 27,542	\$ 28,501	\$ 28,435	\$ 27,936

- (1) These average rental rates are not directly comparable from year to year because of changes in the properties and units included. For example: (i) the average for 2018 decreased from 2017 because we added a significant number of units at our Moanalua Hillside Apartments development in Honolulu, where the rental rates are lower than the average in our portfolio, and (ii) the average for 2019 increased from 2018 because we acquired The Glendon where higher rental rates offset the effect of adding additional units at our Moanalua Hillside Apartments development.

Multifamily Rent Roll

The rent on leases subject to rent change during the year ended December 31, 2019 (new tenants and existing tenants undergoing annual rent review) was 0.9% higher than the prior rent on the same unit.

Occupancy Rates - Total Portfolio

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

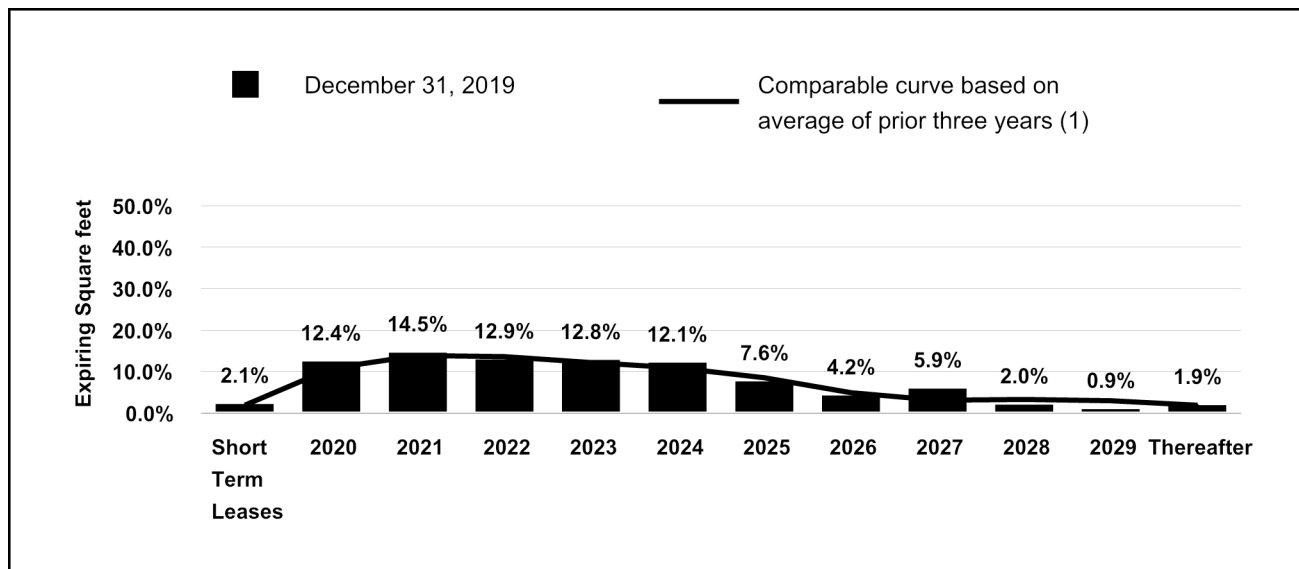
Occupancy Rates ⁽¹⁾ as of:	December 31,				
	2019	2018	2017	2016	2015
Office portfolio	91.4%	90.3%	89.8%	90.4%	91.2%
Multifamily portfolio ⁽²⁾	95.2%	97.0%	96.4%	97.9%	98.0%

Average Occupancy Rates ⁽¹⁾⁽³⁾ :	Year Ended December 31,				
	2019	2018	2017	2016	2015
Office portfolio	90.7%	89.4%	89.5%	90.6%	90.9%
Multifamily portfolio ⁽²⁾	96.5%	96.6%	97.2%	97.6%	98.2%

- (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) The Occupancy Rate for our multifamily portfolio was impacted by an acquisition in 2019 and by new units at our Moanalua Hillside Apartments development in Honolulu in 2019 and 2018 - see "Acquisitions, Financings, Developments and Repositionings" above.
- (3) 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, 2019, 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, 2016, 2017, and 2018 with the same remaining duration as the leases for the labeled year had at December 31, 2019. Acquisitions are included in the prior year average commencing in the quarter after the acquisition.

Results of Operations

Comparison of 2019 to 2018

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2019	2018			
(In thousands)					
Revenues					
Office rental revenue and tenant recoveries	\$ 694,315	\$ 661,147	\$ 33,168	5.0 %	The increase was due to (i) an increase of \$25.4 million of rental revenue and tenant recoveries from properties that we owned throughout both periods, due to higher rental and occupancy rates, (ii) \$6.6 million of rental revenue and tenant recoveries from a JV we consolidated in November 2019, and (iii) \$2.5 million of rental revenue and tenant recoveries from retail space at the residential community we acquired in June 2019, partly offset by (iv) a decrease of \$1.3 million of rental revenue and tenant recoveries at an office building we are converting to a residential building in Hawaii.
Office parking and other income	\$ 122,440	\$ 116,784	\$ 5,656	4.8 %	The increase was due to (i) an increase in parking and other income of \$3.9 million from properties we owned throughout both periods, due to higher occupancy and rates, (ii) \$1.2 million of parking and other income from a JV we consolidated in November 2019, and (iii) \$0.8 million of parking and other income from retail space at the residential community we acquired in June 2019, partly offset by (iv) a decrease of \$0.3 million in parking and other income at an office building we are converting to a residential building in Hawaii.
Multifamily revenue	\$ 119,927	\$ 103,385	\$ 16,542	16.0 %	The increase was due to (i) revenues of \$9.7 million from the residential community we acquired in June 2019, (ii) an increase in revenues of \$4.8 million from the new apartments at our Moanalua Hillside Apartments development, and (iii) an increase in revenues of \$2.0 million at our other residential properties, which was primarily due to an increase in rental revenues due to higher rental rates.
Operating expenses					
Office rental expenses	\$ 264,482	\$ 252,751	\$ (11,731)	(4.6)%	The increase was due to (i) an increase of \$9.0 million of rental expenses from properties that we owned throughout both periods, (ii) \$2.4 million of rental expenses from a JV we consolidated in November 2019, and (iii) \$0.8 million of rental expenses from retail space at the residential community we acquired in June 2019, partly offset by (iv) a decrease of \$0.5 million in rental expenses at an office building we are converting to a residential building in Hawaii. The increase in rental expenses from properties that we owned throughout both periods was due to an increase in utility expenses, property taxes, personnel expenses, repairs and maintenance expenses, scheduled services expenses and insurance expense.

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2019	2018			
(In thousands)					
Multifamily rental expenses	\$ 33,681	\$ 28,116	\$ (5,565)	(19.8)%	The increase was due to (i) \$3.2 million of rental expenses from the residential community we acquired in June 2019, (ii) an increase in rental expenses of \$1.3 million at our residential properties that we owned throughout both periods, and (iii) an increase in rental expenses of \$1.1 million from the new apartments at our Moanalua Hillside Apartments development. The increase in rental expenses from properties that we owned throughout both periods was due to an increase in property taxes, scheduled services expenses, personnel expenses and repairs and maintenance expenses.
General and administrative expenses	\$ 38,068	\$ 38,641	\$ 573	1.5 %	The decrease was primarily due to a decrease in personnel expenses.
Depreciation and amortization	\$ 357,743	\$ 309,864	\$ (47,879)	(15.5)%	The increase was due to (i) an increase in depreciation and amortization of \$28.0 million from an office building we are converting to a residential building in Hawaii, due to accelerated depreciation of the building, (ii) \$6.0 million of depreciation and amortization from the residential community that we acquired in June 2019, (iii) \$3.0 million from a JV we consolidated in November 2019, (iv) an increase in depreciation and amortization of \$2.3 million from the new apartments at our Moanalua Hillside Apartments development, and (v) an increase of \$8.7 million at our other properties, which reflects activity at our repositioning properties and an increase in investment in real estate balances.
<u>Non-Operating Income and Expenses</u>					
Other income	\$ 11,653	\$ 11,414	\$ 239	2.1 %	The increase was primarily due to an increase in interest income and an increase in revenue from the health club that we own and operate.
Other expenses	\$ (7,216)	\$ (7,744)	\$ 528	6.8 %	The decrease was primarily due to a decrease in expenses related to our property management and other services we provide to our Funds and a decrease in acquisition expenses.
Income from unconsolidated Funds	\$ 6,923	\$ 6,400	\$ 523	8.2 %	The increase was primarily due to an increase in net income from our unconsolidated Funds, which was primarily due to an increase in revenues due to an increase in occupancy and rental rates.
Interest expense	\$(143,308)	\$(133,402)	\$ (9,906)	(7.4)%	The increase was primarily due to loan costs incurred in connection with our debt refinancing activities during the current year.
Gain from consolidation of JV	\$ 307,938	\$ —	\$ 307,938	100.0 %	The gain is due to the consolidation of a JV in November 2019 that was previously accounted for as an unconsolidated Fund using the equity method.

Comparison of 2018 to 2017

See Item 7 of Part II in our 2018 Annual Report on Form 10-K filed with the SEC on February 15, 2019 for a discussion of our results of operations for the year ended December 31, 2018.

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" above for a discussion of the items that impacted our net income.

Comparison of 2019 to 2018

Our FFO increased by \$25.1 million, or 6.3%, to \$424.8 million for 2019 compared to \$399.7 million for 2018, which was primarily due to (i) an increase in operating income from our office portfolio due to an increase in occupancy and rental rates, and operating income from retail space at The Glendon residential community we acquired in June 2019, and (ii) an increase in operating income from our residential portfolio due to operating income from apartments at The Glendon residential community and leasing of new units at our Moanalua Hillside Apartments development, which was partially offset by (iii) loan costs incurred in connection with the new loans we closed.

Comparison of 2018 to 2017

See Item 7 of Part II in our 2018 Annual Report on Form 10-K filed with the SEC on February 15, 2019 for a discussion of our FFO for the year ended December 31, 2018.

Reconciliation to GAAP

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

(In thousands)	Year Ended December 31,	
	2019	2018
Net income attributable to common stockholders	\$ 363,713	\$ 116,086
Depreciation and amortization of real estate assets	357,743	309,864
Net income attributable to noncontrolling interests	54,985	12,526
Adjustments attributable to unconsolidated Funds ⁽¹⁾	15,815	16,702
Adjustments attributable to consolidated JVs ⁽²⁾	(59,505)	(55,448)
Gain from consolidation of JV	(307,938)	—
FFO	\$ 424,813	\$ 399,730

(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. Same Property NOI is a non-GAAP financial measure for which we believe that net income is the most directly comparable GAAP financial measure. We report Same Property 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. Same Property 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 2019 to 2018:

Our 2019 same properties included 60 office properties, aggregating 15.5 million Rentable Square Feet, and 9 multifamily properties with an aggregate 2,640 units. The amounts presented include 100% (not our pro-rata share).

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2019	2018			
	(In thousands)				
Office revenues	\$ 760,616	\$ 726,096	\$ 34,520	4.8 %	The increase was primarily due to (i) an increase in rental revenues due to an increase in rental and occupancy rates, (ii) an increase in tenant recoveries due to an increase in recoverable operating costs and (iii) an increase in parking and other income.
Office expenses	(241,130)	(232,377)	(8,753)	(3.8)%	The increase was primarily due to an increase in property taxes, insurance, utility expenses, personnel expenses and repairs and maintenance expenses.
Office NOI	519,486	493,719	25,767	5.2 %	
Multifamily revenues	85,716	84,601	1,115	1.3 %	The increase was primarily due to (i) an increase in rental revenues due to an increase in rental rates and (ii) parking and other income.
Multifamily expenses	(21,997)	(21,522)	(475)	(2.2)%	The increase was primarily due to an increase in personnel expenses, repairs and maintenance expenses and utility expenses.
Multifamily NOI	63,719	63,079	640	1.0 %	
Total NOI	\$ 583,205	\$ 556,798	\$ 26,407	4.7 %	

Reconciliation to GAAP

The table below presents a reconciliation of our Same Property NOI to net income attributable to common stockholders:

(In thousands)	Year Ended December 31,	
	2019	2018
Same Property NOI	\$ 583,205	\$ 556,798
Non-comparable office revenues	56,139	51,835
Non-comparable office expenses	(23,352)	(20,374)
Non-comparable multifamily revenues	34,211	18,784
Non-comparable multifamily expenses	(11,684)	(6,594)
NOI	638,519	600,449
General and administrative expenses	(38,068)	(38,641)
Depreciation and amortization	(357,743)	(309,864)
Operating income	242,708	251,944
Other income	11,653	11,414
Other expenses	(7,216)	(7,744)
Income from unconsolidated Funds	6,923	6,400
Interest expense	(143,308)	(133,402)
Gain from consolidation of JV	307,938	—
Net income	418,698	128,612
Less: Net income attributable to noncontrolling interests	(54,985)	(12,526)
Net income attributable to common stockholders	<u>\$ 363,713</u>	<u>\$ 116,086</u>

Comparison of 2018 to 2017

See Item 7 of Part II in our 2018 Annual Report on Form 10-K filed with the SEC on February 15, 2019 for a discussion of our same property NOI for the year ended December 31, 2018.

