

Douglas Emmett

ANNUAL REPORT 2020

Dear Fellow Shareholders,

When I was writing my letter to you a year ago, our nation was in its first few weeks of stay-at-home orders due to the COVID-19 pandemic. At that time, few would have predicted the challenges still remaining during 2020. However, over our nearly half century in business, Douglas Emmett has weathered multiple recessions. During difficult times, we set ourselves apart by our ability to continue improving operations so that we always emerge stronger than we were when we went into the recession. I'm extremely proud of the efforts, improvements and results our team delivered in 2020:



- We moved quickly to implement the proper health and safety protocols and our buildings have remained open and available to our tenants throughout the pandemic.
- Early in the pandemic, we expanded our “virtual” leasing capabilities. We can now easily guide tenants and brokers through the entire leasing process – from touring the space, to space planning and design, to lease execution – all online and without the need for any physical contact. These efforts helped us achieve steady increases in new leasing volumes during the pandemic, primarily driven by our core business of smaller tenants.
- Our two multifamily development projects made impressive headway in 2020. We saw robust demand for the first new units at The Residences at Bishop Place, our office to residential conversion project in downtown Honolulu. By year-end, we had fully leased the first phase of 98 units and 29 out of the 76 units in the second phase that was finished in the fourth quarter. Construction at The Landmark Apartments, our Brentwood high-rise has just topped off, and delivery of the first units remains on schedule for early 2022.
- We made good progress with our cash collections during 2020, despite tenant-friendly state and local government lease enforcement moratoriums. During the three quarters affected by the pandemic, we collected 92.7% of our rent, including 96% of our residential rent, 95% of our office rent, and 45% of our retail rent. Once the lease enforcement moratoriums end, we expect to collect most of the past due amounts. In prior downturns, the impact of personal guarantees and small business owners’ commitment to their companies have kept our default rate extremely low, and we expect this downturn to be similar.
- As always, we looked for ways to improve the efficiency and sustainability of our operations. For example, we took advantage of lower tenant attendance at our office properties to accelerate our LED lighting retrofit program. During 2020, we completed full building LED lighting retrofits at almost a third of our properties, saving an estimated 3.3 million kilowatt hours per year. Over 75% of our eligible office portfolio is now certified by the EPA as ENERGY STAR compliant, placing those buildings in the top 25 percent of office buildings nationwide in energy efficiency.

We are confident that as we come out of this downturn, we will be a stronger and better company - just as in past recessions. Our balance sheet is healthy, with no debt maturities before 2023, and our pool of unencumbered assets represents 41% of our office portfolio. Our focus remains on our tenants, our employees, and increasing the long term value of our assets.

As I do every year, I promise that the Douglas Emmett team remains 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 read 'Jordan L. Kaplan'.

Jordan L. Kaplan
President & CEO

DOUGLAS EMMETT, INC.

2020 ANNUAL REPORT

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2020 Annual Report Contents

This Annual Report includes certain sections from our Annual Report on Form 10-K filed with the SEC on February 22, 2021, which is available on our website at www.douglasemmet.com. For more information see "Available Information" in the Business section on page 12.

We early adopted the SEC's amendments to Items 301, 302 and 303 of the Regulation S-K rules which became effective on February 10, 2021. Our early adoption resulted in certain updates to this Report, which are disclosed in an explanatory note in the table of contents in our Form 10-K filed with the SEC.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations in this Report.

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
COVID-19	Coronavirus Disease 2019
DEI	Douglas Emmett, Inc.
EPA	United States Environmental Protection Agency
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
OFAC	Office of Foreign Assets Control
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
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)

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 one single tenant building 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 includes rent for our corporate headquarters in Santa Monica. We report Annualized Rent because it is a widely reported measure of the performance of equity REITs, and is used by some investors as a means to determine tenant demand and to compare our performance and value with other REITs. We use Annualized Rent to manage and monitor the performance of our office and multifamily portfolios.
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 included in this Report for a discussion of FFO.
Leased Rate	The percentage leased as of the reporting date. Management space is considered leased. Space taken out of service during a repositioning or which is vacant as a result of a fire or other damage is excluded from both the numerator and denominator for calculating percentage leased. We report Leased Rate because it is a widely reported measure of the performance of equity REITs, and is also used by some investors as a means to determine tenant demand and to compare our performance with other REITs. We use Leased Rate to manage and monitor the performance of our office and multifamily portfolios.
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 included in this Report for a discussion of our Same Property NOI.
Occupancy Rate	We calculate the Occupancy Rate by excluding signed leases not yet commenced from the Leased Rate. Management space is considered occupied. Space taken out of service during a repositioning or which is vacant as a result of a fire or other damage is excluded from both the numerator and denominator for calculating Occupancy Rate. We report Occupancy Rate because it is a widely reported measure of the performance of equity REITs, and is also used by some investors as a means to determine tenant demand and to compare our performance with other REITs. We use Occupancy Rate to manage and monitor the performance of our office and multifamily portfolios.
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. We report Recurring Capital Expenditures because it is a widely reported measure of the performance of equity REITs, and is used by some investors as a means to determine our cash flow requirements and to compare our performance with other REITs. We use Recurring Capital Expenditures to manage and monitor the performance of our office and multifamily portfolios.

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. We report Rentable Square Feet because it is a widely reported measure of the performance and value of equity REITs, and is also used by some investors to compare our performance and value with other REITs. We use Rentable Square Feet to manage and monitor the performance of our office portfolio.
Rental Rate	We present two forms of Rental Rates - Cash Rental Rates and Straight-Line Rental Rates. Cash Rental Rate is calculated by dividing the rent paid by the Rentable Square Feet. Straight-Line Rental Rate is calculated by dividing the average rent over the lease term by the Rentable Square Feet.
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 developments related to the COVID-19 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;
- fire and other property damage;
- 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" in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Business

Overview

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed 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, 2020, we owned a Consolidated Portfolio consisting of (i) a 17.8 million square foot office portfolio, (ii) 4,287 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, 2020, 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" in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021. As of December 31, 2020, 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>Consolidated Portfolio</u>	<u>Total Portfolio</u>
<u>Office</u>		
Wholly-owned properties	53	53
Consolidated JV properties	16	16
Unconsolidated Fund properties	—	2
Total	69	71
<u>Multifamily</u>		
Wholly-owned properties	11	11
Consolidated JV properties	1	1
Total	12	12
Total	81	83

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, 2020, our office portfolio median size tenant was approximately 2,600 square feet. Our office tenants operate in diverse industries, including among others legal, financial services, entertainment, real estate, accounting and consulting, health services, retail, technology and insurance, reducing our dependence on any one industry. In 2018, 2019 and 2020, no tenant accounted for more than 10% of our total revenues.

- **Disciplined Strategy of Acquiring Substantial Market Share In Each Submarket.**

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 38% share of the Class A office space in our submarkets based on the square feet of exposure in our total portfolio to each submarket. See "Office Portfolio Summary" in Item 2 "Properties" in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021.

- **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.

Corporate Structure

Douglas Emmett, Inc. was formed as a Maryland corporation on June 28, 2005 to continue and expand the operations of Douglas Emmett Realty Advisors and its 9 institutional funds. All of our assets are directly or indirectly held by our Operating Partnership, which was formed as a Delaware limited partnership on July 25, 2005. As the sole stockholder of the general partner of our Operating Partnership, we generally have the exclusive power under the partnership agreement to manage and conduct the business of our Operating Partnership, subject to certain limited approval and voting rights of the other limited partners. Our interest in our Operating Partnership entitles us to share in the profits and losses and cash distributions in proportion to our percentage ownership.

JVs and Fund

At December 31, 2020, in addition to fifty-three office properties and eleven residential properties wholly-owned by our Operating Partnership, we manage and own equity interests in:

- three consolidated JVs, through which we and institutional investors own sixteen office properties in our core markets totaling 4.2 million square feet and one residential property with 350 apartments, and in which we own a weighted average of 46% at December 31, 2020 based on square footage. We are entitled to (i) distributions based on invested capital as well as additional distributions based on cash net operating income, (ii) fees for property management and other services and (iii) reimbursement of certain acquisition-related expenses and certain other costs.
- one unconsolidated Fund through which we and institutional investors own two office properties in our core markets totaling 0.4 million square feet and in which we own 34% at December 31, 2020. We are entitled to (i) priority distributions, (ii) distributions based on invested capital, (iii) a carried interest if the investors' distributions exceed a hurdle rate, (iv) fees for property management and other services and (v) reimbursement of certain costs.

The financial data in this Report presents our JVs on a consolidated basis and our Funds on an unconsolidated basis in accordance with GAAP. See "Basis of Presentation" in Note 1 to our consolidated financial statements in this Report for more information regarding the consolidation of our JVs.

On November 21, 2019, we restructured one of our previously unconsolidated Funds, after which it is treated as a consolidated JV in our financial statements. 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). In December 2020, we sold an 80 thousand square foot office property in Honolulu, which was held by one of our consolidated JVs in which we owned a two-thirds capital interest. The JV was subsequently dissolved before December 31, 2020 (and is therefore not included in the JV statistics disclosed above). The results of the consolidated JV are included in our operating results until it was dissolved in December 2020. See Note 3 and Note 6 to our consolidated financial statements in this Report for more information regarding these transactions.

Most of the property data in this Report is presented for our Total Portfolio, which includes the properties owned by our JVs and our Funds, as we believe this presentation assists in understanding our business.

Taxation

We believe that we qualify, and we intend to continue to qualify, for taxation as a REIT under the Code, although we cannot provide assurance that this has happened or will happen. See Item 1A "Risk Factors" in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021, for the risks we face regarding taxation as a REIT. The following summary is qualified in its entirety by the applicable Code provisions and related rules, and administrative and judicial interpretations. If we qualify for taxation as a REIT, we will generally not be required to pay federal corporate income taxes on the portion of our net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (i.e., at the corporate and stockholder levels) that generally results from investment in a corporation. However, we will be required to pay federal income tax under certain circumstances.

The Code defines a REIT as a corporation, trust or association (i) which is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares or certificates of beneficial interest; (iii) which would be taxable but for Sections 856 through 860 of the Code as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons; (vi) of which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, actually or constructively, by five or fewer individuals; and (vii) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Code requires that conditions (i) to (iv) be met during the entire taxable year and that condition (v) be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

There are two gross income requirements we must satisfy:

- i. at least 75% of our gross income (excluding gross income from "prohibited transactions" as defined below and qualifying hedges) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investment income, and
- ii. at least 95% of our gross income (excluding gross income from "prohibited transactions" and qualifying hedges) for each taxable year must be derived from income that qualifies under the 75% test or from other dividends, interest or gain from the sale or other disposition of stock or securities. In general, a "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business.

We must satisfy five asset tests at the close of each quarter of our taxable year:

- i. at least 75% of the value of our total assets must be represented by real estate assets including shares of stock of other REITs, debt instruments of publicly offered REITs, certain other stock or debt instruments purchased with the proceeds of a stock offering or long-term public debt offering by us (but only for the one-year period after such offering), cash, cash items and government securities,
- ii. not more than 25% of our total assets may be represented by securities other than those in the 75% asset class,
- iii. of the assets included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of the vote or value of the securities of any one issuer, in each case other than securities included under the 75% asset test above and interests in TRS or QRS, each as defined below, and in the case of the 10% value test, subject to certain other exceptions,
- iv. not more than 20% of the value of our total assets may be represented by securities of one or more TRS, and
- v. not more than 25% of the value of our total assets may be represented by nonqualified publicly offered REIT debt instruments.