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 8 to our consolidated financial statements of 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 an additional \$198 million of shares of common stock as of the date of this Report.

To mitigate the impact of changing interest rates on our cash flows from operations, 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 8 and 10 to our consolidated financial statements in this Report for more information regarding our debt and derivative contracts, respectively.

Contractual obligations as of December 31, 2019

(In thousands)	Payment due by period				
	Total	Less than 1 year	2-3 years	4-5 years	Thereafter
Term loan principal payments ⁽¹⁾	\$ 4,653,264	\$ 752	\$ 301,610	\$ 1,716,764	\$ 2,634,138
Term loan interest payments ⁽²⁾	828,601	140,779	281,923	205,247	200,652
Ground lease payments ⁽³⁾	49,110	733	1,466	1,466	45,445
Development commitments ⁽⁴⁾	233,374	122,623	110,750	—	—
Capital expenditures and tenant improvements commitments ⁽⁵⁾	24,600	24,600	—	—	—
Total	\$ 5,788,949	\$ 289,487	\$ 695,749	\$ 1,923,477	\$ 2,880,235

- (1) Reflects the future principal payments due on our consolidated secured notes payable and revolving credit facility, excluding any maturity extension options. See Note 8 to our consolidated financial statements in this Report.
- (2) Reflects the future interest payments due on our consolidated secured notes payable and revolving credit facility, excluding any maturity extension options. The interest payments include the effect of interest rate swaps when relevant, and are based on the USD one-month LIBOR rate as of December 31, 2019 when floating. Future interest payments on our revolving credit facility are based on the balance as of December 31, 2019. See Note 8 to our consolidated financial statements in this Report.
- (3) Reflects the future minimum ground lease payments. See Note 4 to our consolidated financial statements in this Report.
- (4) See "Acquisitions, Financings, Developments and Repositionings" for a discussion of our developments.
- (5) 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 Fund's Debt

Our unconsolidated Fund has its own secured non-recourse debt, and we have made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve-outs related to that loan. We have also guaranteed the related swap. Our Fund has agreed to indemnify us for any amounts that we would be required to pay under that agreement. As of December 31, 2019, all of the obligations under the respective loan and swap agreements have been performed in accordance with the terms of those agreements. For information regarding our Fund and our Fund's debt, see Notes 6 and 17, respectively, to our consolidated financial statements in this Report.

Cash Flows

Comparison of 2019 to 2018

	2019	2018	Increase (Decrease)	%
	(In thousands)			
Net cash provided by operating activities ⁽¹⁾	\$ 469,586	\$ 432,982	\$ 36,604	8.5%
Net cash used in investing activities ⁽²⁾	\$ (649,668)	\$ (249,551)	\$ 400,117	160.3%
Cash provided by (used in) financing activities ⁽³⁾	\$ 187,538	\$ (213,849)	\$ 401,387	187.7%

- (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 expenses, and interest expense. The increase was primarily due to: (i) an increase in operating income from our office portfolio due to an increase in occupancy and rental rates, and operating income from retail space at The Glendon residential community we acquired in June 2019, and (ii) an increase in operating income from our residential portfolio due to operating income from apartments at The Glendon residential community and leasing of new units at our Moanalua Hillside Apartments development.
- (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 increase is primarily due to \$365.9 million paid for The Glendon residential community in 2019 and an increase of \$81.4 million paid for additional interests in unconsolidated Funds in 2019, partially offset by \$39.2 million of cash assumed from the consolidation of a JV.
- (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 increase is primarily due to (i) \$201.0 million of net proceeds from the issuance of common stock, (ii) \$163.6 million of contributions from noncontrolling interests in consolidated JVs, and (iii) an increase of \$77.6 million in net borrowings, partially offset by (a) an increase in loan cost payments of \$18.4 million, (b) an increase in distributions to noncontrolling interests of \$12.4 million, and (c) an increase in dividends paid to common stockholders of \$9.8 million.

Comparison of 2018 to 2017

See Item 7 of Part II in our 2018 Annual Report on Form 10-K filed with the SEC on February 15, 2019 for a discussion of our cash flows for the year ended December 31, 2018.

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, 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 estimate 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

Acquisitions and Initial Consolidation of VIEs

We account for property acquisitions as asset acquisitions. We allocate the purchase price for asset acquisitions, which includes the capitalized transaction costs, and for the properties upon the initial consolidation of VIEs not determined to be a business, on a relative fair value basis 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 comparable sales for land, and the income approach using our estimates of expected future cash flows and other valuation techniques, which include but are not limited to, our estimates of rental rates, revenue growth rates, capitalization rates and discount rates, for other assets and liabilities. 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 and current interest rates.

These estimates require 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.

Cost capitalization

We capitalize development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related to the development of real estate. Indirect development costs, including salaries and benefits, office rent, and associated costs for those individuals directly responsible for and who spend their time on development activities are also capitalized and allocated to the projects to which they relate. Development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. We consider a development project to be substantially complete when the residential units or office space is available for occupancy but no later than one year after cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. Costs previously capitalized related to abandoned developments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The capitalization of development costs requires judgment, and can directly and materially impact our results of operations because, for example, (i) if we don't capitalize costs that should be capitalized, then our operating expenses would be overstated during the development period, and the subsequent depreciation of the developed real estate would be understated, or (ii) if we capitalize costs that should not be capitalized, then our operating expenses would be understated during the development period, and the subsequent depreciation of the real estate would be overstated. We capitalized development costs of \$75.3 million, \$78.7 million and \$66.0 million during 2019, 2018 or 2017, respectively.

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 judgment, and our expectations could differ materially from actual results. Impairment losses would reduce our net income and could be material. Based upon such periodic assessments we did not record any impairment losses for our long-lived assets during 2019, 2018 or 2017. In downtown Honolulu, 1132 Bishop Street, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments. We expect the conversion to occur in phases over a number of years as the office space is vacated. Due to the significant change in planned use of the property, we performed an impairment assessment by comparing the property's expected undiscounted cash flows to the property's carrying value plus the expected development costs and concluded that there was no impairment as of December 31, 2019. We determined the undiscounted cash flows using our estimates of the expected future cash flows which included, but were not limited to, our estimates of property's net operating income, and capitalization rates.

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 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 \$2.6 million, \$2.4 million and \$2.1 million during 2019, 2018 and 2017, 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 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 \$18.4 million, \$22.3 million and \$18.5 million for 2019, 2018 and 2017, 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 \$0.9 million, \$1.1 million and \$0.9 million during 2019, 2018 and 2017, 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 8 and 10 to our consolidated financial statements in this Report for more information regarding our debt and derivatives. As of December 31, 2019, we have no outstanding floating rate debt that is unhedged.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. As a result, the Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee ("ARRC"), which identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry-wide and company-specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR.

Our floating rate borrowings and derivative instruments are indexed to USD-LIBOR and we are monitoring this activity and evaluating the related risks - which include interest on loans and amounts received and paid on derivative instruments. These risks arise in connection with transitioning contracts to a new alternative rate. The value of loans or derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. While we expect LIBOR to be available in substantially its current form until the end of 2021, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and potentially magnified.

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, 2019. 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, 2019, 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, 2019, 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 31, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2019.

/s/ JORDAN L. KAPLAN

Jordan L. Kaplan
President and CEO

/s/ PETER D. SEYMOUR

Peter D. Seymour
CFO

February 14, 2020

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, 2019 and 2018, 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, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 14, 2020 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Consolidation of Douglas Emmett Fund X, LLC

Description of the Matter

As explained in Note 3 to the consolidated financial statements, the Company and the remaining non-controlling interest holder purchased additional interests in Douglas Emmett Fund X, LLC ("Fund X"). Upon completing the transaction including amending the operating agreement, Fund X was determined to be a variable interest entity ("VIE") and the Company was determined to be its primary beneficiary. Accordingly, the Company began consolidating the VIE and recorded a \$307.9 million gain on revaluing Fund X's assets and liabilities upon consolidation.

Auditing management's application of the variable interest entity consolidation model to this transaction, and the resulting gain upon consolidation, was complex and required significant judgment. In particular, significant judgment was required in determining the fair value of each of Fund X's six properties which utilized a combination of market and income valuation approaches. The significant assumptions for the market approach included assumptions of transactions of comparable size and location. The significant assumptions for the income approach related to the assumptions underlying the cash flow projections and included market rental rates, market growth rates and market discount rates. Changes in these assumptions may have materially affected the Company's determination of the fair value of Fund X's net assets which, in turn, would have impacted the gain on consolidation.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over management's accounting for the consolidation of Fund X, including controls over management's review of the significant assumptions mentioned above that were used to estimate fair value. This included management's consideration of corroborative and contrary evidence from current industry and economic trends, prevailing market conditions, internally available information and other relevant factors.

To evaluate the Company's consolidation analysis of the transaction, we performed audit procedures that included, among others, reviewing the amended and restated Fund X operating agreement and testing the fair value of Fund X's assets and liabilities. Our audit procedures in testing the fair value of Fund X's assets and liabilities included, among others, (i) evaluating the methods and significant assumptions used in the valuation of Fund X's assets, (ii) assessing the reasonableness of the resulting fair values utilizing comparable market transactions, (iii) testing the completeness and accuracy of the valuation model and underlying data supporting the significant assumptions and estimates, and (iv) comparing the fair value of Fund X's resulting net assets to the price paid by the Company and the unrelated non-managing member to acquire the other Fund X non-managing member interests. We also involved a valuation specialist to assist in the assessment of the methodology utilized by the Company, and to test the significant assumptions mentioned above in the cash flow projections.

Purchase price accounting

Description of the Matter

During the year ended December 31, 2019, the Company acquired The Glendon, a residential property in Westwood consisting of apartments and retail space, for \$365.9 million and consolidated a previously owned equity method accounted for investment in Douglas Emmett Fund X, LLC (“Fund X”) on a relative fair value basis. As explained in Note 3 to the consolidated financial statements, the Glendon transaction was accounted for as an asset acquisition, and as such, is recorded at the price to acquire the real estate property, including acquisition costs. In addition, as discussed in Note 3 to the consolidated financial statements, the Company consolidated Fund X’s six office properties and related identifiable assets and liabilities on a relative fair value basis.

For both of these transactions, the purchase price/consideration are allocated to land, building and intangible lease assets and liabilities based upon the relative fair value of the acquired assets and liabilities. The fair value of the acquired assets and liabilities were determined by the Company utilizing the sales comparison approach as it relates to land and the income approach which utilized discounted cash flows as it relates to the other acquired assets and liabilities. Both approaches used market information available to the Company as inputs.

Auditing the Company’s accounting for its Glendon acquisition and Fund X consolidation was complex due to the significant estimation required by management in determining the fair value assigned to the acquired land, building and intangible lease assets and liabilities. The significant estimation was primarily due to the judgmental nature of the inputs to the valuation models used to measure the fair value of the assets and liabilities as well as the sensitivity of the respective fair values to the significant underlying assumptions. The Company utilized the sales comparison approach to measure the fair value of the acquired land and the discounted cash flow method to measure the fair value of the remaining acquired assets and liabilities. The more significant assumptions utilized included comparable land sales, revenue growth rates, discount rates, market rental rates and capitalization rates. These significant assumptions are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over management’s accounting for the Glendon property acquisition and Fund X consolidation, including controls over the Company’s review of the assumptions underlying the purchase price allocation, the cash flow projections and the accuracy of the underlying data used. For example, we tested controls over the determination of the fair value of the land, building and intangible lease assets and liabilities, including the controls over the review of the valuation models and the underlying assumptions used to develop such estimates.

For the Company’s Glendon property acquisition and Fund X consolidation, we read the respective transaction agreements, and evaluated whether the Company had appropriately determined whether the transactions were accounted for as business combinations or asset acquisitions. For both transactions, we also evaluated the significant assumptions and methods used in developing the fair value estimates of the tangible assets and intangible lease assets and liabilities. To test the estimated fair value of the land, building and intangible lease assets and liabilities, we performed audit procedures that included, among other procedures, evaluating the Company’s use of the sales comparison and income approaches and testing the significant assumptions used in the discounted cash flow model, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. For example, we agreed the contractual rents used in the cash flow projections to in-place tenant leases and compared certain property operating expenses, such as real estate property taxes, to historical operating results adjusted for the transaction. We involved our valuation specialists to assist in evaluating the methodologies utilized by the Company as compared to standard valuation practices, performing procedures to corroborate the reasonableness of the significant assumptions utilized in developing the fair value estimates of the acquired land, building, and intangible lease assets and liabilities, and performing corroborative calculations to assess the reasonableness of the acquired building asset. For example, our valuation specialists (i) used independently identified data sources to evaluate the appropriateness of management’s selected comparable land sales, (ii) obtained market specific information (i.e. revenue growth rates, discount rates, market rental rates and capitalization rates) and compared it to the market information utilized by the Company, and (iii) for a sample of properties, performed comparative calculations using the cost approach to validate the amount allocated to the building asset.

Real Estate Investments - Impairment Assessment of 1132 Bishop Street

*Description of
the Matter*

As explained in Note 2 to the consolidated financial statements, the Company finalized plans to convert 1132 Bishop Street, a commercial office property located in Honolulu, Hawaii into a residential property. Due to the change in planned use of the property, the Company assessed whether the property was potentially impaired by comparing 1132 Bishop Street's expected cash flows on an undiscounted basis to the property's net book value plus expected development costs.

Auditing the Company's accounting for potential impairment and its tests for recoverability involved a high degree of subjectivity as estimates underlying the determination of the undiscounted cash flows were based on assumptions about future market rental rates, operating expenses and capitalization rates. These assumptions are forward-looking and could be affected by future economic and market conditions, and are dependent, in part, on the completion of the planned redevelopment.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's processes to determine indicators of impairment and to conduct tests for recoverability if indicators of impairment are present. This included controls over management's review of the significant assumptions underlying the undiscounted cash flows.

Our testing of the Company's impairment assessment included, among other procedures, evaluating the significant assumptions and operating data used to estimate the property's undiscounted cash flows. For example, we compared the significant assumptions, namely market rental rates, operating expenses and capitalization rates, used to estimate future cash flows to current market rental rates and capitalization rates for similar properties published in multiple third-party market studies. We also performed a sensitivity analysis on the Company's inputs, namely expected net operating income, capitalization rates and expected construction costs to assess whether changes to certain assumptions would result in a materially different outcome. We also recalculated management's undiscounted cash flows.

/s/ Ernst & Young LLP

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

Los Angeles, California

February 14, 2020

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, 2019, 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, 2019, 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, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, and our report dated February 14, 2020 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 14, 2020

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Assets		
Investment in real estate:		
Land	\$ 1,152,684	\$ 1,065,099
Buildings and improvements	9,308,481	7,995,203
Tenant improvements and lease intangibles	905,753	840,653
Property under development	111,715	129,753
Investment in real estate, gross	11,478,633	10,030,708
Less: accumulated depreciation and amortization	(2,518,415)	(2,246,887)
Investment in real estate, net	8,960,218	7,783,821
Ground lease right-of-use asset	7,479	—
Cash and cash equivalents	153,683	146,227
Tenant receivables	5,302	4,371
Deferred rent receivables	134,968	124,834
Acquired lease intangible assets, net	6,407	3,251
Interest rate contract assets	22,381	73,414
Investment in unconsolidated Funds	42,442	111,032
Other assets	16,421	14,759
Total Assets	\$ 9,349,301	\$ 8,261,709
Liabilities		
Secured notes payable and revolving credit facility, net	\$ 4,619,058	\$ 4,134,030
Ground lease liability	10,882	—
Interest payable, accounts payable and deferred revenue	131,410	130,154
Security deposits	60,923	50,733
Acquired lease intangible liabilities, net	52,367	52,569
Interest rate contract liabilities	54,616	1,530
Dividends payable	49,111	44,263
Total liabilities	4,978,367	4,413,279
Equity		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value, 750,000,000 authorized, 175,369,746 and 170,214,809 outstanding at December 31, 2019 and December 31, 2018, respectively	1,754	1,702
Additional paid-in capital	3,486,356	3,282,316
Accumulated other comprehensive (loss) income	(17,462)	53,944
Accumulated deficit	(758,576)	(935,630)
Total Douglas Emmett, Inc. stockholders' equity	2,712,072	2,402,332
Noncontrolling interests	1,658,862	1,446,098
Total equity	4,370,934	3,848,430
Total Liabilities and Equity	\$ 9,349,301	\$ 8,261,709

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,		
	2019	2018	2017
Revenues			
Office rental			
Rental revenues and tenant recoveries	\$ 694,315	\$ 661,147	\$ 606,852
Parking and other income	122,440	116,784	108,694
Total office revenues	816,755	777,931	715,546
Multifamily rental			
Rental revenues	110,697	95,423	89,039
Parking and other income	9,230	7,962	7,467
Total multifamily revenues	119,927	103,385	96,506
Total revenues	936,682	881,316	812,052
Operating Expenses			
Office expenses	264,482	252,751	233,633
Multifamily expenses	33,681	28,116	24,401
General and administrative expenses	38,068	38,641	36,234
Depreciation and amortization	357,743	309,864	276,761
Total operating expenses	693,974	629,372	571,029
Operating income	242,708	251,944	241,023
Other income	11,653	11,414	9,712
Other expenses	(7,216)	(7,744)	(7,037)
Income from unconsolidated Funds	6,923	6,400	5,905
Interest expense	(143,308)	(133,402)	(145,176)
Gain from consolidation of JV	307,938	—	—
Net income	418,698	128,612	104,427
Less: Net income attributable to noncontrolling interests	(54,985)	(12,526)	(9,984)
Net income attributable to common stockholders	\$ 363,713	\$ 116,086	\$ 94,443
Net income per common share – basic	\$ 2.09	\$ 0.68	\$ 0.58
Net income per common share – diluted	\$ 2.09	\$ 0.68	\$ 0.58

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 418,698	\$ 128,612	\$ 104,427
Other comprehensive (loss) income: cash flow hedges	(107,292)	15,070	34,290
Comprehensive income	311,406	143,682	138,717
Less: Comprehensive income attributable to noncontrolling interests	(19,099)	(16,751)	(16,331)
Comprehensive income attributable to common stockholders	<u>\$ 292,307</u>	<u>\$ 126,931</u>	<u>\$ 122,386</u>

See accompanying notes to the consolidated financial statements.

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

		Year Ended December 31,		
		2019	2018	2017
Shares of Common Stock	Beginning balance	170,215	169,565	151,530
	Exchange of OP units for common stock	222	629	1,059
	Issuance of common stock	4,933	—	15,687
	Exercise of stock options	—	21	1,289
	Ending balance	<u>175,370</u>	<u>170,215</u>	<u>169,565</u>
Common Stock	Beginning balance	\$ 1,702	\$ 1,696	\$ 1,515
	Exchange of OP units for common stock	2	6	11
	Issuance of common stock	50	—	157
	Exercise of stock options	—	—	13
	Ending balance	<u>\$ 1,754</u>	<u>\$ 1,702</u>	<u>\$ 1,696</u>
Additional Paid-in Capital	Beginning balance	\$ 3,282,316	\$ 3,272,539	\$ 2,725,157
	Exchange of OP units for common stock	3,538	10,286	14,231
	Repurchase of OP Units with cash	(431)	(59)	(6,763)
	Issuance of common stock, net	200,933	—	593,011
	Taxes paid on exercise of stock options	—	(450)	(53,097)
	Ending balance	<u>\$ 3,486,356</u>	<u>\$ 3,282,316</u>	<u>\$ 3,272,539</u>
AOCI	Beginning balance	\$ 53,944	\$ 43,099	\$ 15,156
	ASU 2017-12 adoption	—	211	—
	Cash flow hedge adjustments	(71,406)	10,634	27,943
	Ending balance	<u>\$ (17,462)</u>	<u>\$ 53,944</u>	<u>\$ 43,099</u>
Accumulated Deficit	Beginning balance	\$ (935,630)	\$ (879,810)	\$ (820,685)
	ASU 2016-02 adoption	(2,144)	—	—
	ASU 2017-12 adoption	—	(211)	—
	Net income attributable to common stockholders	363,713	116,086	94,443
	Dividends	(184,515)	(171,695)	(153,568)
	Ending balance	<u>\$ (758,576)</u>	<u>\$ (935,630)</u>	<u>\$ (879,810)</u>
Noncontrolling Interests	Beginning balance	\$ 1,446,098	\$ 1,464,525	\$ 1,092,928
	ASU 2016-02 adoption	(355)	—	—
	Net income attributable to noncontrolling interests	54,985	12,526	9,984
	Cash flow hedge adjustments	(35,886)	4,225	6,347
	Contributions	176,000	—	284,248
	Consolidation of JV	61,394	—	—
	Distributions	(76,978)	(52,142)	(38,101)
	Issuance of OP Units for acquisition of additional interest in unconsolidated Fund	14,390	—	—
	Issuance of OP Units for acquisition of real estate	—	—	105,687
	Exchange of OP units for common stock	(3,540)	(10,292)	(14,242)
	Repurchase of OP Units with cash	(303)	(49)	(3,341)
	Stock-based compensation	23,057	27,305	21,015
	Ending balance	<u>\$ 1,658,862</u>	<u>\$ 1,446,098</u>	<u>\$ 1,464,525</u>

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

		Year Ended December 31,		
		2019	2018	2017
Total Equity	Beginning balance	\$ 3,848,430	\$ 3,902,049	\$ 3,014,071
	ASU 2016-02 adoption	(2,499)	—	—
	Net income	418,698	128,612	104,427
	Cash flow hedge adjustments	(107,292)	14,859	34,290
	Consolidation of JV	61,394	—	—
	Issuance of common stock, net	200,983	—	593,168
	Issuance of OP Units for acquisition of additional interest in unconsolidated Fund	14,390	—	—
	Issuance of OP Units for acquisition of real estate	—	—	105,687
	Repurchase of OP Units with cash	(734)	(108)	(10,104)
	Taxes paid on exercise of stock options	—	(450)	(53,084)
	Contributions	176,000	—	284,248
	Dividends	(184,515)	(171,695)	(153,568)
	Distributions	(76,978)	(52,142)	(38,101)
	Stock-based compensation	23,057	27,305	21,015
	Ending balance	\$ 4,370,934	\$ 3,848,430	\$ 3,902,049
Dividends declared per common share		\$ 1.06	\$ 1.01	\$ 0.94

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2019	2018	2017
Operating Activities			
Net income	\$ 418,698	\$ 128,612	\$ 104,427
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from unconsolidated Funds	(6,923)	(6,400)	(5,905)
Gain from consolidation of JV	(307,938)	—	—
Depreciation and amortization	357,743	309,864	276,761
Net accretion of acquired lease intangibles	(16,264)	(22,025)	(18,006)
Straight-line rent	(10,134)	(18,813)	(12,855)
Write-off of uncollectible amounts	4,103	2,154	406
Deferred loan costs amortized and written off	14,314	8,292	10,834
Amortization of loan premium	(261)	(205)	—
Derivative non-cash adjustments	—	—	51
Amortization of stock-based compensation	18,359	22,299	18,478
Operating distributions from unconsolidated Funds	6,820	6,400	5,905
Change in working capital components:			
Tenant receivables	(4,712)	(3,545)	(1,221)
Interest payable, accounts payable and deferred revenue	(6,844)	1,376	24,942
Security deposits	1,919	319	4,424
Other assets	706	4,654	(5,544)
Net cash provided by operating activities	<u>469,586</u>	<u>432,982</u>	<u>402,697</u>
Investing Activities			
Capital expenditures for improvements to real estate	(176,448)	(179,062)	(108,326)
Capital expenditures for developments	(61,660)	(68,459)	(63,018)
Property acquisitions	(365,885)	—	(537,669)
Cash assumed from consolidation of JV	39,226	—	—
Acquisition of additional interests in unconsolidated Funds	(90,754)	(9,379)	(4,142)
Capital distributions from unconsolidated Funds	5,853	7,349	43,560
Net cash used in investing activities	<u>(649,668)</u>	<u>(249,551)</u>	<u>(669,595)</u>
Financing Activities			
Proceeds from borrowings	2,185,000	667,000	1,410,500
Repayment of borrowings	(2,095,718)	(655,326)	(1,698,544)
Loan cost payments	(21,348)	(2,992)	(11,442)
Contributions from noncontrolling interests in consolidated JVs	163,556	—	284,248
Distributions paid to noncontrolling interests	(64,534)	(52,142)	(38,101)
Dividends paid to common stockholders	(179,667)	(169,831)	(146,026)
Taxes paid on exercise of stock options	—	(450)	(53,084)
Repurchase of OP Units	(734)	(108)	(10,104)
Proceeds from issuance of common stock, net	200,983	—	593,169
Net cash provided by (used in) financing activities	<u>187,538</u>	<u>(213,849)</u>	<u>330,616</u>
Increase (decrease) in cash and cash equivalents and restricted cash	7,456	(30,418)	63,718
Cash and cash equivalents and restricted cash - beginning balance	146,348	176,766	113,048
Cash and cash equivalents and restricted cash - ending balance	<u>\$ 153,804</u>	<u>\$ 146,348</u>	<u>\$ 176,766</u>