In order to qualify as a REIT, we are required to distribute dividends (other than capital gains dividends) to our stockholders equal to at least (A) the sum of (i) 90% of our “REIT taxable income” (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income, if any (after tax), from foreclosure property, less (B) the sum of certain items of non-cash income. The distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year, if paid on or before the first regular dividend payment date after such declaration and if we so elect and specify the dollar amount in our tax return. To the extent that we do not distribute all of our net long-term capital gains or distribute at least 90%, but less than 100%, of our REIT taxable income, we will be required to pay tax thereon at the regular corporate tax rate. Furthermore, if we fail to distribute during each calendar year the sum of at least (i) 85% of our ordinary income for such year, (ii) 95% of our capital gains income for such year, and (iii) any undistributed taxable income from prior periods, we would be required to pay a 4% excise tax on the excess of such required distributions over the amounts actually distributed.

We own interests in various partnerships and limited liability companies. In the case of a REIT that is a partner in a partnership or a member of a limited liability company that is treated as a partnership under the Code, Treasury Regulations provide that for purposes of the REIT income and asset tests, the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company (determined in accordance with its capital interest in the entity), subject to special rules related to the 10% asset test, and will be deemed to be entitled to the income of the partnership or limited liability company attributable to such share.

We own an interest in a subsidiary that is intended to be treated as a QRS. The Code provides that a QRS will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of the QRS will be treated as our assets, liabilities and items of income. We hold certain of our properties through subsidiaries that have elected to be taxed as REITs. We also wholly own an interest in a corporation which has elected to be treated as a TRS. A REIT may own more than 10% of the voting stock and value of the securities of a corporation that jointly elects with the REIT to be a TRS, provided certain requirements are met. A TRS generally may engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT and of others, except a TRS may not manage or operate a hotel or healthcare facility. 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. In addition, a 100% tax may be imposed on a REIT if its rental, service or other agreements with its TRS, or the TRS agreements with the REIT’s tenants, are not on arm’s-length terms.

We may be required to pay state or local tax in various state or local jurisdictions, including those in which we own properties or otherwise transact business or reside. The state and local tax treatment of us and our stockholders may not conform to the federal income tax consequences discussed above. We may also be subject to certain taxes applicable to REITs, including taxes in lieu of disqualification as a REIT, on undistributed income, and on income from prohibited transactions.

In addition, if we acquire any asset from a corporation that is or has been a C corporation in a transaction in which our tax basis in the asset is less than the fair market value of the asset, in each case determined as of the date on which we acquired the asset, and we subsequently recognize gain on the disposition of the asset during the five-year period beginning on the date on which we acquired the asset, then we generally will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (i) the fair market value of the asset over (ii) our adjusted tax basis in the asset, in each case determined as of the date on which we acquired the asset.

Insurance

We carry comprehensive liability, fire, extended coverage, business interruption and rental loss insurance covering all of the properties in our portfolio under blanket insurance policies. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss and the cost of the coverage and industry practice. See Item 1A “Risk Factors” in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021 for the risks we face regarding insurance.

Competition

We compete with a number of developers, owners and operators of office and multifamily real estate, many of which own properties similar to ours in the same markets in which our properties are located. See Item 2 in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021 for more information about our properties. See Item 1A “Risk Factors” in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021 for the risks we face regarding competition.

Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas, fire and safety requirements, various environmental laws, the ADA and rent control laws.

The governmental authorities in the jurisdictions in which we primarily operate, Los Angeles, Beverly Hills and Santa Monica, have passed COVID-19 pandemic relief ordinances prohibiting evictions and allowing rent deferral for residential, retail, and office tenants, regardless of financial distress. The ordinances cover our residential, retail and office tenants (with some carve outs for large tenants) and generally prohibit landlords from evicting tenants and imposing late fees or interest, and allow tenants to pay back the deferred rent over a certain period.

See Item 1A “Risk Factors” in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021 for the risks we face regarding laws and regulations.

Sustainability

In operating our buildings and running our business, we actively work to promote our operations in a sustainable and responsible manner. Our sustainability initiatives include items such as lighting, retrofitting, energy management systems, variable frequency drives in our motors, energy efficiency, recycling and water conservation. As a result of our efforts, 78% of our eligible office space in 2019 was ENERGY STAR certified by the EPA as having energy efficiency in the top 25% of buildings nationwide (our 2020 Energy Star scores are being reviewed to properly account for any impact from the COVID-19 pandemic).

Segments

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 to our consolidated financial statements in this Report for more information regarding our segments.

Human Capital

Central to our long-term strategy is attracting, developing and retaining the best talent with the right skills to drive our success. Our ability to maintain our competitive position is largely dependent upon the skill and effort of our executive officers and key personnel, who have significant real estate industry experience, strong industry reputations and networks, and assist us in identifying acquisition, disposition, development and borrowing opportunities, negotiating with tenants and sellers of properties, and managing our development projects and the operations of our properties. As of December 31, 2020, we employed approximately 700 people.

We promote an atmosphere of openness, respect and trust and bring a sense of teamwork and inclusion to all we do. We recognize that having a range of experiences, backgrounds and perspectives allows us to find new ways of doing things. We make sure to walk the talk in fostering a workplace culture that encourages and empowers all our employees to have a voice and fulfill their potential.

We value and advance the diversity and inclusion of the people with whom we work. We are committed to equal opportunity in workplaces that are free from discrimination or harassment on the basis of race, sex, color, ancestry, citizenship, marital status, family status, national or social origin, ethnicity, religion, age, disability, sexual orientation, gender identification or expression, political opinion or any other status protected by applicable law. Recruitment, hiring, placement, development, training, compensation and advancement may not be based on any of these factors, but should instead be based on factors such as qualifications, performance, skills and experience.

We know that the first step in hiring and retaining the best talent is to create safe and inspiring workplaces where people feel valued. We offer competitive compensation and benefits to all regular full-time employees, including but not limited to paid holiday, vacation, and sick time, retirement savings plans and medical, dental, and vision coverage. We also offer a very generous equity compensation program that empowers our employees to act and feel like owners, not just employees. In 2020, we provided equity compensation to approximately two-thirds, of our approximately 700 employees.

The health and safety of our employees, tenants, and vendors is of the utmost importance to us. We adhere to leading health and safety standards across our portfolio, and each year, we require all our employees to complete safety training and also provide them seminars on various health topics free of charge. The COVID-19 pandemic had a significant impact on our human capital management during 2020. We are deemed an essential business and we moved quickly to institute safety protocols and procedures to keep our properties open and to protect our tenants and employees who continued to work on site and at our headquarters.

Principal Executive Offices

Our principal executive offices are located in the building we own at 1299 Ocean Avenue, Suite 1000, Santa Monica, California 90401 (telephone 310-255-7700).

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. For more information, please contact:

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, 2020, the closing price of our common stock was \$29.18.

The table below presents the dividends declared for our common stock as reported by the NYSE:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2020				
Dividend declared	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28
2019				
Dividend declared	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.28

Holders of Record

We had 15 holders of record of our common stock on February 12, 2021. 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

None.

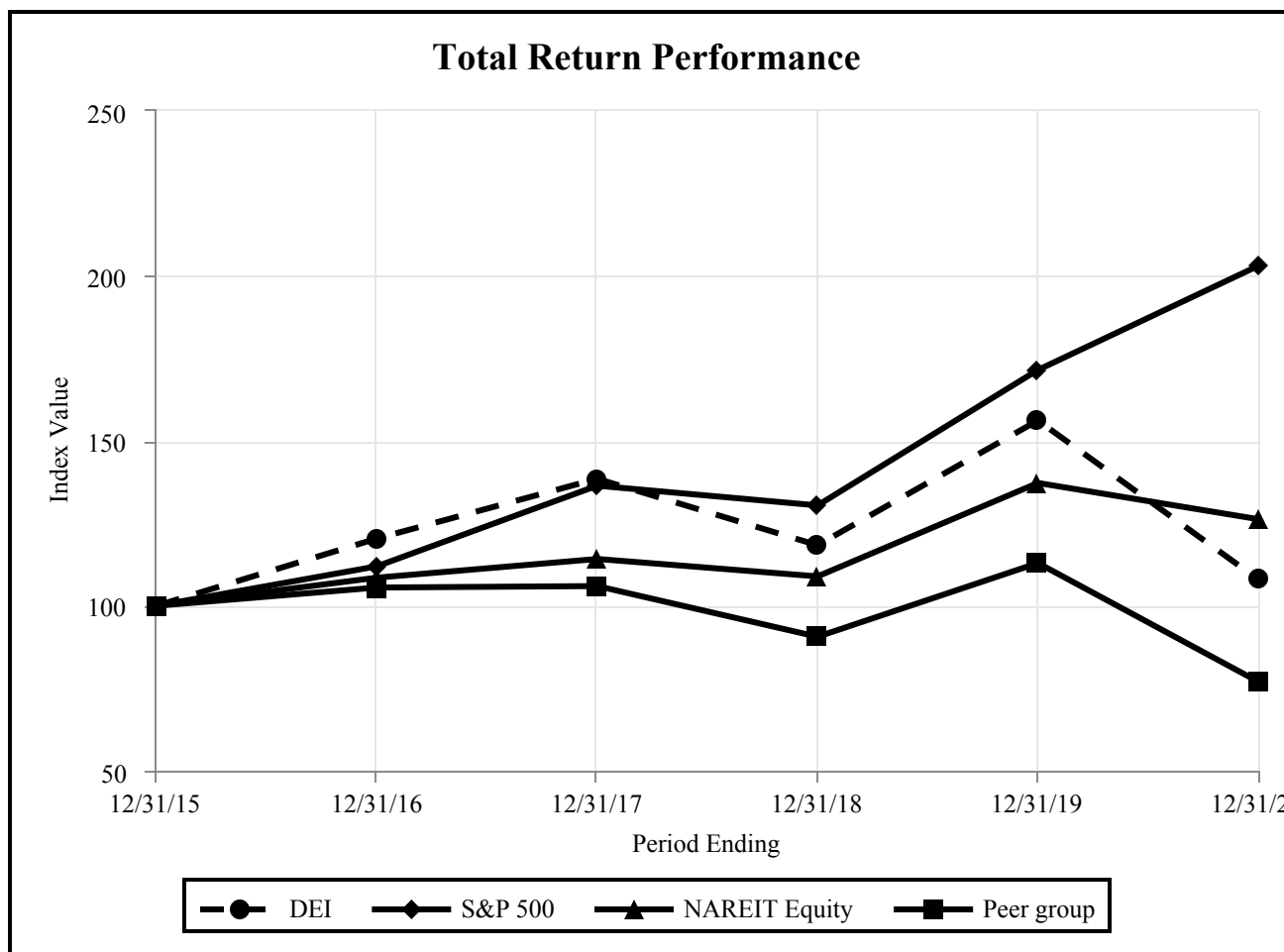
Repurchases of Equity Securities

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, 2015 to December 31, 2020 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, 2015, 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					
	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
DEI	100.00	120.39	138.50	118.36	156.18	107.99
S&P 500	100.00	111.96	136.40	130.42	171.49	203.04
NAREIT Equity ⁽¹⁾	100.00	108.52	114.19	108.91	137.23	126.25
Peer group ⁽²⁾	100.00	105.53	105.97	90.60	112.96	77.00

(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).