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

Supplemental Cash Flows Information

	Year Ended December 31,		
	2019	2018	2017
Operating Activities			
Cash paid for interest, net of capitalized interest	\$ 128,205	\$ 124,487	\$ 135,824
Capitalized interest paid	\$ 3,782	\$ 3,520	\$ 2,745
Non-cash Investing Transactions			
Accrual for real estate and development capital expenditures	\$ 35,398	\$ 24,702	\$ 3,776
Capitalized stock-based compensation for improvements to real estate and developments	\$ 4,698	\$ 5,006	\$ 2,537
Removal of fully depreciated and amortized tenant improvements and lease intangibles	\$ 88,205	\$ 75,729	\$ 53,687
Removal of fully amortized acquired lease intangible assets	\$ 2,132	\$ 1,582	\$ 414
Removal of fully accreted acquired lease intangible liabilities	\$ 29,660	\$ 15,431	\$ 5,057
Recognition of ground lease right-of-use asset - Adoption of ASU 2016-02	\$ 10,885	\$ —	\$ —
Above-market ground lease intangible liability offset against right-of-use asset - Adoption of ASU 2016-02	\$ 3,408	\$ —	\$ —
Recognition of ground lease liability - Adoption of ASU 2016-02	\$ 10,885	\$ —	\$ —
Non-cash Financing Transactions			
Gain recorded in AOCI - Adoption of ASU 2017-12 - consolidated derivatives	\$ —	\$ 211	\$ —
(Loss) gain recorded in AOCI - consolidated derivatives	\$ (76,273)	\$ 22,723	\$ 16,512
(Loss) gain recorded in AOCI - unconsolidated Funds' derivatives (our share)	\$ (5,023)	\$ 3,052	\$ 3,275
Accrual for deferred loan costs	\$ 1,416	\$ —	\$ —
Assumption of term loan for acquisition of real estate	\$ —	\$ —	\$ 36,460
Non-cash contributions from noncontrolling interests in consolidated JVs	\$ 12,444	\$ —	\$ —
Non-cash distributions to noncontrolling interests	\$ 12,444	\$ —	\$ —
Dividends declared	\$ 184,515	\$ 171,695	\$ 153,568
Exchange of OP units for common stock	\$ 3,540	\$ 10,292	\$ 14,242
Issuance of OP Units for acquisition of real estate	\$ —	\$ —	\$ 105,687
OP Units issued for acquisition of additional interest in unconsolidated Fund	\$ 14,390	\$ —	\$ —

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, consolidated JVs and unconsolidated Fund, 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 consolidated financial statements refer to Douglas Emmett, Inc. and its subsidiaries on a consolidated basis.

At December 31, 2019, our Consolidated Portfolio consisted of (i) an 18.0 million square foot office portfolio, (ii) 4,161 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 an equity interest an unconsolidated Fund which, at December 31, 2019, owned an additional 0.4 million square feet of office space. We manage our unconsolidated Fund alongside our Consolidated Portfolio, and we therefore present the statistics for our office portfolio on a Total Portfolio basis. As of December 31, 2019, our portfolio (not including two parcels of land from which we receive rent under ground leases), consisted of the following properties (including ancillary retail space):

	Consolidated Portfolio	Total Portfolio
<u>Office</u>		
Wholly-owned properties	53	53
Consolidated JV properties	17	17
Unconsolidated Fund properties	—	2
	70	72
<u>Multifamily</u>		
Wholly-owned properties	10	10
Consolidated JV properties	1	1
	11	11
Total	81	83

Basis of Presentation

The accompanying consolidated 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.

We consolidate entities in which we are considered to be the primary beneficiary of a VIE or have a majority of the voting interest of the entity. We are deemed to be the primary beneficiary of a VIE when we have (i) the power to direct the activities of that VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. We do not consolidate entities in which the other parties have substantive kick-out rights to remove our power to direct the activities, most significantly impacting the economic performance, of that VIE. In determining whether we are the primary beneficiary, we consider factors such as ownership interest, management representation, authority to control decisions, and contractual and substantive participating rights of each party. We consolidate our Operating Partnership through which we conduct substantially all of our business, and own, directly and through subsidiaries, substantially all of our assets, and are obligated to repay substantially all of our liabilities, including \$3.11 billion of consolidated debt. See Note 8. We also consolidate four JVs. As of December 31, 2019, these consolidated entities had aggregate total consolidated assets of \$9.35 billion (of which \$8.96 billion related to investment in real estate), aggregate total consolidated liabilities of \$4.98 billion (of which \$4.62 billion related to debt), and aggregate total consolidated equity of \$4.37 billion (of which \$1.66 billion related to noncontrolling interests).

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements

The accompanying consolidated 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 consolidated financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Any references 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 consolidated financial statements in accordance with the standards of the PCAOB.

During the current reporting period, we reported our demolition expenses as part of Other expenses in our consolidated statements of operations and we reclassified the comparable periods to conform to the current period presentation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with US 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

Acquisitions and Initial Consolidation of VIEs

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 for asset acquisitions, which includes the capitalized transaction costs, and for the properties upon the initial consolidation of VIEs not determined to be a business, on a relative fair value basis 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 and (vi) assumed interest rate swaps, based upon comparable sales for land, and the income approach using our estimates of expected future cash flows and other valuation techniques, which include but are not limited to, our estimates of rental rates, revenue growth rates, capitalization rates and discount rates, for other assets and liabilities. 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 and current interest rates. See Note 3 for our property acquisition disclosures.

Depreciation

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.

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

We accelerate depreciation for affected assets when we renovate our buildings or existing buildings are impacted by new developments. 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.

Real Estate Held for Sale

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, 2019 and 2018, we did not have any properties held for sale.

Dispositions

Recognition of gains or losses from sales of investments in real estate requires that we meet certain revenue recognition criteria and transfer control of the real estate to the buyer. The gain or loss recorded is measured as the difference between the sales price, less costs to sell, and the carrying value of the real estate when we sell it.

Cost capitalization

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. Demolition expenses and repairs and maintenance are recorded as expense when incurred. During 2019, 2018 and 2017, we capitalized \$75.3 million, \$78.7 million and \$66.0 million of costs related to our developments, respectively, which included \$3.8 million, \$3.5 million and \$2.7 million of capitalized interest, respectively.

Ground Leases

We account for our ground lease, for which we are the lessee, in accordance with Topic 842 "Leases", which we adopted on January 1, 2019 on a prospective basis, see New Accounting Pronouncements further below. Upon adoption of the ASU, we continued to classify the lease as an operating lease, and we recognized a right-of-use asset for the land and a lease liability for the future lease payments of \$10.9 million. We calculated the carrying value of the right-of-use asset and lease liability by discounting the future lease payments using our incremental borrowing rate. We adjusted the right-of-use asset carrying value for a related above-market ground lease liability of \$3.4 million, which reduced the carrying value of the asset to \$7.5 million. We continued to recognize the lease payments as expense, which is included in Office expenses in our consolidated statements of operations. See Note 4 for more information regarding this ground lease. See Note 14 for the fair value disclosures related to the ground lease liability.

Investment in Unconsolidated Funds

We account for our investments in unconsolidated Funds using the equity method because we have significant influence but not control over the Funds. Under the equity method, we initially record our investment in our Funds at cost, which includes acquisition basis difference and additional basis for capital raising costs, and subsequently adjust the investment balance for: (i) our share of the Funds net income or losses, (ii) our share of the Funds other comprehensive income or losses, (iii) our cash contributions to the Fund and (iv) our distributions received from the Fund. We remove our investment in unconsolidated Funds from our consolidated balance sheet when we sell our interest in the Funds or the Funds qualify for consolidation. Our investment in unconsolidated Funds is included in Investment in unconsolidated Funds in the consolidated balance sheet and our share of net income or losses from the Funds is included in Income from unconsolidated Funds in the consolidated statements of operations. Our share of the Funds accumulated other comprehensive income or losses is included in Accumulated other comprehensive income (loss) in our consolidated balance sheet. As of December 31, 2019 and 2018, the total investment basis difference included in our investment balance in unconsolidated Funds was \$27.8 million and \$2.2 million, respectively. See Note 6 for our Fund disclosures.

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

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 changes 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 2019, 2018 or 2017. In downtown Honolulu, at 1132 Bishop Street, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments. We expect the conversion to occur in phases over a number of years as the office space is vacated. Due to the change in planned use of the property, we performed an impairment assessment by comparing the property's expected undiscounted cash flows to the property's carrying value plus the expected development costs and concluded that there was no impairment as of December 31, 2019. We determined the undiscounted cash flows using our estimates of the expected future cash flows which included, but were not limited to, our estimates of property's net operating income, and capitalization rates.

Cash and Cash Equivalents

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

Rental Revenues and Tenant Recoveries

We account for our rental revenues and tenant recoveries in accordance with Topic 842 "Leases", which we adopted on January 1, 2019 on a modified retrospective basis, see New Accounting Pronouncements further below. Topic 842 did not significantly change our accounting policy for recognizing rental revenues and tenant recoveries, and we adopted a practical expedient which allows us to account for our rental revenues and tenant recoveries on a combined basis. Rental revenues and tenant recoveries from tenant leases are included in Rental revenues and tenant recoveries in the consolidated statements of operations. All of our tenant leases are classified as operating leases. For lease terms exceeding one year, rental income is recognized on a straight-line basis over the lease term. 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 \$10.1 million, \$18.8 million and \$12.9 million during 2019, 2018 and 2017, respectively. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

Lease termination fees, which are included in Rental revenues and tenant recoveries 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 \$0.5 million, \$1.6 million and \$2.1 million during 2019, 2018 and 2017, respectively.

Tenant improvements constructed, and owned by us, and reimbursed by tenants are recorded as our assets, and the related revenue, which are included in Rental revenues and tenant recoveries in the consolidated statements of operations, is recognized over the related lease term. We recognized revenue for reimbursement of tenant improvements of \$5.8 million, \$3.5 million and \$2.6 million during 2019, 2018 and 2017, respectively.

Estimated tenant recoveries for real estate taxes, common area maintenance and other recoverable operating expenses, which are included in Rental revenues and tenant recoveries in the consolidated statements of operations, 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.

In accordance with Topic 842, if collectibility of the lease payments is not probable at the commencement date, then we limit the lease income to the lesser of the income recognized on a straight-line basis or cash basis. If our assessment of collectibility changes after the commencement date, we record the difference between the lease income that would have been recognized on a straight-line basis and cash basis as a current-period adjustment to lease income. We elected to adopt the complete impairment model guidance within Topic 842. Under this model, commencing on January 1, 2019, we no longer maintain a general reserve related to our receivables, and instead analyze, on a lease-by-lease basis, whether amounts due under the operating lease are deemed probable for collection. We write off tenant and deferred rent receivables as a charge against rental revenue in the period we determine the lease payments are not probable for collection.

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

Before the adoption of Topic 842, we presented 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 considered 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 before we adopted Topic 842:

(In thousands)	December 31, 2018
Allowance for tenant receivables	\$ 5,215
Allowance for deferred rent receivables	\$ 2,849
Letters of credit from our tenants	\$ 27,749
Cash security deposits from our tenants	\$ 50,733

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

(In thousands)	Year Ended December 31,	
	2018	2017
Tenant receivables allowance - decrease in net income	\$ (2,154)	\$ (406)
Deferred rent receivables allowance - increase in net income	\$ 556	\$ 1,739

Office Parking Revenues

Office parking revenues, which are included in office Parking and other income in our consolidated statements of operations, are within the scope of Topic 606 "Revenue from Contracts with Customers", which we adopted on January 1, 2018 on a modified retrospective basis. Topic 606 did not significantly change our accounting policy for parking revenues. Our lease contracts generally make a specified number of parking spaces available to the tenant, and we bill and recognize parking revenues on a monthly basis in accordance with the lease agreements, generally using the monthly parking rates in effect at the time of billing. Office parking revenues were \$108.7 million, \$102.5 million and \$96.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. Office parking receivables were \$1.3 million and \$1.1 million as of December 31, 2019 and 2018, respectively, and are included in Tenant receivables in our consolidated balance sheets.

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.

Leasing Costs

We account for our leasing costs in accordance with Topic 842 "Leases", which we adopted on January 1, 2019 on a modified retrospective basis, see New Accounting Pronouncements further below. In accordance with Topic 842, we capitalize initial direct costs of a lease, which are 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 employee salaries, are not considered to be initial direct costs, and are expensed. Prior to January 1, 2019, we capitalized most of our leasing costs.

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

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.

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 8 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, 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 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. 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. 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. 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 from unconsolidated Funds, as interest payments are made by our Funds on their hedged floating rate debt.

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 Funds on our consolidated balance sheet. See Note 10 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 the vesting period, which is based upon service. See Note 13 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 12 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 15 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 the regular corporate rate, including any applicable alternative minimum tax for taxable years prior to 2018. We have elected to treat several 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. Our TRSs did not have significant tax provisions or deferred income tax items for 2019, 2018 or 2017. Our subsidiaries (other than our TRS), including our Operating Partnership, are partnerships, disregarded entities, QRSs 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 US GAAP are implemented by the FASB in the form of ASUs. We consider the applicability and impact of all ASUs. Other than the ASUs discussed below, the FASB has not issued any other ASUs during we expect to be applicable and have a material impact on our consolidated financial statements.

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

ASUs Adopted

During 2019 we adopted the ASU listed below:

ASU 2016-02 (Topic 842 - "Leases")

In February 2016, the FASB issued ASU No. 2016-02, (Topic 842 - "Leases"). The primary impact of the ASU is the recognition of lease assets and liabilities on the balance sheet by lessees for leases classified as operating leases. The accounting applied by lessors is largely unchanged. For example, the vast majority of operating leases remain classified as operating leases, and lessors continue to recognize lease payments for those leases on a straight-line basis over the lease term.

We adopted the ASU on January 1, 2019 using the modified retrospective transition method. We recorded cumulative adjustments of \$2.1 million and \$0.4 million to the opening balances of accumulated deficit and noncontrolling interests, respectively, for leasing expenses related to leases that were entered into before the adoption date but commenced after the adoption date. The ASU provides a practical expedient package, which we elected to use, that allows entities (a) not to reassess whether any expired or existing contracts as of the adoption date are considered or contain leases; (b) not to reassess the lease classification for any expired or existing leases as of the adoption date; and (c) not to reassess initial direct costs for any existing leases as of the adoption date. All leases entered into on or after the adoption date were accounted for under the ASU.

We lease space to tenants at our office and multifamily properties. Under the ASU, all of our tenant leases continue to be classified as operating leases. The ASU continues to require that lease payments for operating leases be recognized over the lease term on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which benefit is expected to be derived from the use of the underlying asset. If collectibility of the lease payments is not probable at the commencement date, then the lease income should be limited to the lesser of the income recognized on a straight-line basis or cash basis. If the assessment of collectibility changes after the commencement date, any difference between the lease income that would have been recognized on a straight-line basis and cash basis must be recognized as a current-period adjustment to lease income. We elected to adopt the complete impairment model guidance within ASC 842. Under this model we no longer maintain a general reserve related to our receivables, and instead analyze, on a lease-by-lease basis, whether amounts due under the operating lease are deemed probable for collection. We write off tenant and deferred rent receivables as a charge against rental revenue in the period we determine the lease payments are not probable for collection.

The ASU requires separation of the lease 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 are accounted for in accordance with the ASU. The consideration in the contract is allocated to the lease and non-lease components on a relative standalone selling price basis and the non-lease component would be accounted for in accordance with ASC 606 ("Revenue from Contracts with Customers"). In July 2018, the FASB issued ASU No. 2018-11 which includes an optional practical expedient for lessors to elect, by class of underlying asset, to not separate the lease from the non-lease components if certain criteria are met. Our office tenant leases include a lease component for the rental income and a non-lease component for the related tenant recoveries. We determined that our office tenant leases qualify for the single component presentation and we adopted the practical expedient. We account for the combined components under the ASU.

Rental revenues and tenant recoveries from our office tenant leases is included in Rental revenues and tenant recoveries under Office rental in our consolidated statements of operations. Rental revenues from our multifamily tenant leases is included in multifamily Rental revenues in our consolidated statements of operations. Rental revenue recognized on a straight-line basis in excess of billed rents is included in Deferred rent receivables in our consolidated balance sheets. See Note 16 for more information regarding the future lease rental receipts from our operating leases.

The ASU 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 employee salaries, are not considered to be initial direct costs, and may not be capitalized. We historically capitalized most of our leasing costs. We expensed \$4.2 million during the year ended December 31, 2019, of leasing costs related to our tenant leases that did not qualify as initial direct costs of a lease, which are included in General and administrative expenses in our consolidated statements of operations.

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

We pay rent under a ground lease which expires on December 31, 2086. Upon adoption of the ASU, we continued to classify the lease as an operating lease, and we recognized a right-of-use asset for the land and a lease liability for the future lease payments of \$10.9 million. We calculated the carrying value of the right-of-use asset and lease liability by discounting the future lease payments using our incremental borrowing rate. We adjusted the right-of-use asset carrying value for a related above-market ground lease liability of \$3.4 million, which reduced the carrying value of the asset to \$7.5 million. We continued to recognize the lease payments as expense, which is included in Office expenses in our consolidated statements of operations. See Note 4 for more information regarding this ground lease. See Note 14 for the fair value disclosures related to the ground lease liability.

In December 2018, the FASB issued ASU 2018-20, an update to ASU 2016-02, which provides guidance on accounting for sales and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and nonlease components. We adopted the ASU and it did not have a material impact on our consolidated financial statements.

In March 2019, the FASB issued ASU 2019-01, an update to ASU 2016-02, which provides guidance on transition disclosures related to Topic 250 "Accounting Changes and Error Corrections" and other technical updates. We adopted the ASU and it did not have a material impact on our consolidated financial statements.

ASUs Not Yet Adopted

ASU 2016-13 (Topic 326 - "Financial Instruments-Credit Losses")

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" which amends "Financial Instruments-Credit Losses" (Topic 326). The ASU provides guidance for measuring credit losses on financial instruments. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those years, which for us would be the first quarter of 2020, and early adoption is permitted. The amendments in this ASU should be applied retrospectively. The ASU would impact our measurement of credit losses for our Office parking receivables, which were \$1.3 million and \$1.1 million as of December 31, 2019 and 2018, respectively, and are included in Tenant receivables in our consolidated balance sheets. We expect to adopt the ASU in the first quarter of 2020 and we do not expect the ASU to have a material impact on our consolidated 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. The acquired property's results of operations are included in our results of operations from the respective acquisition dates.

2019 Acquisition and JV consolidation

Acquisition of The Glendon

On June 7, 2019, we acquired The Glendon, a residential community in Westwood, and on June 28, 2019, we contributed the property to a consolidated JV that we manage and in which we own a 20% capital interest. The table below summarizes the purchase price allocation for the acquisition. See Note 14 for our fair value disclosures. The contract and purchase prices differ due to prorrations and similar adjustments:

(In thousands, except number of units)	<u>The Glendon</u>
Submarket	West Los Angeles
Acquisition date	June 7, 2019
Contract price	\$ 365,100
Number of multifamily units	350
Retail square footage	50
Land	\$ 32,773
Buildings and improvements	333,624
Tenant improvements and lease intangibles	2,301
Acquired above- and below-market leases, net	(2,114)
Net assets and liabilities acquired	<u>\$ 366,584</u>

Consolidation of JV

On November 21, 2019, we acquired an additional 16.3% of the equity in one of our previously unconsolidated Funds, Fund X, in exchange for \$76.9 million in cash and 332 thousand OP Units valued at \$14.4 million, which increased our ownership in the Fund to 89.0%. In connection with this transaction, we restructured the Fund with one remaining institutional investor. The new JV is a VIE, and as a result of the amended operating agreement, we became the primary beneficiary of the VIE and commenced consolidating the JV on November 21, 2019. The results of the consolidated JV are included in our operating results from November 21, 2019 (before November 21, 2019, our share of the Fund's net income was included in our statements of operations in Income from unconsolidated Funds).

The consolidation of the JV required us to recognize the JVs identifiable assets and liabilities at fair value in our consolidated financial statements, along with the fair value of the non-controlling interest of \$61.4 million. We recognized a gain of \$307.9 million to adjust the carrying value of our existing investment in the JV to its estimated fair value upon consolidation. See Note 14 for our fair value disclosures.

The gain was determined by taking the difference between: (a) the fair value of Fund X's assets less its liabilities and (b) the sum of the fair value of the noncontrolling interest, carrying value of our existing investment in Fund X, and the amounts paid to acquire other Fund investors' interests. We determined the fair value of Fund X's assets and liabilities upon initial consolidation using our estimates of expected future cash flows and other valuation techniques. We estimated the fair values of Fund X's properties by using the income and sales comparison valuation approaches which included, but are not limited to, our estimates of rental rates, comparable sales, revenue growth rates, capitalization rates and discount rates. Assumed debt was recorded at fair value based upon the present value of the expected future payments and current interest rates. Other acquired assets, including cash and assumed liabilities were recorded at cost due to the short-term nature of the balances.

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

The JV owns six Class A office properties totaling 1.5 million square feet in the Los Angeles submarkets of Beverly Hills, Santa Monica, Sherman Oaks/Encino and Warner Center. The JV also owns an interest of 9.4% in our remaining unconsolidated Fund, Partnership X, which owns two additional Class A office properties totaling 386,000 square feet in Beverly Hills and Brentwood. The table below summarizes the purchase price allocation for the initial consolidation of the JV.

(In thousands)	<u>JV Consolidation</u>
Consolidation date	November 21, 2019
Square footage	1,454
Land	\$ 52,272
Buildings and improvements	831,416
Tenant improvements and lease intangibles	40,890
Acquired above- and below-market leases, net	(14,198)
JV interest in unconsolidated Fund	28,783
Assumed debt	(403,016)
Assumed interest rate swaps	(4,147)
Other assets and liabilities, net	26,256
Net assets acquired and liabilities assumed	<u>\$ 558,256</u>

2018 Acquisitions

During 2018, we did not purchase any properties.

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)	<u>1299 Ocean</u>	<u>429 Santa Monica</u>	<u>9665 Wilshire</u>	<u>9401 Wilshire⁽¹⁾</u>
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
Investment in real estate:				
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 ⁽²⁾	—	—	—	(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 11 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 8 for more information.