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 in this Report. Our results of operations for the year ended December 31, 2020 were affected by a property disposition, a loan refinancing, hedging, and development activity - see Dispositions, Financings and Hedging, Developments and Repositionings further below.

Overview

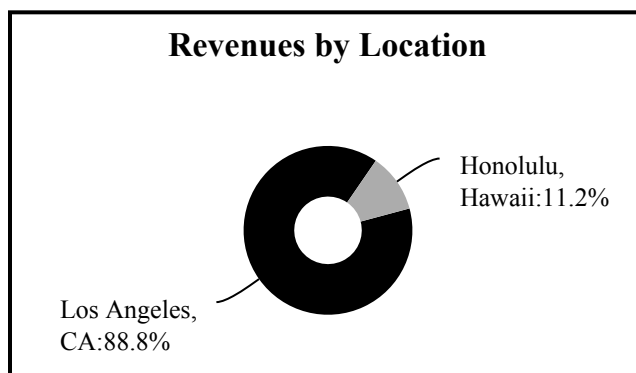
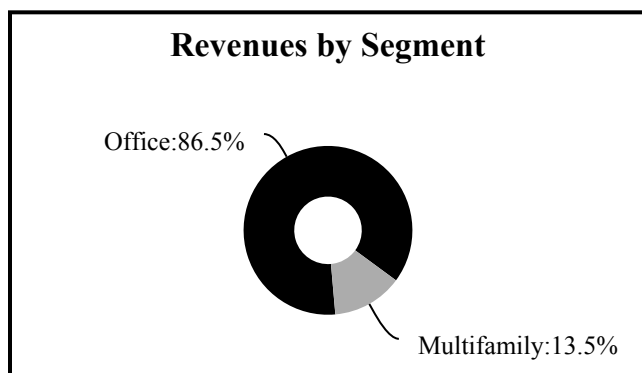
Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. Through our interest in our Operating Partnership and its subsidiaries, our consolidated JVs and our unconsolidated Fund, we are one of the largest owners and operators of high-quality office and multifamily properties 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, 2020, our portfolio consisted of the following (including ancillary retail space):

<u>Office</u>	<u>Consolidated Portfolio⁽¹⁾</u>	<u>Total Portfolio⁽²⁾</u>
Class A Properties	69	71
Rentable Square Feet (in thousands)	17,807	18,192
Leased rate	88.6%	88.6%
Occupancy rate	87.4%	87.4%
 <u>Multifamily</u> 		
Properties	12	12
Units	4,287	4,287
Leased rate	98.2%	98.2%
Occupancy rate	94.2%	94.2%

- (1) Our Consolidated Portfolio includes the properties in our consolidated results. Through our subsidiaries, we own 100% of these properties, except for sixteen office properties totaling 4.2 million square feet and one residential property with 350 apartments, which we own through three 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, 2020, revenues from our Consolidated Portfolio was derived as follows:



Impact of the COVID-19 Pandemic on our Business

Our buildings have remained open and available to our tenants throughout the pandemic. Our rent collections continue to be negatively impacted by the pandemic and our markets' very tenant-oriented lease enforcement moratoriums, which are considerably out of sync with other gateway markets. However, during the third and fourth quarters we did see some incremental improvements in rent collections and leasing activity.

The governmental authorities in the jurisdictions in which we primarily operate, Los Angeles, Beverly Hills and Santa Monica, have passed unusually punitive COVID-19 pandemic ordinances prohibiting evictions and allowing rent deferral for residential, retail, and office tenants, regardless of financial distress. The ordinances cover our residential, retail and office tenants (with some carve outs for large tenants) and generally prohibit landlords not only from evicting tenants but also from imposing any late fees or interest and allow tenants to pay back the deferred rent over a certain period.

At the end of the second, third and fourth quarters, we wrote off certain tenant receivables and deferred rent receivables, and we had a significant decrease in our parking revenues due to lower utilization. For the year ended December 31, 2020, charges for uncollectible amounts related to tenant receivables and deferred rent receivables, which were primarily due to the COVID-19 pandemic, reduced our office revenues by \$41.0 million. If we subsequently collect amounts that were previously written off, then the amounts collected will be recorded as an increase to our rental revenues and tenant recoveries in the period they are collected. See "Rental Revenues and Tenant Recoveries" in Note 2 to our consolidated financial statements in this Report. We cannot predict how the COVID-19 pandemic will impact our future collections. During the second, third and fourth quarters, we had savings from variable expenses which partly offset the write-offs of tenant receivables and deferred rent receivables and the decrease in our parking revenues.

While our tenant retention was in-line with long-term averages, our total office portfolio leased percentage declined by 4.7% during 2020 to 88.6% as of December 31, 2020, as new leasing volume remained below pre-COVID-19 levels. As of December 31, 2020, our multifamily portfolio remained essentially fully leased at 98%.

Other considerations that could impact our future leasing, rent collections, and revenue include:

- How long the pandemic continues.
- Whether the local governments that have authorized rent deferrals in our markets modify or extend the deferral terms, or alternatively allow them to expire as written.
- Whether more tenants stop paying rent if the impact to their business grows.
- How attendance in our buildings changes and drives parking revenue or rent collection.
- How leasing activity and occupancy will evolve.

On the capital front, construction is continuing on our two large multifamily development projects, although the projects may take a little longer under current conditions.

Overall, we expect the COVID-19 pandemic to continue to adversely impact many parts of our business, and those impacts have been, and will continue, to be material. For more information of the risks to our business, please see Item 1A "Risk Factors" in our 2020 Annual Report on Form 10-K filed with the SEC on February 22, 2021.

Dispositions, Financings and Hedging, Developments and Repositionings

Dispositions

In December 2020, we closed on the sale of an 80,000 square foot office property in Honolulu, which was held by a consolidated JV in which we owned a two-thirds capital interest, for a contract price of \$21.0 million in cash, resulting in a gain of \$6.4 million after transaction costs. We closed a health club that we owned and operated at the respective property shortly before we sold the property.

Financings and Hedging

- During the first quarter of 2020, we entered into forward interest rate swaps to hedge future term-loan refinancings. The forward swaps have an initial notional amount of \$495.0 million, with effective dates ranging from June 2020 to March 2021, and maturity dates ranging from April 2025 to June 2025, fixing the one-month LIBOR interest rate in a range of 0.74% to 0.91%.
- During the second quarter of 2020, we refinanced a loan for one of our consolidated JVs. We closed a secured, non-recourse \$450.0 million interest-only loan, which is scheduled to mature in May 2027. The loan bears interest at LIBOR + 1.35%, which was effectively fixed at 2.26% following the expiration of the current swaps, for an average fixed interest rate of 2.6% per annum through April 2025. We used part of the proceeds to pay off a \$400.0 million loan, secured by the same properties, that was scheduled to mature in July 2024.

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

Developments

- Residential High-Rise Tower, Brentwood, California

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. Construction continues on the project, although we may face some delays as a result of the impact of the COVID-19 pandemic on permitting and other logistics. We currently expect the first units to be delivered in 2022.

- 1132 Bishop Street, Honolulu, Hawaii

In downtown Honolulu, we are converting a 25 story, 490 thousand square foot office tower into approximately 500 apartments. This project will help address the severe shortage of rental housing in Honolulu and revitalize the central business district. The conversion is occurring 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 million, although the inherent uncertainties of development are compounded by the multi-year and phased nature of the conversion and potential impacts from the COVID-19 pandemic. We began leasing the new units during the second quarter of 2020.

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. We have temporarily suspended work on new office repositioning projects due to the COVID-19 pandemic.

Rental Rate Trends - Total Portfolio

Office Rental Rates

Our office rental rates for 2020 were primarily impacted by the COVID-19 pandemic.

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

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Average straight-line rental rate ⁽¹⁾⁽²⁾	\$45.26	\$49.65	\$48.77	\$44.48	\$43.21
Annualized lease transaction costs ⁽³⁾	\$5.11	\$6.02	\$5.80	\$5.68	\$5.74

- (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 at the landlords request.

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, 2020		
	Expiring Rate ⁽²⁾	New/Renewal Rate ⁽²⁾	Percentage Change
Cash Rent	\$43.02	\$44.16	2.6%
Straight-line Rent	\$38.71	\$45.26	16.9%

- (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 leases with a term of twelve months or less, leases where the prior lease was terminated more than a year before signing of the new lease, leases for tenants relocated from space at landlord's request, leases modified by workout agreements, retail leases, 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.
- (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

Our multifamily rental rates for 2020 were primarily impacted by the COVID-19 pandemic.

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

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Average annual rental rate - new tenants ⁽¹⁾	\$ 28,416	\$ 28,350	\$ 27,542	\$ 28,501	\$ 28,435

- (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, 2020 (new tenants and existing tenants undergoing annual rent review) was 3.4% lower than the prior rent on the same unit.

Occupancy Rates - Total Portfolio

Our occupancy rates for 2020 were primarily impacted by the COVID-19 pandemic.

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

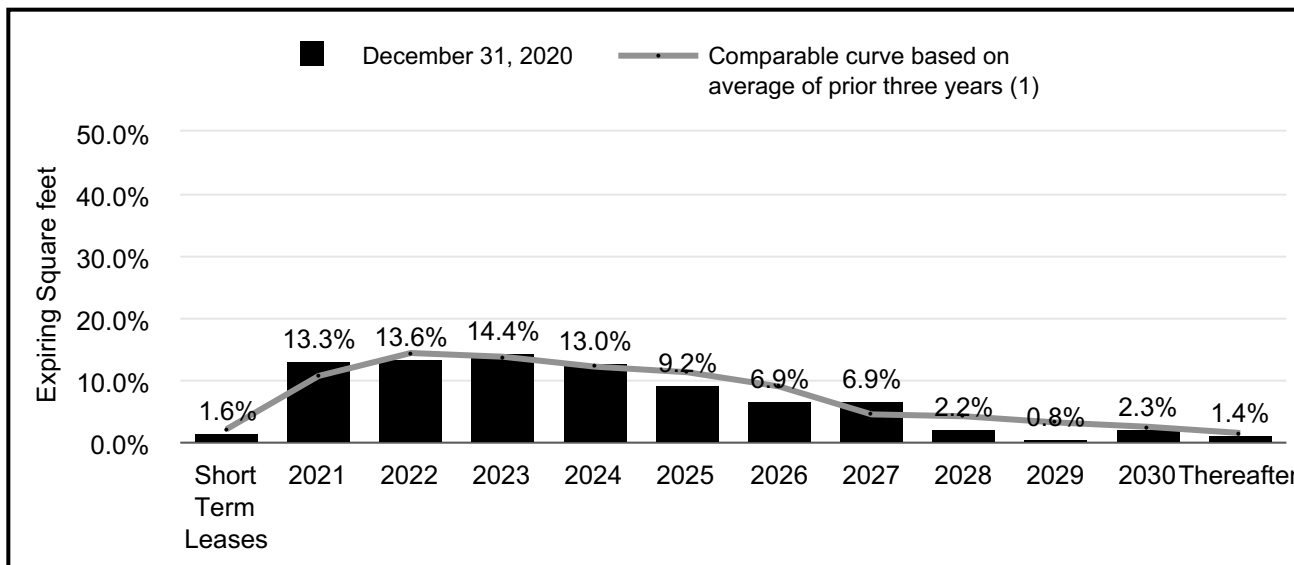
Occupancy Rates ⁽¹⁾ as of:	December 31,				
	2020	2019	2018	2017	2016
Office portfolio	87.4 %	91.4 %	90.3 %	89.8 %	90.4 %
Multifamily portfolio ⁽²⁾	94.2 %	95.2 %	97.0 %	96.4 %	97.9 %

Average Occupancy Rates ⁽¹⁾⁽³⁾ :	Year Ended December 31,				
	2020	2019	2018	2017	2016
Office portfolio	89.5 %	90.7 %	89.4 %	89.5 %	90.6 %
Multifamily portfolio ⁽²⁾	94.2 %	96.5 %	96.6 %	97.2 %	97.6 %

- (1) Occupancy rates include the impact of property acquisitions, most of whose occupancy rates at the time of acquisition were below that of our existing portfolio.
- (2) The Occupancy Rate for our multifamily portfolio was impacted by our acquisition of The Glendon property in 2019 and by new units at our Moanalua Hillside Apartments development in Honolulu in 2019 and 2018.
- (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, 2020, assuming non-exercise of renewal options and early termination rights, we expect to see expiring square footage in our total office portfolio is as follows:



(1) Average of the percentage of leases at December 31, 2017, 2018, and 2019 with the same remaining duration as the leases for the labeled year had at December 31, 2020. Acquisitions are included in the prior year average commencing in the quarter after the acquisition.

Results of Operations

Comparison of 2020 to 2019

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2020	2019			
(In thousands)					
Revenues					
Office rental revenue and tenant recoveries	\$ 680,359	\$ 694,315	\$ (13,956)	(2.0)%	The decrease was primarily due to: (i) a decrease of \$58.4 million in rental revenue and tenant recoveries from properties that we owned throughout both periods and (ii) a decrease of \$3.5 million in rental revenues and tenant recoveries from a building we are converting from an office building to residential building in Hawaii, partly offset by (a) an increase of \$46.4 million of rental revenues and tenant recoveries from a JV we consolidated in November 2019 and (b) an increase of \$1.5 million in rental revenues and tenant recoveries from a property that we purchased in June 2019. The decrease in properties that we owned throughout both periods was primarily due to write-offs of uncollectible receivables and deferred rent receivables and lower collections, both as a result of the COVID-19 pandemic.
Office parking and other income	\$ 90,810	\$ 122,440	\$ (31,630)	(25.8)%	The decrease was due to a decrease of \$37.5 million in parking and other income from properties we owned throughout both periods, primarily due to a decrease in parking activity as a result of the COVID-19 pandemic, partly offset by an increase of \$6.0 million in parking and other income from a JV we consolidated in November 2019.
Multifamily revenue	\$ 120,354	\$ 119,927	\$ 427	0.4 %	The increase was due to an increase of: (i) \$5.0 million in revenue from a property that we purchased in June 2019, (ii) an increase of \$1.9 million in revenue from the new apartments at our Moanalua Hillside Apartments development, and (iii) an increase of \$1.0 million in revenues from an office building we are converting to a residential building in Hawaii, partly offset by (a) a decrease of \$4.7 million in revenues at a property where units are temporarily unoccupied as a result of a fire, and (b) a decrease of \$2.8 million in revenues from our other properties, which was primarily due to lower occupancy and collections, both as a result of the COVID-19 pandemic. Multifamily revenues for 2020 included \$3.9 million of insurance proceeds related to the fire at one of our properties in January 2020.
Operating expenses					
Office rental expenses	\$ 268,259	\$ 264,482	\$ (3,777)	(1.4)%	The increase was due to: (i) \$17.4 million in rental expenses from a JV we consolidated in November 2019, and (ii) an increase of \$0.7 million in rental expenses from a property we purchased in June 2019, partly offset by (a) a decrease of \$1.6 million in rental expenses from an office building we are converting to a residential building in Hawaii, and (b) a decrease of \$12.7 million in rental expenses from our other properties, which was primarily due to a decrease in scheduled services expenses, utility expenses, and repairs and maintenance expenses, as a result of lower utilization caused by the COVID-19 pandemic.

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2020	2019			
(In thousands)					
Multifamily rental expenses	\$ 37,154	\$ 33,681	\$ (3,473)	(10.3)%	The increase was primarily due to an increase of \$2.8 million in rental expenses from the property we purchased in June 2019, and an increase of \$0.2 million in rental expenses from the new apartments at our Moanalua Hillside Apartments development.
General and administrative expenses	\$ 39,601	\$ 38,068	\$ (1,533)	(4.0)%	The increase was primarily due to an increase in personnel expenses.
Depreciation and amortization	\$ 385,248	\$ 357,743	\$ (27,505)	(7.7)%	The increase was due to: (i) depreciation and amortization of \$31.4 million from a JV we consolidated in November 2019, (ii) an increase of \$3.2 million in depreciation and amortization from the property we purchased in June 2019, partly offset by (a) a decrease of \$2.8 million in depreciation and amortization from an office building we are converting to a residential building in Hawaii, due to less accelerated depreciation of the building in 2020, and (b) a decrease of \$4.4 million for our other properties, which was primarily due to property repositioning activity in 2019.
Non-Operating Income and Expenses					
Other income	\$ 16,288	\$ 11,653	\$ 4,635	39.8 %	The increase was due to a \$13.1 million gain from insurance recoveries related to property damage to a building impacted by a fire, partly offset by (i) a decrease of \$4.8 million in revenue from a health club in Honolulu that we owned and operated and closed permanently in the fourth quarter of 2020, (ii) a decrease of \$1.6 million in income related to our Fund that was consolidated as a JV in November 2019, and (iii) a decrease of \$2.1 million in interest income due to lower money market balances and interest rates.
Other expenses	\$ (2,947)	\$ (7,216)	\$ 4,269	59.2 %	The decrease was primarily due to a decrease of \$3.2 million in expenses for the health club in Honolulu that we closed permanently in the fourth quarter of 2020 and a decrease in expenses of \$0.9 million related to our Fund that was consolidated as a JV in November 2019.
Income from unconsolidated Funds	\$ 430	\$ 6,923	\$ (6,493)	(93.8)%	The decrease was primarily due to the consolidation of one of our Funds as a JV in November 2019 and a decrease in income from our remaining Fund in 2020. The decrease in income from our remaining Fund was primarily due to the Fund's lower net income in 2020 as a result of write-offs of uncollectible receivables and deferred rent receivables, lower collections, and a decrease in parking income, which were all as a result of the COVID-19 pandemic.
Interest expense	\$(142,872)	\$(143,308)	\$ 436	0.3 %	The decrease was primarily due to loan costs expensed in connection with our debt refinancing activities in 2019, partly offset by interest expense from the debt of a JV that was consolidated in November 2019 and interest expense from the debt to finance the property we purchased in June 2019.

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2020	2019			
(In thousands)					
Gain on sale of investment in real estate	\$ 6,393	\$ —	\$ 6,393	100.0 %	The increase is due to the sale of an 80,000 square foot office property in Honolulu, which was held by a consolidated JV in which we owned a two-thirds capital interest. We closed on the sale in December 2020 for a contract price of \$21.0 million in cash.
Gain from consolidation of JV	\$ —	\$ 307,938	\$ (307,938)	(100.0)%	The decrease is due to the gain in 2019 from the consolidation of a JV in November 2019 that was previously accounted for as an unconsolidated Fund using the equity method.

Comparison of 2019 to 2018

See Item 7 of Part II in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 14, 2020 for a discussion of our results of operations for the year ended December 31, 2019.

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 the impact of trends in occupancy rates, rental rates and operating costs from year to year, excluding the impacts from changes in the value of our real estate, 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 2020 to 2019

Our FFO results for 2020 were primarily impacted by the COVID-19 pandemic. Our FFO decreased by \$52.3 million, or 12.3%, to \$372.5 million for 2020 compared to \$424.8 million for 2019, which was primarily due to: (i) a decrease in the operating income from our office portfolio (office revenues less office rental expenses), which was primarily due to lower collections, write-offs of uncollectible receivables and deferred rent receivables, and a decrease in parking income, and (ii) a decrease in the operating income from our multifamily portfolio (multifamily revenues less multifamily rental expenses), which was primarily due to an increase in property taxes, insurance premiums and personnel expenses.

Comparison of 2019 to 2018

See Item 7 of Part II in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 14, 2020 for a discussion of our FFO for the year ended December 31, 2019.

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,	
	2020	2019
Net income attributable to common stockholders	\$ 50,421	\$ 363,713
Depreciation and amortization of real estate assets ⁽¹⁾	385,248	357,743
Net (loss) income attributable to noncontrolling interests ⁽¹⁾	(11,868)	54,985
Adjustments attributable to unconsolidated Funds ⁽¹⁾⁽²⁾	2,739	15,815
Adjustments attributable to consolidated JVs ⁽¹⁾⁽³⁾	(47,606)	(59,505)
Gain on sale of investment in real estate	(6,393)	—
Gain from consolidation of JV ⁽¹⁾	—	(307,938)
FFO	\$ 372,541	\$ 424,813

(1) We restructured one of our unconsolidated Funds in November 2019 after which it was consolidated as a JV. The various adjustments in the reconciliation of FFO are therefore not directly comparable to the prior period. See Note 6 to our consolidated financial statements in this Report for more information.

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

(3) Adjusts for the net income (loss) 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 2020 to 2019:

Our same properties for 2020 included 60 office properties, aggregating 16.1 million Rentable Square Feet, and 8 multifamily properties with an aggregate 1,928 units. The amounts presented reflect 100% (not our pro-rata share). Our Same Property results for 2020 were primarily impacted by the COVID-19 pandemic.

	Year Ended December 31,		Favorable (Unfavorable)	%	Commentary
	2020	2019			
(In thousands)					
Office revenues	\$ 694,653	\$ 789,223	\$ (94,570)	(12.0)%	The decrease was primarily due to: (i) a decrease in rental revenues due to lower collections and write-offs of uncollectible receivables and deferred rent receivables, (ii) a decrease in parking income due to lower activity, and (iii) a decrease in tenant recoveries due to a decrease in recoverable operating costs and lower collections and write-offs of uncollectible receivables.
Office expenses	(239,032)	(251,384)	12,352	4.9 %	The decrease was primarily due to a decrease in parking expenses, utility expenses, and janitorial expenses.
Office NOI	455,621	537,839	(82,218)	(15.3)%	
Multifamily revenues	59,286	62,969	(3,683)	(5.8)%	The decrease was primarily due to a decrease in rental revenues due to lower collections, rental rates and occupancy.
Multifamily expenses	(16,319)	(16,075)	(244)	(1.5)%	The increase was primarily due to an increase in insurance expenses and personnel expenses.
Multifamily NOI	42,967	46,894	(3,927)	(8.4)%	
Total NOI	\$ 498,588	\$ 584,733	\$ (86,145)	(14.7)%	

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,	
	2020	2019
Same Property NOI	\$ 498,588	\$ 584,733
Non-comparable office revenues	76,516	27,532
Non-comparable office expenses	(29,227)	(13,098)
Non-comparable multifamily revenues	61,068	56,958
Non-comparable multifamily expenses	(20,835)	(17,606)
NOI	586,110	638,519
General and administrative expenses	(39,601)	(38,068)
Depreciation and amortization	(385,248)	(357,743)
Other income	16,288	11,653
Other expenses	(2,947)	(7,216)
Income from unconsolidated Funds	430	6,923
Interest expense	(142,872)	(143,308)
Gain on sale of investment in real estate	6,393	—
Gain from consolidation of JV	—	307,938
Net income	38,553	418,698
Less: Net loss (income) attributable to noncontrolling interests	11,868	(54,985)
Net income attributable to common stockholders	<u>\$ 50,421</u>	<u>\$ 363,713</u>

Comparison of 2019 to 2018

See Item 7 of Part II in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 14, 2020 for a discussion of our same property NOI for the year ended December 31, 2019.