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

4. Ground Lease

We pay rent under a ground lease located in Honolulu, Hawaii, which expires on December 31, 2086. The rent is fixed at \$733 thousand per year until February 28, 2029, after which it will reset to the greater of the existing ground rent or market. As of December 31, 2019, the right-of-use asset carrying value of this ground lease was \$7.5 million and the ground lease liability was \$10.9 million. We incurred ground rent expense of \$733 thousand during 2019, 2018 and 2017, which is included in Office expenses in our consolidated statements of operations. The table below, which assumes that the ground rent payments will continue to be \$733 thousand per year after February 28, 2029, presents the future minimum ground lease payments as of December 31, 2019:

Year ending December 31:	(In thousands)
2020	\$ 733
2021	733
2022	733
2023	733
2024	733
Thereafter	45,445
Total future minimum lease payments	<u>\$ 49,110</u>

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

5. Acquired Lease Intangibles

Summary of our Acquired Lease Intangibles

(In thousands)	December 31, 2019	December 31, 2018
Above-market tenant leases	\$ 7,220	\$ 5,595
Above-market tenant leases - accumulated amortization	(1,741)	(3,289)
Above-market ground lease where we are the lessor	1,152	1,152
Above-market ground lease - accumulated amortization	(224)	(207)
Acquired lease intangible assets, net	<u>\$ 6,407</u>	<u>\$ 3,251</u>
Below-market tenant leases	\$ 102,583	\$ 112,175
Below-market tenant leases - accumulated accretion	(50,216)	(63,013)
Above-market ground lease where we are the tenant ⁽¹⁾	—	4,017
Above-market ground lease - accumulated accretion ⁽¹⁾	—	(610)
Acquired lease intangible liabilities, net	<u>\$ 52,367</u>	<u>\$ 52,569</u>

(1) Upon adoption of ASU 2016-02 on January 1, 2019 we adjusted the ground lease right-of-use asset carrying value with the carrying value of the above-market ground lease - see Notes 2 and 4.

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,		
	2019	2018	2017
Net accretion of above- and below-market tenant lease assets and liabilities ⁽¹⁾	\$ 16,282	\$ 21,992	\$ 17,973
Amortization of an above-market ground lease asset ⁽²⁾	(18)	(17)	(17)
Accretion of an above-market ground lease liability ⁽³⁾	—	50	50
Total	<u>\$ 16,264</u>	<u>\$ 22,025</u>	<u>\$ 18,006</u>

(1) Recorded as a net increase to office and multifamily rental revenues.

(2) Recorded as a decrease to office parking and other income.

(3) Recorded as a decrease to office expense. Upon adoption of ASU 2016-02 on January 1, 2019 we adjusted the ground lease right-of-use asset carrying value with the carrying value of the above-market ground lease - see Notes 2 and 4.

The table below presents the future net accretion related to our above- and below-market leases at December 31, 2019.

Year ending December 31:	Net increase to revenues
(In thousands)	
2020	\$ 15,339
2021	9,371
2022	6,674
2023	4,576
2024	3,702
Thereafter	6,298
Total	<u>\$ 45,960</u>

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

6. Investments in Unconsolidated Funds

Description of our Funds

As of December 31, 2019, we manage and own an equity interest of 29.9% in an unconsolidated Fund, Partnership X, through which we and other investors in the Fund own two office properties totaling 0.4 million square feet. Before November 21, 2019, we managed and owned equity interests in three unconsolidated Funds, consisting of 6.2% of the Opportunity Fund, 72.7% of Fund X and 28.4% of Partnership X, through which we and other investors in the Funds owned eight office properties totaling 1.8 million square feet. On November 21, 2019, we acquired additional interests of 16.3% in Fund X and 1.5% in Partnership X, and restructured Fund X which resulted in Fund X being treated as a consolidated JV from November 21, 2019. See Note 3 for more information regarding the consolidation of the JV. We also acquired all of the investors' ownership interests in the Opportunity Fund (The Opportunity Fund's only investment was an ownership interest in Fund X) and closed the Opportunity Fund. During the period January 1, 2019 to November 20, 2019 we purchased additional interests of 1.4% in Fund X and 3.9% in Partnership X. Our Funds pay us fees and reimburse us for certain expenses related to property management and other services we provide, which are included in Other income in our consolidated statements of operations. 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 we received from our Funds:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Operating distributions received ⁽¹⁾	\$ 6,820	\$ 6,400	\$ 5,905
Capital distributions received ⁽¹⁾	5,853	7,349	43,560
Total distributions received ⁽¹⁾	<u>\$ 12,673</u>	<u>\$ 13,749</u>	<u>\$ 49,465</u>

(1) The balances reflect the combined balances for Partnership X, Fund X and the Opportunity Fund through November 20, 2019 and the balances for Partnership X from November 21, 2019 through December 31, 2019.

Summarized Financial Information for our Funds

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

(In thousands)	December 31, 2019	December 31, 2018
Total assets ⁽¹⁾	\$ 136,479	\$ 694,713
Total liabilities ⁽¹⁾	\$ 113,330	\$ 525,483
Total equity ⁽¹⁾	\$ 23,149	\$ 169,230

(1) The balances as of December 31, 2019 reflect the balances for Partnership X. The balances as of December 31, 2018 reflect the combined balances for Partnership X, Fund X and the Opportunity Fund.

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Total revenues ⁽¹⁾	\$ 75,952	\$ 79,590	\$ 75,896
Operating income ⁽¹⁾	\$ 22,269	\$ 22,959	\$ 20,640
Net income ⁽¹⁾	\$ 7,350	\$ 6,260	\$ 5,085

(1) The balances reflect the combined balances for Partnership X, Fund X and the Opportunity Fund through November 20, 2019 and the balances for Partnership X from November 21, 2019 through December 31, 2019.

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

7. Other Assets

(In thousands)	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Restricted cash	\$ 121	\$ 121
Prepaid expenses	8,711	7,830
Other indefinite-lived intangibles	1,988	1,988
Furniture, fixtures and equipment, net	2,368	1,101
Other	3,233	3,719
Total other assets	<u>\$ 16,421</u>	<u>\$ 14,759</u>

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

8. Secured Notes Payable and Revolving Credit Facility, Net

Description	Maturity Date ⁽¹⁾	Principal Balance as of December 31, 2019	Principal Balance as of December 31, 2018	Variable Interest Rate	Fixed Interest Rate ⁽²⁾	Swap Maturity Date
(In thousands)						
<u>Wholly-Owned Subsidiaries</u>						
Fannie Mae loan ⁽³⁾	—	\$ —	\$ 145,000	—	—	—
Fannie Mae loan ⁽³⁾	—	—	115,000	—	—	—
Term loan ⁽³⁾	—	—	220,000	—	—	—
Term loan ⁽³⁾	—	—	340,000	—	—	—
Term loan ⁽³⁾	—	—	400,000	—	—	—
Term loan ⁽³⁾	—	—	180,000	—	—	—
Term loan ⁽³⁾	—	—	360,000	—	—	—
Term loan ⁽⁴⁾	1/1/2024	300,000	300,000	LIBOR + 1.55%	3.46%	1/1/2022
Term loan ⁽⁴⁾	3/3/2025	335,000	335,000	LIBOR + 1.30%	3.84%	3/1/2023
Fannie Mae loan ⁽⁴⁾⁽⁵⁾	4/1/2025	102,400	102,400	LIBOR + 1.25%	2.84%	3/1/2023
Term loan ⁽⁴⁾⁽⁶⁾⁽⁷⁾	8/15/2026	415,000	—	LIBOR + 1.10%	2.58%	8/1/2025
Term loan ⁽⁴⁾⁽⁶⁾	9/19/2026	400,000	—	LIBOR + 1.15%	2.44%	9/1/2024
Term loan ⁽⁴⁾⁽⁶⁾⁽⁸⁾	9/26/2026	200,000	—	LIBOR + 1.20%	2.77%	10/1/2024
Term loan ⁽⁴⁾⁽⁶⁾⁽⁹⁾	11/1/2026	400,000	—	LIBOR + 1.15%	2.18%	10/1/2024
Fannie Mae loan ⁽⁴⁾	6/1/2027	550,000	550,000	LIBOR + 1.37%	3.16%	6/1/2022
Fannie Mae loan ⁽⁴⁾⁽⁶⁾	6/1/2029	255,000	—	LIBOR + 0.98%	3.26%	6/1/2027
Fannie Mae loan ⁽⁴⁾⁽⁶⁾⁽¹⁰⁾	6/1/2029	125,000	—	LIBOR + 0.98%	2.55%	6/1/2027
Term loan ⁽¹¹⁾	6/1/2038	30,864	31,582	N/A	4.55%	N/A
Revolving credit facility ⁽¹²⁾	8/21/2023	—	105,000	LIBOR + 1.15%	N/A	N/A
Total Wholly-Owned Subsidiary Debt		3,113,264	3,183,982			
<u>Consolidated JVs</u>						
Term loan ⁽⁴⁾	2/28/2023	580,000	580,000	LIBOR + 1.40%	2.37%	3/1/2021
Term loan ⁽⁴⁾⁽¹³⁾	7/1/2024	400,000	—	LIBOR + 1.65%	3.44%	7/1/2022
Term loan ⁽⁴⁾	12/19/2024	400,000	400,000	LIBOR + 1.30%	3.47%	1/1/2023
Term loan ⁽⁴⁾⁽⁶⁾	6/1/2029	160,000	—	LIBOR + 0.98%	3.25%	7/1/2027
Total Consolidated Debt ⁽¹⁴⁾		4,653,264	4,163,982			
Unamortized loan premium, net		6,741	3,986			
Unamortized deferred loan costs, net		(40,947)	(33,938)			
Total Consolidated Debt, net		\$ 4,619,058	\$ 4,134,030			

Except as 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. Certain of our loans require us to pay down the loan if necessary for the properties involved to meet minimum financial thresholds, although we have never had to make such a payment.

- (1) Maturity dates include the effect of extension options.
- (2) Includes the effect of interest rate swaps and excludes the effect of prepaid loan fees. See Note 10 for details of our interest rate swaps. See below for details of our loan costs.
- (3) At December 31, 2019, these loans have been paid off.
- (4) Loan agreement includes a zero-percent LIBOR floor. The corresponding swaps do not include such a floor.
- (5) The effective rate will decrease to 2.76% on March 2, 2020.

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

- (6) These loans were closed during the twelve months ended December 31, 2019.
- (7) Effective rate will increase to 3.07% on April 1, 2020.
- (8) Effective rate will decrease to 2.36% on July 1, 2020.
- (9) Effective rate will increase to 2.31% on July 1, 2021.
- (10) Effective rate will increase to 3.25% on December 1, 2020.
- (11) Requires monthly payments of principal and interest. Principal amortization is based upon a 30-year amortization schedule.
- (12) In March 2019, we renewed our \$400.0 million revolving credit facility, releasing two previously encumbered properties, lowering the borrowing rate and unused facility fees, and extending the maturity date. Unused commitment fees range from 0.10% to 0.15%. The loan agreement includes a zero-percent LIBOR floor.
- (13) A previously unconsolidated Fund is now treated as a consolidated JV. See Note 3.
- (14) The table does not include our unconsolidated Funds' loans - see Note 17. See Note 14 for our fair value disclosures.

Debt Statistics

The following table summarizes our consolidated fixed and floating rate debt:

(In thousands)	Principal Balance as of December 31, 2019	Principal Balance as of December 31, 2018
Aggregate swapped to fixed rate loans	\$ 4,622,400	\$ 3,882,400
Aggregate fixed rate loans	30,864	31,582
Aggregate floating rate loans	—	250,000
Total Debt	<u>\$ 4,653,264</u>	<u>\$ 4,163,982</u>

The following table summarizes certain consolidated debt statistics as of December 31, 2019:

Statistics for consolidated loans with interest fixed under the terms of the loan or a swap	
Principal balance (in billions)	\$4.65
Weighted average remaining life (including extension options)	6.1 years
Weighted average remaining fixed interest period	3.9 years
Weighted average annual interest rate	3.00%

Future Principal Payments

At December 31, 2019, the minimum future principal payments due on our consolidated secured notes payable and revolving credit facility were as follows:

Year ending December 31:	Excluding Maturity Extension Options	Including Maturity Extension Options ⁽¹⁾
(In thousands)		
2020	\$ 752	\$ 752
2021	787	787
2022	300,823	823
2023	915,862	580,862
2024	800,902	1,100,902
Thereafter	2,634,138	2,969,138
Total future principal payments	<u>\$ 4,653,264</u>	<u>\$ 4,653,264</u>

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

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

Loan Costs

Deferred loan costs are net of accumulated amortization of \$30.7 million and \$24.2 million at December 31, 2019 and December 31, 2018, respectively. The table below presents loan costs, which are included in interest expense in our consolidated statements of operations:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Loan costs expensed	\$ 1,318	\$ 58	\$ 557
Deferred loan costs written off	6,865	360	1,802
Deferred loan cost amortization	7,449	7,874	9,033
Total	<u>\$ 15,632</u>	<u>\$ 8,292</u>	<u>\$ 11,392</u>

9. Interest Payable, Accounts Payable and Deferred Revenue

(In thousands)	December 31, 2019	December 31, 2018
Interest payable	\$ 11,707	\$ 10,657
Accounts payable and accrued liabilities	66,437	75,111
Deferred revenue	53,266	44,386
Total interest payable, accounts payable and deferred revenue	<u>\$ 131,410</u>	<u>\$ 130,154</u>

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

10. Derivative Contracts

Derivative Summary

As of December 31, 2019, all of our interest rate swaps, which include the interest rate swaps of our consolidated JVs and our unconsolidated Fund, were designated as cash flow hedges:

	Number of Interest Rate Swaps	Notional (In thousands)
Consolidated derivatives ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾	43	\$ 5,124,800
Unconsolidated Fund's derivative ⁽³⁾⁽⁴⁾⁽⁵⁾	1	\$ 110,000

- (1) The notional amount reflects 100%, not our pro-rata share, of our consolidated JVs' derivatives.
(2) Includes forward swaps with a total notional of \$502.4 million.
(3) The notional amount reflects 100%, not our pro-rata share, of our unconsolidated Fund's derivatives.
(4) Our derivative contracts do not provide for right of offset between derivative contracts.
(5) See Note 14 for our derivative fair value disclosures.