Liquidity and Capital Resources

Short-term liquidity

During the year ended December 31, 2020, we generated cash from operations of \$420.2 million. As of December 31, 2020, we had \$172.4 million of cash and cash equivalents, and we had a \$75.0 million balance on our \$400.0 million revolving credit facility. Our earliest debt maturity is February 28, 2023. 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 in this Report for more information regarding our debt.

Long-term liquidity

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

We only use property level, non-recourse debt. As of December 31, 2020, approximately 41% of our total office portfolio is unencumbered. 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.

Certain Contractual Obligations

See the following notes to our consolidated financial statements in this Report for information regarding our contractual commitments:

- Note 4 - minimum future ground lease payments;
- Note 8 - minimum future principal payments for our secured notes payable and revolving credit facility, and the interest rates that determine our future periodic interest payments; and
- Note 17 - developments, capital expenditure projects and repositionings.

Off-Balance Sheet Arrangements

Unconsolidated Fund's Debt

Our 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, 2020, 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 2020 to 2019

	2020	2019	Increase (Decrease)	%
	(In thousands)			
Net cash provided by operating activities ⁽¹⁾	\$ 420,218	\$ 469,586	\$ (49,368)	(10.5)%
Net cash used in investing activities ⁽²⁾	\$ (265,175)	\$ (649,668)	\$ (384,493)	(59.2)%
Cash (used in) provided by financing activities ⁽³⁾	\$ (136,330)	\$ 187,538	\$ (323,868)	(172.7)%

- (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 decrease in cash provided by operating activities was primarily due to: (i) a decrease in cash generated by our office portfolio, which was primarily due to a decrease in collections and parking income as a result of the COVID-19 pandemic, (ii) an increase of \$8.6 million in cash paid for interest primarily due to the consolidation of one of our Funds as a JV in November 2019, (iii) a decrease of \$6.4 million in operating distributions from our unconsolidated real estate funds primarily due to the consolidation of one of our Funds as a JV in November 2019, and (iv) a decrease in cash generated by our multifamily portfolio, which was primarily due to an increase in property taxes, insurance premiums and personnel expenses.
- (2) Our cash flows used in investing activities are generally used to fund property acquisitions, developments and redevelopment projects, and Recurring and non-Recurring Capital Expenditures. The decrease in cash used in investing activities was primarily due to: (i) \$365.9 million paid for a property that we purchased in June 2019, (ii) a decrease of \$84.2 million paid for additional interests in unconsolidated Funds, (iii) a decrease of \$33.0 million in capital expenditures for improvements to real estate, and (iv) \$20.7 million in net proceeds from the sale of an office property in Honolulu in December 2020, partly offset by (a) an increase of \$92.5 million in capital expenditures for developments and (b) \$39.2 million of cash assumed from the consolidation of a JV in 2019.
- (3) Our cash flows used in financing activities are generally impacted by our borrowings and capital activities, as well as dividends and distributions paid to common stockholders and noncontrolling interests, respectively. The decrease is primarily due to (i) \$201.0 million of net proceeds from the issuance of common stock in 2019, (ii) \$163.6 million of contributions from noncontrolling interests in consolidated JVs in 2019, and (iii) an increase of \$16.7 million in dividends paid to common stockholders, partly offset by (a) an increase of \$35.0 million in net borrowings and (b) a decrease of \$17.5 million in loan cost payments.

Comparison of 2019 to 2018

See Item 7 of Part II in our 2019 Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 14, 2020 for a discussion of our cash flows for the year ended December 31, 2019.

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 \$186.4 million, \$75.3 million and \$78.7 million during 2020, 2019 and 2018, respectively.

Impairment of Long-Lived Assets

We assess our investment in real estate for impairment on a periodic basis, and whenever events or changes in circumstances indicate that the carrying value of our investments in real estate 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 and Funds during 2020, 2019 or 2018.

In downtown Honolulu, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments 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 annual impairment assessment in 2019 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 loss. 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 - Collectibility of lease payments from office tenants

In accordance with Topic 842, if collectibility of 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 adopted 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.

Our assessment of the collectibility of lease payments requires judgment and could have a material impact on our results of operations. This assessment involves using a methodology that requires judgment and estimates about matters that are uncertain at the time the estimates are made, including tenant specific factors, specific industry conditions, and general economic trends and conditions. During the year ended December 31, 2020, our results of operations were materially impacted by the COVID-19 pandemic. See "Impacts of the COVID-19 Pandemic on our Business". For the year ended December 31, 2020, charges for uncollectible amounts related to tenant receivables and deferred rent receivables, which were primarily due to the COVID-19 pandemic, reduced our office revenues by \$41.0 million.

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 calculations for each of our office properties. 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, \$2.6 million and \$2.4 million during 2020, 2019 and 2018, 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 would result in our net income being overstated or understated, respectively. Stock-based compensation expense was \$21.4 million, \$18.4 million and \$22.3 million for 2020, 2019 and 2018, 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 \$1.1 million, \$0.9 million and \$1.1 million during 2020, 2019 and 2018, respectively.

Quantitative and Qualitative Disclosures about Market Risk

We use interest rate swaps 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 interest rate swaps. As of December 31, 2020, we had no outstanding floating rate debt that was unhedged.

Market Transition to SOFR from USD-LIBOR

In July 2017, the Financial Conduct Authority ("FCA" - the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after December 31, 2021. As a result, the Federal Reserve Board ("FRB") 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.

The administrator of LIBOR has proposed stopping publication of the one-week and two-month USD-LIBOR settings after 31 December 2021, and the remaining USD LIBOR settings (i.e., the overnight and the one-, three-, six- and 12- month settings) after June 30, 2023. After the announcement, the FCA, FRB and other regulators issued statements encouraging banks to cease entering into new contracts referencing USD-LIBOR as soon as practicable, but no later than 31 December 2021, to facilitate an orderly transition from USD-LIBOR.

Our floating rate borrowings and interest rate swaps are indexed to USD-LIBOR and we are monitoring this activity and evaluating the related risks in connection with transitioning contracts to a new alternative rate - which include: (i) loan interest payments, (ii) amounts received and paid on interest rate swaps, and (iii) the value of loans or derivative instruments. While we currently expect USD-LIBOR to be available in substantially its current form until at least December 31, 2021, and possibly until June 30, 2023, it is possible that USD-LIBOR will become unavailable prior to that time. 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, 2020. 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, 2020, 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, 2020, 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 34, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2020.

/s/ JORDAN L. KAPLAN

Jordan L. Kaplan
President and CEO

/s/ PETER D. SEYMOUR

Peter D. Seymour
CFO

February 19, 2021

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, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2020 and the related notes included in this Report (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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 19, 2021 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.

Collectability of lease payments due from office tenants

Description of the Matter

During 2020, the Company recognized office rental revenues and tenant recoveries of \$680.4 million and recorded tenant receivables of \$18.2 million and deferred rent receivables of \$116.2 million at December 31, 2020. As described in Note 2 to the consolidated financial statements, under ASC 842 the Company performs an assessment as to whether or not substantially all of the amounts due under the tenant's lease agreement is deemed probable of collection. Subsequently, for leases where the Company has concluded that it is not probable that it will collect substantially all the lease payments due under those leases, the Company limits the lease income to the lesser of the income recognized on a straight-line basis or cash basis.

Auditing the Company's collectability assessment is complex due to the judgment involved in the Company's determination of the collectability of remaining lease payments due from its tenants. The determination involves consideration of tenant specific factors, specific industry conditions, and general economic trends and conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over office rental revenues and tenant recoveries, including controls over management's assessment of the collectability of future lease payments. For example, we tested controls over management's consideration of the factors mentioned above used in assessing collectability and controls over the completeness and accuracy of the data used in management's analyses.

To test the office rental revenues and tenant recoveries recognized, we performed audit procedures that included, among others, evaluating the data and assumptions used in determining whether collection of substantially all of the lease payments was probable based on the factors mentioned above. In addition, we tested the completeness and accuracy of the data that was used in management's collectability analyses.

Impairment of investment in real estate

Description of the Matter

The Company's net investment in real estate totaled \$8.9 billion as of December 31, 2020. As discussed in Note 2 to the consolidated financial statements, the Company periodically assesses whether there has been any impairment in the carrying value of its properties and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. Impairment is recognized on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows for a real estate asset are less than its carrying amount, at which time the real estate asset is written down to its estimated fair value.

Auditing the Company's impairment assessment for real estate assets was challenging because of the high degree of subjective auditor judgment necessary in evaluating management's identification of indicators of potential impairment. Our evaluation of management's identification of indicators of impairment included our related assessment of the severity of such indicators, either individually or in combination, in determining whether a triggering event has occurred that requires the Company to evaluate the recoverability of the real estate asset.

*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 real estate asset impairment assessment process. For example, we tested controls over management's process for identifying and evaluating potential impairment indicators.

Our testing of the Company's impairment assessment included, among other procedures, evaluating significant judgments applied in determining whether indicators of impairment existed for the Company's real estate assets. Our procedures included obtaining evidence to corroborate such judgments and searching for evidence contrary to such judgments. For example, we searched for any tenants or groups of tenants with significant write offs or upcoming lease expirations that occupy a substantial portion of a real estate asset. We also searched for any significant declines in operating results of a real estate asset due to occupancy changes, tenant bankruptcies, environmental issues, physical damage, change in intended use or adverse changes in legal factors.

/s/ Ernst & Young LLP

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

Los Angeles, California

February 19, 2021

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, 2020, 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, 2020, 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, 2020 and 2019, the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020 and related notes included in this Report, and our report dated February 19, 2021 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 19, 2021

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

	December 31, 2020	December 31, 2019
Assets		
Investment in real estate, gross	\$ 11,678,638	\$ 11,478,633
Less: accumulated depreciation and amortization	(2,816,193)	(2,518,415)
Investment in real estate, net	8,862,445	8,960,218
Ground lease right-of-use asset	7,472	7,479
Cash and cash equivalents	172,385	153,683
Tenant receivables	18,226	5,302
Deferred rent receivables	116,199	134,968
Acquired lease intangible assets, net	5,141	6,407
Interest rate contract assets	—	22,381
Investment in unconsolidated Fund	47,374	42,442
Other assets	21,583	16,421
Total Assets	\$ 9,250,825	\$ 9,349,301
Liabilities		
Secured notes payable and revolving credit facility, net	\$ 4,744,967	\$ 4,619,058
Ground lease liability	10,871	10,882
Interest payable, accounts payable and deferred revenue	144,344	131,410
Security deposits	56,247	60,923
Acquired lease intangible liabilities, net	35,223	52,367
Interest rate contract liabilities	214,016	54,616
Dividends payable	49,138	49,111
Total liabilities	5,254,806	4,978,367
Equity		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value, 750,000,000 authorized, 175,463,887 and 175,369,746 outstanding at December 31, 2020 and December 31, 2019, respectively	1,755	1,754
Additional paid-in capital	3,487,887	3,486,356
Accumulated other comprehensive loss	(148,035)	(17,462)
Accumulated deficit	(904,516)	(758,576)
Total Douglas Emmett, Inc. stockholders' equity	2,437,091	2,712,072
Noncontrolling interests	1,558,928	1,658,862
Total equity	3,996,019	4,370,934
Total Liabilities and Equity	\$ 9,250,825	\$ 9,349,301

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,		
	2020	2019	2018
Revenues			
Office rental			
Rental revenues and tenant recoveries	\$ 680,359	\$ 694,315	\$ 661,147
Parking and other income	90,810	122,440	116,784
Total office revenues	771,169	816,755	777,931
Multifamily rental			
Rental revenues	107,011	110,697	95,423
Parking and other income	13,343	9,230	7,962
Total multifamily revenues	120,354	119,927	103,385
Total revenues	891,523	936,682	881,316
Operating Expenses			
Office expenses	268,259	264,482	252,751
Multifamily expenses	37,154	33,681	28,116
General and administrative expenses	39,601	38,068	38,641
Depreciation and amortization	385,248	357,743	309,864
Total operating expenses	730,262	693,974	629,372
Other income	16,288	11,653	11,414
Other expenses	(2,947)	(7,216)	(7,744)
Income from unconsolidated Funds	430	6,923	6,400
Interest expense	(142,872)	(143,308)	(133,402)
Gain on sale of investment in real estate	6,393	—	—
Gain from consolidation of JV	—	307,938	—
Net income	38,553	418,698	128,612
Less: Net loss (income) attributable to noncontrolling interests	11,868	(54,985)	(12,526)
Net income attributable to common stockholders	\$ 50,421	\$ 363,713	\$ 116,086
Net income per common share – basic and diluted	\$ 0.28	\$ 2.09	\$ 0.68

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
Net income	\$ 38,553	\$ 418,698	\$ 128,612
Other comprehensive (loss) income: cash flow hedges	(183,521)	(107,292)	15,070
Comprehensive (loss) income	(144,968)	311,406	143,682
Less: Comprehensive loss (income) attributable to noncontrolling interests	64,816	(19,099)	(16,751)
Comprehensive (loss) income attributable to common stockholders	<u>\$ (80,152)</u>	<u>\$ 292,307</u>	<u>\$ 126,931</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,		
		2020	2019	2018
Shares of Common Stock	Beginning balance	175,370	170,215	169,565
	Exchange of OP Units for common stock	94	222	629
	Issuance of common stock	—	4,933	—
	Exercise of stock options	—	—	21
	Ending balance	175,464	175,370	170,215
Common Stock	Beginning balance	\$ 1,754	\$ 1,702	\$ 1,696
	Exchange of OP Units for common stock	1	2	6
	Issuance of common stock	—	50	—
	Ending balance	\$ 1,755	\$ 1,754	\$ 1,702
Additional Paid-in Capital	Beginning balance	\$ 3,486,356	\$ 3,282,316	\$ 3,272,539
	Exchange of OP Units for common stock	1,535	3,538	10,286
	Repurchase of OP Units with cash	(4)	(431)	(59)
	Issuance of common stock, net	—	200,933	—
	Taxes paid on exercise of stock options	—	—	(450)
Ending balance	\$ 3,487,887	\$ 3,486,356	\$ 3,282,316	
AOCI	Beginning balance	\$ (17,462)	\$ 53,944	\$ 43,099
	ASU 2017-12 adoption	—	—	211
	Cash flow hedge adjustments	(130,573)	(71,406)	10,634
	Ending balance	\$ (148,035)	\$ (17,462)	\$ 53,944
Accumulated Deficit	Beginning balance	\$ (758,576)	\$ (935,630)	\$ (879,810)
	ASU 2016-02 adoption	—	(2,144)	—
	ASU 2017-12 adoption	—	—	(211)
	Net income attributable to common stockholders	50,421	363,713	116,086
	Dividends	(196,361)	(184,515)	(171,695)
Ending balance	\$ (904,516)	\$ (758,576)	\$ (935,630)	
Noncontrolling Interests	Beginning balance	\$ 1,658,862	\$ 1,446,098	\$ 1,464,525
	ASU 2016-02 adoption	—	(355)	—
	Net (loss) income attributable to noncontrolling interests	(11,868)	54,985	12,526
	Cash flow hedge adjustments	(52,948)	(35,886)	4,225
	Contributions	—	176,000	—
	Consolidation of JV	—	61,394	—
	Distributions	(60,392)	(76,978)	(52,142)
	Issuance of OP Units for acquisition of additional interest in unconsolidated Fund	—	14,390	—
	Exchange of OP Units for common stock	(1,536)	(3,540)	(10,292)
	Repurchase of OP Units with cash	(3)	(303)	(49)
	Stock-based compensation	26,813	23,057	27,305
Ending balance	\$ 1,558,928	\$ 1,658,862	\$ 1,446,098	

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

		Year Ended December 31,		
		2020	2019	2018
Total Equity	Beginning balance	\$ 4,370,934	\$ 3,848,430	\$ 3,902,049
	ASU 2016-02 adoption	—	(2,499)	—
	Net income	38,553	418,698	128,612
	Cash flow hedge adjustments	(183,521)	(107,292)	14,859
	Consolidation of JV	—	61,394	—
	Issuance of common stock, net	—	200,983	—
	Issuance of OP Units for acquisition of additional interest in unconsolidated Fund	—	14,390	—
	Repurchase of OP Units with cash	(7)	(734)	(108)
	Taxes paid on exercise of stock options	—	—	(450)
	Contributions	—	176,000	—
	Dividends	(196,361)	(184,515)	(171,695)
	Distributions	(60,392)	(76,978)	(52,142)
	Stock-based compensation	26,813	23,057	27,305
	Ending balance	\$ 3,996,019	\$ 4,370,934	\$ 3,848,430
Dividends declared per common share		\$ 1.12	\$ 1.06	\$ 1.01

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
Operating Activities			
Net income	\$ 38,553	\$ 418,698	\$ 128,612
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from unconsolidated Funds	(430)	(6,923)	(6,400)
Gain from insurance recoveries for damage to real estate	(13,105)	—	—
Gain on sale of investment in real estate	(6,393)	—	—
Gain from consolidation of JV	—	(307,938)	—
Depreciation and amortization	385,248	357,743	309,864
Net accretion of acquired lease intangibles	(15,878)	(16,264)	(22,025)
Straight-line rent	18,733	(10,134)	(18,813)
Loan premium amortized and written off	(2,274)	(261)	(205)
Deferred loan costs amortized and written off	7,832	14,314	8,292
Amortization of stock-based compensation	21,365	18,359	22,299
Operating distributions from unconsolidated Funds	394	6,820	6,400
Change in working capital components:			
Tenant receivables	(11,645)	(609)	(1,391)
Interest payable, accounts payable and deferred revenue	5,557	(6,844)	1,376
Security deposits	(4,676)	1,919	319
Other assets	(3,063)	706	4,654
Net cash provided by operating activities	<u>420,218</u>	<u>469,586</u>	<u>432,982</u>
Investing Activities			
Capital expenditures for improvements to real estate	(143,445)	(176,448)	(179,062)
Capital expenditures for developments	(154,153)	(61,660)	(68,459)
Insurance recoveries for damage to real estate	17,120	—	—
Property acquisition	—	(365,885)	—
Cash assumed from consolidation of JV	—	39,226	—
Proceeds from sale of investment in real estate, net	20,658	—	—
Acquisition of additional interests in unconsolidated Funds	(6,591)	(90,754)	(9,379)
Capital distributions from unconsolidated Funds	1,236	5,853	7,349
Net cash used in investing activities	<u>(265,175)</u>	<u>(649,668)</u>	<u>(249,551)</u>
Financing Activities			
Proceeds from borrowings	674,000	2,185,000	667,000
Repayment of borrowings	(549,752)	(2,095,718)	(655,326)
Loan cost payments	(3,846)	(21,348)	(2,992)
Contributions from noncontrolling interests in consolidated JVs	—	163,556	—
Distributions paid to noncontrolling interests	(60,392)	(64,534)	(52,142)
Dividends paid to common stockholders	(196,333)	(179,667)	(169,831)
Taxes paid on exercise of stock options	—	—	(450)
Repurchase of OP Units	(7)	(734)	(108)
Proceeds from issuance of common stock, net	—	200,983	—
Net cash (used in) provided by financing activities	<u>(136,330)</u>	<u>187,538</u>	<u>(213,849)</u>
Increase (decrease) in cash and cash equivalents and restricted cash	18,713	7,456	(30,418)
Cash and cash equivalents and restricted cash - beginning balance	153,804	146,348	176,766
Cash and cash equivalents and restricted cash - ending balance	<u>\$ 172,517</u>	<u>\$ 153,804</u>	<u>\$ 146,348</u>

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

Reconciliation of Ending Cash Balance

	Year Ended December 31,		
	2020	2019	2018
Cash and cash equivalents - ending balance	\$ 172,385	\$ 153,683	\$ 146,227
Restricted cash - ending balance	132	121	121
Cash and cash equivalents and restricted cash - ending balance	<u>\$ 172,517</u>	<u>\$ 153,804</u>	<u>\$ 146,348</u>

Supplemental Cash Flows Information

	Year Ended December 31,		
	2020	2019	2018
Operating Activities			
Cash paid for interest, net of capitalized interest	\$ 136,823	\$ 128,205	\$ 124,487
Capitalized interest paid	\$ 4,810	\$ 3,782	\$ 3,520
Non-cash Investing Transactions			
Accrual for real estate and development capital expenditures	\$ 37,185	\$ 35,398	\$ 24,702
Capitalized stock-based compensation for improvements to real estate and developments	\$ 5,448	\$ 4,698	\$ 5,006
Removal of fully depreciated and amortized tenant improvements and lease intangibles	\$ 73,045	\$ 88,205	\$ 75,729
Removal of fully amortized acquired lease intangible assets	\$ 372	\$ 2,132	\$ 1,582
Removal of fully accreted acquired lease intangible liabilities	\$ 20,649	\$ 29,660	\$ 15,431
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	\$ (232,652)	\$ (76,273)	\$ 22,723
(Loss) gain recorded in AOCI - unconsolidated Funds' derivatives (our share)	\$ (410)	\$ (5,023)	\$ 3,052
Accrual for deferred loan costs	\$ 50	\$ 1,416	\$ —
Non-cash contributions from noncontrolling interests in consolidated JVs	\$ —	\$ 12,444	\$ —
Non-cash distributions to noncontrolling interests	\$ —	\$ 12,444	\$ —
Dividends declared	\$ 196,361	\$ 184,515	\$ 171,695
Exchange of OP Units for common stock	\$ 1,536	\$ 3,540	\$ 10,292
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, 2020, our Consolidated Portfolio consisted of (i) a 17.8 million square foot office portfolio, (ii) 4,287 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 in an unconsolidated Fund which, at December 31, 2020, 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, 2020, 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	16	16
Unconsolidated Fund properties	—	2
	69	71
<u>Multifamily</u>		
Wholly-owned properties	11	11
Consolidated JV properties	1	1
	12	12
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 \$3.19 billion of consolidated debt. See Note 8. We also consolidate three JVs (four JVs before December 31, 2020 - see "2020 Property Disposition" in Note 3 for more information regarding the dissolution of one of our JVs before December 31, 2020). As of December 31, 2020, these consolidated entities had aggregate total consolidated assets of \$9.25 billion (of which \$8.86 billion related to investment in real estate), aggregate total consolidated liabilities of \$5.25 billion (of which \$4.74 billion related to debt), and aggregate total consolidated equity of \$4.00 billion (of which \$1.56 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.