Credit-risk-related Contingent Features

Our swaps include credit-risk related contingent features. For example, we have agreements with certain of our interest rate swap counterparties that contain a provision under which we could be declared in default on our derivative obligations if repayment of the underlying indebtedness that we are hedging is accelerated by the lender due to our default on the indebtedness. As of December 31, 2019, there have been no events of default with respect to our interest rate swaps, our consolidated JVs' swaps or our unconsolidated Fund's interest rate swap. We do not post collateral for our interest rate swap contract liabilities. The fair value of our interest rate swap contract liabilities, including accrued interest and excluding credit risk adjustments, was as follows:

(In thousands)	December 31, 2019	December 31, 2018
Consolidated derivatives ⁽¹⁾	\$ 56,896	\$ 1,681
Unconsolidated Fund's derivatives ⁽²⁾	\$ —	\$ —

- (1) Includes 100%, not our pro-rata share, of our consolidated JVs' derivatives.
(2) Our unconsolidated Fund did not have any derivatives in a liability position.

Counterparty Credit Risk

We are subject to credit risk from the counterparties on our interest rate swap contract assets because we do not receive collateral. We seek to minimize that risk by entering into agreements with a variety of high quality counterparties with investment grade ratings. The fair value of our interest rate swap contract assets, including accrued interest and excluding credit risk adjustments, was as follows:

(In thousands)	December 31, 2019	December 31, 2018
Consolidated derivatives ⁽¹⁾	\$ 23,275	\$ 76,021
Unconsolidated Fund's derivative ⁽²⁾	\$ 963	\$ 12,576

- (1) Includes 100%, not our pro-rata share, of our consolidated JVs' derivatives.
(2) The amounts reflect 100%, not our pro-rata share, of our unconsolidated Fund's derivative.

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

Impact of Hedges on AOCI and the Consolidated Statements of Operations

The table below presents the effect of our derivatives on our AOCI and the consolidated statements of operations:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Derivatives Designated as Cash Flow Hedges:			
Consolidated derivatives:			
Gain recorded in AOCI - adoption of ASU 2017-12 ⁽¹⁾	\$ —	\$ 211	\$ —
(Loss) gain recorded in AOCI before reclassifications ⁽¹⁾	\$ (76,273)	\$ 22,723	\$ 16,512
(Gain) loss reclassified from AOCI to Interest Expense ⁽¹⁾	\$ (24,298)	\$ (10,103)	\$ 13,976
Interest Expense presented in the consolidated statements of operations	\$ (143,308)	\$ (133,402)	\$ (145,176)
Loss (gain) related to ineffectiveness recorded in Interest Expense	\$ —	\$ —	\$ 51
Unconsolidated Funds' derivatives (our share)⁽²⁾:			
(Loss) gain recorded in AOCI before reclassifications ⁽¹⁾	\$ (5,023)	\$ 3,052	\$ 3,275
(Gain) loss reclassified from AOCI to Income from unconsolidated Funds ⁽¹⁾	\$ (1,698)	\$ (813)	\$ 527
Income from unconsolidated Funds presented in the consolidated statements of operations	\$ 6,923	\$ 6,400	\$ 5,905

(1) See Note 11 for our AOCI reconciliation.

(2) We calculate our share by multiplying the total amount for each Fund by our equity interest in the respective Fund.

Future Reclassifications from AOCI

At December 31, 2019, 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 as follows:

	(In thousands)
Consolidated derivatives:	
Losses to be reclassified from AOCI to Interest Expense	\$ (2,461)
Unconsolidated Fund's derivatives (our share):	
Gains to be reclassified from AOCI to Income from unconsolidated Funds	\$ 235

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

11. Equity

Transactions

2019 Transactions

During the year ended December 31, 2019, (i) we acquired 222 thousand OP Units in exchange for issuing an equal number of shares of our common stock to the holders of the OP Units, (ii) we acquired 19 thousand OP Units and fully-vested LTIP Units for \$734 thousand in cash, and (iii) we issued 4.9 million shares of our common stock under our ATM program for net proceeds of \$201.0 million.

We purchased a property on June 7, 2019 for a contract price of \$365.1 million, which we subsequently contributed to one of our consolidated JVs on June 28, 2019. We manage and own a twenty percent capital interest in the JV. The acquisition and related working capital was funded with (i) a secured, non-recourse \$160.0 million interest-only loan scheduled to mature in June 2029, which was assumed by the consolidated JV to which we contributed the property, (ii) a \$44.0 million capital contribution by us to the JV, and (iii) a \$176.0 million capital contribution by Noncontrolling interests in the JV. See Note 3 for more information regarding the property acquisition and Note 8 for more information regarding the loan.

On November 21, 2019, we acquired an additional 16.3% of the equity in one of our previously unconsolidated Funds, Fund X, in exchange for \$76.9 million in cash and 332 thousand OP Units valued at \$14.4 million, which increased our ownership in the Fund to 89.0%. See Note 3 for more information regarding the consolidation of the JV and note 6 for more information regarding our Funds.

2018 Transactions

During 2018, we (i) acquired 629 thousand OP Units in exchange for issuing an equal number of shares of our common stock to the holders of the OP Units, (ii) acquired 3 thousand OP Units for \$108 thousand in cash and (iii) issued 21 thousand shares of our common stock for the exercise of 49 thousand stock options on a net settlement basis (net of the exercise price and related taxes).

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 \$593.3 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.

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 owned 29.1 million OP Units and fully-vested LTIP Units, and represented approximately 14% of our Operating Partnership's total outstanding interests as of December 31, 2019 when we owned 175.4 million OP Units (to match our 175.4 million shares of outstanding common stock). 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 employees and non-employee directors as part of their compensation. These awards generally vest over a service period and once vested can generally be converted to OP Units provided our stock price increases by more than a specified hurdle.

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

Changes in our Ownership Interest in our Operating Partnership

The table below presents the effect 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,		
	2019	2018	2017
Net income attributable to common stockholders	\$ 363,713	\$ 116,086	\$ 94,443
Transfers from noncontrolling interests:			
Exchange of OP Units with noncontrolling interests	3,540	10,292	14,242
Repurchase of OP Units from noncontrolling interests	(431)	(59)	(6,764)
Net transfers from noncontrolling interests	3,109	10,233	7,478
Change from net income attributable to common stockholders and transfers from noncontrolling interests	\$ 366,822	\$ 126,319	\$ 101,921

AOCI Reconciliation⁽¹⁾

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,		
	2019	2018	2017
Beginning balance	\$ 53,944	\$ 43,099	\$ 15,156
Adoption of ASU 2017-12 - cumulative opening balance adjustment	—	211	—
Consolidated derivatives:			
Other comprehensive (loss) gain before reclassifications	(76,273)	22,723	16,512
Reclassification of (gain) loss from AOCI to Interest Expense	(24,298)	(10,103)	13,976
Unconsolidated Funds' derivatives (our share)⁽²⁾:			
Other comprehensive (loss) gain before reclassifications	(5,023)	3,052	3,275
Reclassification of (gain) loss from AOCI to Income from unconsolidated Funds	(1,698)	(813)	527
Net current period OCI	(107,292)	15,070	34,290
OCI attributable to noncontrolling interests	35,886	(4,225)	(6,347)
OCI attributable to common stockholders	(71,406)	10,845	27,943
Ending balance	\$ (17,462)	\$ 53,944	\$ 43,099

(1) See Note 10 for the details of our derivatives and Note 14 for our derivative fair value disclosures.

(2) We calculate our share by multiplying the total amount for each Fund by our equity interest in the respective Fund.

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

Dividends (unaudited)

Our common stock dividends paid during 2019 are classified for federal income tax purposes as follows:

Record Date	Paid Date	Dividend Per Share	Ordinary Income %	Capital Gain %	Return of Capital %	Section 199A Dividend %
12/31/2018	1/15/2019	\$ 0.26	51.8%	—%	48.2%	51.8%
3/29/2019	4/16/2019	0.26	51.8%	—%	48.2%	51.8%
6/28/2019	7/12/2019	0.26	51.8%	—%	48.2%	51.8%
9/30/2019	10/16/2019	0.26	51.8%	—%	48.2%	51.8%
Total / Weighted Average		\$ 1.04	51.8%	—%	48.2%	51.8%

12. EPS

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

	Year Ended December 31,		
	2019	2018	2017
Numerator (In thousands):			
Net income attributable to common stockholders	\$ 363,713	\$ 116,086	\$ 94,443
Allocation to participating securities: Unvested LTIP Units	(1,594)	(546)	(626)
Net income attributable to common stockholders - basic and diluted	<u>\$ 362,119</u>	<u>\$ 115,540</u>	<u>\$ 93,817</u>
Denominator (In thousands):			
Weighted average shares of common stock outstanding - basic	173,358	169,893	160,905
Effect of dilutive securities: Stock options ⁽¹⁾	—	9	325
Weighted average shares of common stock and common stock equivalents outstanding - diluted	<u>173,358</u>	<u>169,902</u>	<u>161,230</u>
Net income per common share - basic	<u>\$ 2.09</u>	<u>\$ 0.68</u>	<u>\$ 0.58</u>
Net income per common share - diluted	<u>\$ 2.09</u>	<u>\$ 0.68</u>	<u>\$ 0.58</u>

- (1) There were no outstanding options during the year ended December 31, 2019. Outstanding OP Units and vested LTIP Units are not included in the denominator in calculating diluted EPS, even though they may be exchanged under certain conditions for common stock on a one-for-one basis, because their associated net income (equal on a per unit basis to the Net income per common share - diluted) was already deducted in calculating Net income attributable to common stockholders. Accordingly, any exchange would not have any effect on diluted EPS. The following table presents the OP Units and vested LTIP Units outstanding for the respective periods:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
OP Units	26,465	26,661	24,810
Vested LTIP Units	1,652	813	274

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

13. 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 1.8 million shares available for grant as of December 31, 2019. 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, provided our stock price increases by more than a specified hurdle.

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 802 thousand, 898 thousand and 800 thousand LTIP Units to employees during 2019, 2018 and 2017, 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 38 thousand, 37 thousand and 28 thousand LTIP Units to our non-employee directors during 2019, 2018 and 2017, respectively.