Commencing with the third quarter of 2020, we moved the disclosure of our investment in real estate cost categories (land, buildings and improvements, tenant improvements and lease intangibles, and property under development) from the consolidated balance sheets to our investment in real estate footnote for all periods presented. See Note 3.

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, 2020 and 2019, 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. See Note 3 for our property disposition disclosures.

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 Investment in real estate, gross, in our consolidated balance sheets. Demolition expenses and repairs and maintenance are recorded as expense when incurred. During 2020, 2019 and 2018, we capitalized \$186.4 million, \$75.3 million and \$78.7 million of costs related to our developments, respectively, which included \$4.8 million, \$3.8 million and \$3.5 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. 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 sheets 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 sheets. As of December 31, 2020 and 2019, the total investment basis difference included in our investment balance in unconsolidated Funds was \$29.6 million and \$27.8 million, respectively.

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

We periodically assess whether there has been any impairment that is other than temporary in our investment in unconsolidated funds. 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. Based upon such periodic assessments, no impairments occurred during 2020, 2019 or 2018. See Note 6 for our Fund disclosures.

Impairment of Long-Lived Assets

We periodically assess whether there has been any impairment in the carrying value of our properties and whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. An impairment charge would be recorded if events or 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. Based upon such periodic assessments, no impairments occurred during 2020, 2019 or 2018.

In downtown Honolulu, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments 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 annual impairment assessment in 2019 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 loss. 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. 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. 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. 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 \$1.0 million, \$0.5 million and \$1.6 million during 2020, 2019 and 2018, 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 \$5.9 million, \$5.8 million and \$3.5 million during 2020, 2019 and 2018, 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.

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

In accordance with Topic 842, we perform an assessment as to whether or not substantially all of the amounts due under a tenant's lease agreement is deemed probable of collection. This assessment involves using a methodology that requires judgment and estimates about matters that are uncertain at the time the estimates are made, including tenant specific factors, specific industry conditions, and general economic trends and conditions.

For leases where we have concluded it is probable that we will collect substantially all the lease payments due under those leases, we continue to record lease income on a straight-line basis over the lease term. For leases where we have concluded that it is not probable that we will collect substantially all the lease payments due under those leases, we limit the lease income to the lesser of the income recognized on a straight-line basis or cash basis. If our conclusion of collectibility changes, we will 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 rental revenues and tenant recoveries. We write-off tenant receivables and deferred rent receivables as a charge against rental revenues and tenant recoveries in the period we conclude that substantially all of the lease payments are not probable of collection. If we subsequently collect amounts that were previously written off then the amounts collected are recorded as an increase to our rental revenues and tenant recoveries in the period they are collected. Charges for uncollectible amounts, related to tenant receivables and deferred rent receivables, which for the year ended December 31, 2020 were primarily due to the impact of the COVID-19 pandemic, reduced our office revenues by \$41.0 million and \$2.6 million for the years ended December 31, 2020 and 2019, respectively.

Before the adoption of Topic 842, we presented our tenant receivables and deferred rent receivables net of allowances on our consolidated balance sheets. 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. Tenant receivable allowances reduced our rental revenues and tenant recoveries by \$2.2 million for the year ended December 31, 2018, and deferred rent receivable allowances increased our rental revenues and tenant recoveries by \$0.6 million for the year ended December 31, 2018.

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". 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 \$76.1 million, \$108.7 million and \$102.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. Office parking receivables were \$0.6 million and \$1.3 million as of December 31, 2020 and 2019, respectively, and are included in Tenant receivables in our consolidated balance sheets.

Insurance Recoveries

The amount by which insurance recoveries related to property damage exceeds any losses recognized from that damage are recorded as other income when payment has been received or confirmation of the amount of proceeds has been received.

In January 2020, there was a fire in one of our residential property buildings. We carry comprehensive liability and property insurance covering all of the properties in our portfolio under blanket insurance policies to cover these kinds of losses. During the year ended December 31, 2020 we recorded \$3.9 million of business interruption revenues, which is included in Multifamily rental - Parking and other income in the consolidated statements of operations, and a gain related to property damage of \$13.1 million, which is included in Other income in the consolidated statements of operations.

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. 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 as incurred. 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 consolidated balance sheets.

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, net of estimated forfeitures, 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 one of our subsidiaries as a TRS, 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 2020, 2019 or 2018. 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 that 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

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 was the first quarter of 2020. The amendments in the ASU should be applied on a modified-retrospective basis. The ASU impacts our measurement of credit losses for our Office parking receivables, which were \$0.6 million and \$1.3 million as of December 31, 2020 and December 31, 2019, respectively, and are included in Tenant receivables in our consolidated balance sheets. We adopted the ASU in the first quarter of 2020 and it did not have a material impact on our consolidated financial statements.

ASU 2020-04 (Topic 848 - "Reference Rate Reform")

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform", which contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The practical expedients are optional and may be elected over time as reference rate reform activities occur. We elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients maintains the presentation of derivatives consistent with past presentation. We will continue to evaluate the impact of the ASU and may apply other elections, as applicable, as additional changes in the market occur. Our election to apply the hedge accounting expedients in the first quarter of 2020 did not have a material impact on our consolidated financial statements.

Other Pronouncements

FASB COVID-19 Lease Modification Accounting Relief

In April 2020, the FASB staff issued a question and answer document (the "Lease Modification Q&A") on the application of lease accounting guidance to lease concessions provided as a result of the COVID-19 pandemic. Under the existing lease accounting guidance, we would be required to determine on a lease-by-lease basis if a lease concession was the result of a new arrangement reached with the tenant (treated within the lease modification accounting framework) or if a lease concession was under the enforceable rights and obligations within the existing lease agreement (precluded from applying the lease modification accounting framework). The Lease Modification Q&A allows us, if certain criteria are met, to bypass the lease-by-lease analysis, and instead elect to either apply the lease modification accounting framework or not, with such election applied consistently to leases with similar characteristics and similar circumstances. We have availed ourselves of the election to avoid performing a lease-by-lease analysis and we have elected to apply the lease modification accounting framework for the lease concessions that meet the criteria.

FASB COVID-19 Cash Flow Hedge Accounting Relief

In April 2020, the FASB staff issued a question and answer document (the "Cash Flow Hedge Accounting Q&A") on the application of cash flow hedge accounting guidance to cash flow hedges impacted by the COVID-19 pandemic. The Cash Flow Hedge Accounting Q&A clarifies that: (i) when cash flow hedge accounting has been discontinued, the delays in the timing of the forecasted transactions related to the impact of the COVID-19 pandemic may be considered rare cases caused by extenuating circumstances outside the control or influence of an entity, thereby allowing amounts deferred in AOCI to remain in AOCI until the forecasted transaction affects earnings, and (ii) missed forecasts, related to the effects of the COVID-19 pandemic, do not need to be considered when determining whether the entity has exhibited a pattern of missing forecasts that would call into question the entity's ability to accurately predict forecasted transactions and the propriety of using cash flow hedge accounting in the future for similar transactions. The Cash Flow Hedge Accounting Q&A did not have a material impact on our consolidated financial statements.

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

3. Investment in Real Estate

The table below summarizes our investment in real estate:

(In thousands)	December 31, 2020	December 31, 2019
Land	\$ 1,150,821	\$ 1,152,684
Buildings and improvements	9,344,653	9,308,481
Tenant improvements and lease intangibles	928,867	905,753
Property under development	254,297	111,715
Investment in real estate, gross	<u>\$ 11,678,638</u>	<u>\$ 11,478,633</u>

2020 Property Disposition

In December 2020, we closed on the sale of an 80,000 square foot office property in Honolulu for a contract price of \$21.0 million in cash, resulting in a gain of \$6.4 million after transaction costs. The property sold was held by one of our consolidated JVs in which we owned a two-thirds capital interest. The JV was subsequently dissolved prior to December 31, 2020.

2019 Property 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. The contract and purchase prices differ due to prorations and similar adjustments:

(In thousands, except number of units)	The Glendon
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	<u>(2,114)</u>
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).

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

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.

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.

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 Property Acquisitions and Dispositions

During 2018, we did not purchase or sell any properties.

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, 2020, the ground lease 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 2020, 2019 and 2018, 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, 2020:

Year ending December 31: _____	(In thousands)
2021	\$ 733
2022	733
2023	733
2024	733
2025	733
Thereafter	44,712
Total future minimum lease payments	<u>\$ 48,377</u>

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

5. Acquired Lease Intangibles

Summary of our Acquired Lease Intangibles

(In thousands)	December 31, 2020	December 31, 2019
Above-market tenant leases	\$ 6,848	\$ 7,220
Above-market tenant leases - accumulated amortization	(2,618)	(1,741)
Above-market ground lease where we are the lessor	1,152	1,152
Above-market ground lease - accumulated amortization	(241)	(224)
Acquired lease intangible assets, net	<u>\$ 5,141</u>	<u>\$ 6,407</u>
Below-market tenant leases	\$ 81,934	\$ 102,583
Below-market tenant leases - accumulated accretion	(46,711)	(50,216)
Acquired lease intangible liabilities, net	<u>\$ 35,223</u>	<u>\$ 52,367</u>

Impact on the Consolidated Statements of Operations

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

(In thousands)	Year Ended December 31,		
	2020	2019	2018
Net accretion of above- and below-market tenant lease assets and liabilities ⁽¹⁾	\$ 15,895	\$ 16,282	\$ 21,992
Amortization of an above-market ground lease asset ⁽²⁾	(17)	(18)	(17)
Accretion of an above-market ground lease liability ⁽³⁾	—	—	50
Total	<u>\$ 15,878</u>	<u>\$ 16,264</u>	<u>\$ 22,025</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, 2020.

Year ending December 31:	Net increase to revenues
(In thousands)	
2021	\$ 9,125
2022	6,482
2023	4,512
2024	3,665
2025	2,975
Thereafter	3,323
Total	<u>\$ 30,082</u>

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

6. Investments in Unconsolidated Funds

Description of our Funds

As of December 31, 2020, we managed and owned an equity interest of 33.5% 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. During the year ended December 31, 2020 we purchased additional interests of 3.6% in Partnership X for \$6.6 million.

As of December 31, 2019, we owned a 29.9% equity interest in Partnership X. 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.

As of December 31, 2018, we owned equity interests of 24.5% in Partnership X, 6.2% in the Opportunity Fund, and 71.3% in Fund X. During the year ended December 31, 2018 we purchased an additional 1.9% interest in Fund 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,		
	2020	2019	2018
Operating distributions received ⁽¹⁾	\$ 394	\$ 6,820	\$ 6,400
Capital distributions received ⁽¹⁾	1,236	5,853	7,349
Total distributions received ⁽¹⁾	<u>\$ 1,630</u>	<u>\$ 12,673</u>	<u>\$ 13,749</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, 2020.