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

Compensation Expense

At December 31, 2019, the total unrecognized stock-based compensation expense for unvested LTIP Unit awards was \$22.0 million, which will be recognized over a weighted-average term of two years. The table below presents our stock-based compensation expense:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Stock-based compensation expense, net	\$ 18,359	\$ 22,299	\$ 18,478
Capitalized stock-based compensation	\$ 4,698	\$ 5,006	\$ 2,537
Intrinsic value of options exercised	\$ —	\$ 1,196	\$ 102,963

Stock-Based Award Activity

The table below presents our outstanding stock options activity⁽¹⁾:

Fully Vested Stock Options:	Number of Stock Options (Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Months)	Total Intrinsic Value (Thousands)	Intrinsic Value of Options Exercised (Thousands)
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	
Exercised	(49)	\$ 12.66			\$ 1,196
Outstanding at December 31, 2018	—	\$ —	0	\$ —	

(1) There were no outstanding options during the year ended December 31, 2019

The table below presents our unvested LTIP Units activity:

Unvested LTIP Units:	Number of Units (Thousands)	Weighted Average Grant Date Fair Value	Grant Date Fair Value (Thousands)
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	
Granted	935	\$ 27.01	\$ 25,247
Vested	(1,036)	\$ 25.82	\$ 26,740
Forfeited	(10)	\$ 34.18	\$ 333
Outstanding at December 31, 2018	945	\$ 28.20	
Granted	840	\$ 31.92	\$ 26,821
Vested	(826)	\$ 29.13	\$ 24,061
Forfeited	(35)	\$ 35.41	\$ 1,234
Outstanding at December 31, 2019	924	\$ 30.48	

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

14. 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, 2019, 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 8 for the details of our secured notes payable. We estimate the fair value of our consolidated secured notes payable 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 and carrying value of our secured notes payable (excluding our revolving credit facility), the carrying value includes unamortized loan premium and excludes unamortized deferred loan fees:

(In thousands)	December 31, 2019	December 31, 2018
Fair value	\$ 4,678,623	\$ 4,087,979
Carrying value	\$ 4,653,264	\$ 4,062,968

Ground lease liability: See Note 4 for the details of our ground lease. We estimate the fair value of our ground lease liability by calculating the present value of the future lease payments disclosed in Note 4 using our incremental borrowing rate. The calculation incorporates observable market interest rates which we consider to be Level 2 inputs. The table below presents the estimated fair value and carrying value of our ground lease liability:

(In thousands)	December 31, 2019
Fair value	\$ 12,218
Carrying value	\$ 10,882

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

Financial instruments measured at fair value

Derivative instruments: See Note 10 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, 2019	December 31, 2018
Derivative Assets:		
Fair value - consolidated derivatives ⁽¹⁾	\$ 22,381	\$ 73,414
Fair value - unconsolidated Funds' derivatives ⁽²⁾	\$ 889	\$ 12,228
Derivative Liabilities:		
Fair value - consolidated derivatives ⁽¹⁾	\$ 54,616	\$ 1,530
Fair value - unconsolidated Funds' derivatives ⁽²⁾	\$ —	\$ —

-
- (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 sheets. The fair values exclude accrued interest which is included in interest payable in the consolidated balance sheets.
- (2) Reflects 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 Funds in our consolidated balance sheets. See Note 17 regarding our unconsolidated Funds debt and derivatives. Our unconsolidated Funds' did not have any derivatives in a liability position for the periods presented.

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

15. 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,		
	2019	2018	2017
<u>Office Segment</u>			
Total office revenues	\$ 816,755	\$ 777,931	\$ 715,546
Office expenses	(264,482)	(252,751)	(233,633)
Office segment profit	552,273	525,180	481,913
<u>Multifamily Segment</u>			
Total multifamily revenues	119,927	103,385	96,506
Multifamily expenses	(33,681)	(28,116)	(24,401)
Multifamily segment profit	86,246	75,269	72,105
Total profit from all segments	<u>\$ 638,519</u>	<u>\$ 600,449</u>	<u>\$ 554,018</u>

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

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Total profit from all segments	\$ 638,519	\$ 600,449	\$ 554,018
General and administrative expenses	(38,068)	(38,641)	(36,234)
Depreciation and amortization	(357,743)	(309,864)	(276,761)
Other income	11,653	11,414	9,712
Other expenses	(7,216)	(7,744)	(7,037)
Income from unconsolidated Funds	6,923	6,400	5,905
Interest expense	(143,308)	(133,402)	(145,176)
Gain from consolidation of JV	307,938	—	—
Net income	418,698	128,612	104,427
Less: Net income attributable to noncontrolling interests	(54,985)	(12,526)	(9,984)
Net income attributable to common stockholders	<u>\$ 363,713</u>	<u>\$ 116,086</u>	<u>\$ 94,443</u>

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

16. 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, 2019:

Year Ending December 31,	(In thousands)
2020	\$ 658,016
2021	572,372
2022	484,611
2023	384,866
2024	294,137
Thereafter	691,145
Total future minimum base rentals ⁽¹⁾	<u>\$ 3,085,147</u>

(1) Does not include (i) residential leases, which typically have a term of one year or less, (ii) holdover rent, (ii) other types of rent such as storage 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.

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 2019, 2018 and 2017, 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 our unconsolidated Fund, 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 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 10 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.

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

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 thirty-two buildings in our Consolidated Portfolio 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, 2019, the obligations to remove the asbestos from properties which are currently undergoing major renovations, or that we plan to renovate in the future, are not material to our consolidated financial statements. As of December 31, 2019, the obligations to remove the asbestos from our other properties have indeterminable settlement dates, and we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligations.

Development and Other Contracts

In West Los Angeles, we are building a high-rise apartment building with 376 apartments. We expect construction to take about three years. In downtown Honolulu, at 1132 Bishop Street, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments. We expect the conversion to occur in phases over a number of years as the office space is vacated. As of December 31, 2019, we had an aggregate remaining contractual commitment for these development projects of approximately \$233.3 million. As of December 31, 2019, we had an aggregate remaining contractual commitment for repositionings, capital expenditure projects and tenant improvements of approximately \$24.6 million.

Guarantees

We have made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve-outs for our unconsolidated Fund's debt. We have also guaranteed the related swap. Our Fund has agreed to indemnify us for any amounts that we would be required to pay under these agreements. As of December 31, 2019, 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 Fund's debt as of December 31, 2019. The amounts represent 100% (not our pro-rata share) of the amounts related to our Funds:

Fund ⁽¹⁾	Loan Maturity Date	Principal Balance (In thousands)	Variable Interest Rate	Swap Fixed Interest Rate	Swap Maturity Date
Partnership X ⁽²⁾⁽³⁾	3/1/2023	\$ 110,000	LIBOR + 1.40%	2.30%	3/1/2021

(1) See Note 6 for more information regarding our unconsolidated Fund.

(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, 2019, assuming a zero-percent LIBOR interest rate during the remaining life of the swap, the maximum future payments under the swap agreement were \$1.2 million.

(3) Loan agreement includes a zero-percent LIBOR floor. The corresponding swap does not include such a floor.

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

18. Quarterly Financial Information (unaudited)

The tables below present selected quarterly information for 2019 and 2018:

(In thousands, except per share amounts)	Three Months Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Total revenue	\$ 224,186	\$ 230,534	\$ 238,069	\$ 243,893
Net income before noncontrolling interests	\$ 32,788	\$ 39,860	\$ 23,421	\$ 322,629
Net income attributable to common stockholders	\$ 28,701	\$ 33,966	\$ 22,488	\$ 278,558
Net income per common share - basic	\$ 0.17	\$ 0.20	\$ 0.13	\$ 1.58
Net income per common share - diluted	\$ 0.17	\$ 0.20	\$ 0.13	\$ 1.58
Weighted average shares of common stock outstanding - basic	170,221	172,498	175,278	175,356
Weighted average shares of common stock and common stock equivalents outstanding - diluted	170,221	172,498	175,278	175,356

(In thousands, except per share amounts)	Three Months Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Total revenue	\$ 212,247	\$ 219,469	\$ 223,308	\$ 226,292
Net income before noncontrolling interests	\$ 32,631	\$ 37,033	\$ 35,416	\$ 23,532
Net income attributable to common stockholders	\$ 28,206	\$ 31,684	\$ 30,561	\$ 25,635
Net income per common share - basic	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.15
Net income per common share - diluted	\$ 0.17	\$ 0.19	\$ 0.18	\$ 0.15
Weighted average shares of common stock outstanding - basic	169,601	169,916	169,926	170,121
Weighted average shares of common stock and common stock equivalents outstanding - diluted	169,625	169,926	169,931	170,121

19. Subsequent Events

In January 2020, there was a fire in one of our buildings at our Barrington Plaza apartment property. We carry comprehensive liability and property insurance covering all of the properties in our portfolio under blanket insurance policies and we do not currently expect the event to have a material impact on our financial position and results of operations.

OUR SENIOR MANAGEMENT

DAN A. EMMETT
Executive Chairman

JORDAN L. KAPLAN
President & Chief Executive Officer

KENNETH M. PANZER
Chief Operating Officer

PETER D. SEYMOUR
Chief Financial Officer

KEVIN A. CRUMMY
Chief Investment Officer

CORPORATE HEADQUARTERS

1299 Ocean Avenue
Suite 1000
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

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
Vice President, Google Health

VIRGINIA A. MCFERRAN
Technology & Data Science Advisor

THOMAS E. O'HERN
Chief Executive Officer,
Macerich Company

WILLIAM E. SIMON, JR.
Partner, Simon Quick Advisors

JOHNESE M. SPISSO
President, UCLA Health;
Chief Executive Officer, UCLA
Hospital System; Associate Vice
Chancellor, UCLA Health Services

STOCK EXCHANGE

The New York Stock Exchange – NYSE
Ticker Symbol – DEI

LEGAL COUNSEL

Proskauer
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

Virtual shareholders meeting by live
webcast only*

*Please see our definitive proxy statement for our upcoming annual meeting for important instructions on how to register for, attend, participate in and vote at the annual meeting. There is no in person attendance at the annual meeting.

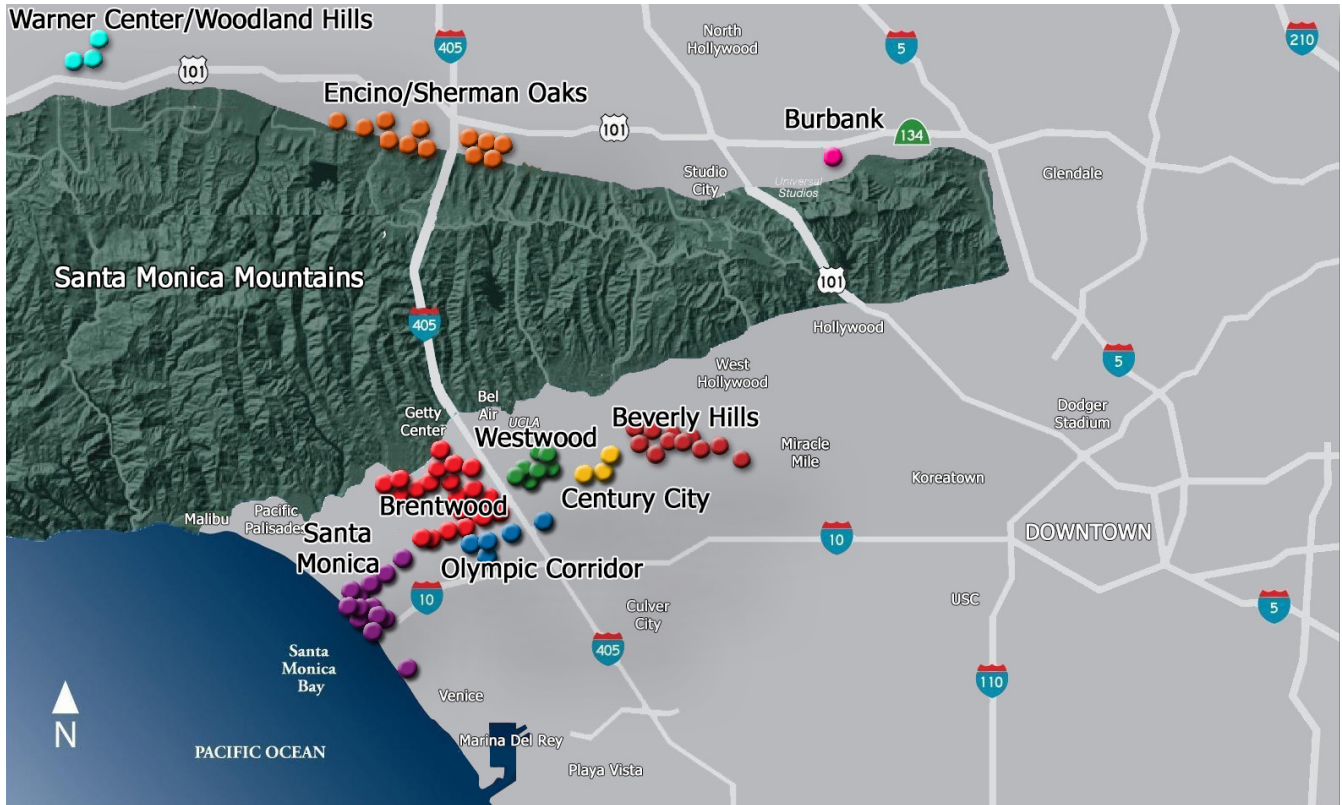


At Douglas Emmett concern for the environment is ingrained in our corporate culture. We are committed to implementing and maintaining financially responsible sustainability programs in our properties. Through the years we have proactively introduced conservation and sustainability measures across our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