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 book value:

(In thousands)	December 31, 2020	December 31, 2019
Total assets ⁽¹⁾	\$ 133,617	\$ 136,479
Total liabilities ⁽¹⁾	\$ 112,706	\$ 113,330
Total equity ⁽¹⁾	\$ 20,911	\$ 23,149

(1) The balances for both periods reflect the balances for Partnership X.

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

(In thousands)	Year Ended December 31,		
	2020	2019	2018
Total revenues ⁽¹⁾	\$ 15,744	\$ 75,952	\$ 79,590
Operating income ⁽¹⁾	\$ 3,614	\$ 22,269	\$ 22,959
Net income ⁽¹⁾	\$ 887	\$ 7,350	\$ 6,260

(1) The results of operations are not directly comparable to the prior periods; 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, 2020.

7. Other Assets

(In thousands)	December 31, 2020	December 31, 2019
Restricted cash	\$ 132	\$ 121
Prepaid expenses	13,774	8,711
Other indefinite-lived intangibles	1,988	1,988
Furniture, fixtures and equipment, net	2,358	2,368
Other	3,331	3,233
Total other assets	\$ 21,583	\$ 16,421

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, 2020	Principal Balance as of December 31, 2019	Variable Interest Rate	Fixed Interest Rate ⁽²⁾	Swap Maturity Date
(In thousands)						
Consolidated Wholly-Owned Subsidiaries						
Term loan ⁽³⁾	1/1/2024	\$ 300,000	\$ 300,000	LIBOR + 1.55%	3.46%	1/1/2022
Term loan ⁽³⁾	3/3/2025	335,000	335,000	LIBOR + 1.30%	3.84%	3/1/2023
Fannie Mae loan ⁽³⁾	4/1/2025	102,400	102,400	LIBOR + 1.25%	2.76%	3/1/2023
Term loan ⁽³⁾	8/15/2026	415,000	415,000	LIBOR + 1.10%	3.07%	8/1/2025
Term loan ⁽³⁾	9/19/2026	400,000	400,000	LIBOR + 1.15%	2.44%	9/1/2024
Term loan ⁽³⁾	9/26/2026	200,000	200,000	LIBOR + 1.20%	2.36%	10/1/2024
Term loan ⁽³⁾⁽⁴⁾	11/1/2026	400,000	400,000	LIBOR + 1.15%	2.18%	10/1/2024
Fannie Mae loan ⁽³⁾	6/1/2027	550,000	550,000	LIBOR + 1.37%	3.16%	6/1/2022
Fannie Mae loan ⁽³⁾	6/1/2029	255,000	255,000	LIBOR + 0.98%	3.26%	6/1/2027
Fannie Mae loan ⁽³⁾	6/1/2029	125,000	125,000	LIBOR + 0.98%	3.25%	6/1/2027
Term loan ⁽⁵⁾	6/1/2038	30,112	30,864	N/A	4.55%	N/A
Revolving credit facility ⁽⁶⁾	8/21/2023	75,000	—	LIBOR + 1.15%	N/A	N/A
Total Wholly-Owned Subsidiary Debt		3,187,512	3,113,264			
Consolidated JVs						
Term loan ⁽⁷⁾	—	—	400,000	—	—	—
Term loan ⁽³⁾	2/28/2023	580,000	580,000	LIBOR + 1.40%	2.37%	3/1/2021
Term loan ⁽³⁾	12/19/2024	400,000	400,000	LIBOR + 1.30%	3.47%	1/1/2023
Term loan ⁽³⁾⁽⁸⁾	5/15/2027	450,000	—	LIBOR + 1.35%	3.04%	4/1/2025
Term loan ⁽³⁾	6/1/2029	160,000	160,000	LIBOR + 0.98%	3.25%	7/1/2027
Total Consolidated Debt⁽⁹⁾		4,777,512	4,653,264			
Unamortized loan premium, net ⁽¹⁰⁾		4,467	6,741			
Unamortized deferred loan costs, net ⁽¹¹⁾		(37,012)	(40,947)			
Total Consolidated Debt, net		\$ 4,744,967	\$ 4,619,058			

Except as noted below, our loans and revolving credit facility: (i) are non-recourse, (ii) are secured by separate collateral pools consisting of one or more properties, (iii) require interest-only monthly payments with the outstanding principal due upon maturity, and (iv) contain certain financial covenants which could require us to deposit excess cash flow with the lender under certain circumstances unless we (at our option) either provide a guarantee or additional collateral or pay down the loan within certain parameters set forth in the loan documents. Certain loans with maturity date extensions require us to meet minimum financial thresholds in order to exercise those extensions.

- (1) Maturity dates include the effect of extension options.
- (2) Effective rate as of December 31, 2020. 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) The loan agreement includes a zero-percent LIBOR floor. The corresponding swaps do not include such a floor.
- (4) Effective rate will increase to 2.31% on July 1, 2021.
- (5) Requires monthly payments of principal and interest. Principal amortization is based upon a 30-year amortization schedule.
- (6) \$400.0 million revolving credit facility. Unused commitment fees range from 0.10% to 0.15%. The facility has a zero-percent LIBOR floor.
- (7) We paid this loan off during the second quarter of 2020.
- (8) We closed this loan during the second quarter of 2020. The effective rate will decrease to 2.26% on July 1, 2022.
- (9) The table does not include our unconsolidated Funds' loan - see Note 17. See Note 14 for our fair value disclosures.
- (10) Balances are net of accumulated amortization of \$2.7 million and \$0.5 million at December 31, 2020 and December 31, 2019, respectively.
- (11) Balances are net of accumulated amortization of \$38.3 million and \$30.7 million at December 31, 2020 and December 31, 2019, respectively.

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

Debt Statistics

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

(In thousands)	Principal Balance as of December 31, 2020	Principal Balance as of December 31, 2019
Aggregate swapped to fixed rate loans	\$ 4,672,400	\$ 4,622,400
Aggregate fixed rate loans	30,112	30,864
Aggregate floating rate loans	75,000	—
Total Debt	<u>\$ 4,777,512</u>	<u>\$ 4,653,264</u>

The table below summarizes certain consolidated debt statistics as of December 31, 2020:

Statistics for consolidated loans with interest fixed under the terms of the loan or a swap	
Principal balance (in billions)	\$4.70
Weighted average remaining life (including extension options)	5.3 years
Weighted average remaining fixed interest period	3.1 years
Weighted average annual interest rate	3.02%

Future Principal Payments

At December 31, 2020, the minimum future principal payments due on our consolidated secured notes payable and revolving credit facility were as follows:

Year ending December 31:	Including Maturity Extension Options ⁽¹⁾
(In thousands)	
2021	\$ 787
2022	823
2023	655,862
2024	700,902
2025	438,343
Thereafter	2,980,795
Total future principal payments	<u>\$ 4,777,512</u>

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

Loan Premium and Loan Costs

The table below presents loan premium and loan costs, which are included in Interest expense in our consolidated statements of operations:

(In thousands)	Year Ended December 31,		
	2020	2019	2018
Loan premium amortized and written off	\$ (2,274)	\$ (261)	\$ (205)
Deferred loan costs amortized and written off	7,832	14,314	8,234
Loan costs expensed	1,008	1,318	58
Total	<u>\$ 6,566</u>	<u>\$ 15,371</u>	<u>\$ 8,087</u>

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

9. Interest Payable, Accounts Payable and Deferred Revenue

(In thousands)	December 31, 2020	December 31, 2019
Interest payable	\$ 12,199	\$ 11,707
Accounts payable and accrued liabilities	81,595	66,437
Deferred revenue	50,550	53,266
Total interest payable, accounts payable and deferred revenue	<u>\$ 144,344</u>	<u>\$ 131,410</u>

10. Derivative Contracts

Derivative Summary

As of December 31, 2020, 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⁾	39	\$ 5,117,400
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) The notional amount includes:
a. Five swaps with a combined initial notional amount of \$135.0 million, which will increase to \$1.08 billion in the future to replace existing swaps as they expire, and
b. Two forward swaps (swaps effective after December 31, 2020) with a combined notional of \$400.0 million, which will replace existing swaps as they expire.
(3) The notional amount reflects 100%, not our pro-rata share, of our unconsolidated Fund's derivative.
(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, 2020, 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, 2020	December 31, 2019
Consolidated derivatives ⁽¹⁾	\$ 225,166	\$ 56,896
Unconsolidated Fund's derivative	\$ 208	\$ —

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

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

Counterparty Credit Risk

We are subject to credit risk from the counterparties on our interest rate swap 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, 2020	December 31, 2019
Consolidated derivatives ⁽¹⁾⁽³⁾	\$ —	\$ 23,275
Unconsolidated Fund's derivative ⁽²⁾⁽³⁾	\$ —	\$ 963

- (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.
(3) We did not have any interest rate swap contract asset balances as of December 31, 2020.

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,		
	2020	2019	2018
Derivatives Designated as Cash Flow Hedges:			
Consolidated derivatives:			
Gain recorded in AOCI - adoption of ASU 2017-12 ⁽¹⁾	\$ —	\$ —	\$ 211
(Losses) gains recorded in AOCI before reclassifications ⁽¹⁾	\$ (232,652)	\$ (76,273)	\$ 22,723
Losses (gains) reclassified from AOCI to Interest Expense ⁽¹⁾	\$ 49,435	\$ (24,298)	\$ (10,103)
Interest Expense presented in the consolidated statements of operations	\$ (142,872)	\$ (143,308)	\$ (133,402)
Unconsolidated Funds' derivatives (our share)⁽²⁾:			
(Losses) gains recorded in AOCI before reclassifications ⁽¹⁾	\$ (410)	\$ (5,023)	\$ 3,052
Losses (gains) reclassified from AOCI to Income from unconsolidated Funds ⁽¹⁾	\$ 106	\$ (1,698)	\$ (813)
Income from unconsolidated Funds presented in the consolidated statements of operations	\$ 430	\$ 6,923	\$ 6,400

- (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, 2020, 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	\$ (72,495)
Unconsolidated Fund's derivative (our share)⁽¹⁾:	
Losses to be reclassified from AOCI to Income from unconsolidated Funds	\$ (46)

- (1) We calculate our share by multiplying the total amount for our Fund by our equity interest in the Fund.

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

11. Equity

Transactions

2020 Transactions

During the year ended December 31, 2020, (i) we acquired 94 thousand OP Units in exchange for issuing an equal number of shares of our common stock to the holders of the OP Units, and (ii) we acquired 150 OP Units for \$7 thousand in cash.

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 the year ended December 31, 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).

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 30.1 million OP Units and fully-vested LTIP Units, and represented approximately 14.6% of our Operating Partnership's total outstanding interests as of December 31, 2020 when we owned 175.5 million OP Units (to match our 175.5 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,		
	2020	2019	2018
Net income attributable to common stockholders	\$ 50,421	\$ 363,713	\$ 116,086
Transfers from noncontrolling interests:			
Exchange of OP Units with noncontrolling interests	1,535	3,540	10,292
Repurchase of OP Units from noncontrolling interests	(4)	(431)	(59)
Net transfers from noncontrolling interests	1,531	3,109	10,233
Change from net income attributable to common stockholders and transfers from noncontrolling interests	\$ 51,952	\$ 366,822	\$ 126,319

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,		
	2020	2019	2018
Beginning balance	\$ (17,462)	\$ 53,944	\$ 43,099
Adoption of ASU 2017-12 - cumulative opening balance adjustment	—	—	211
Consolidated derivatives:			
Other comprehensive (loss) gain before reclassifications	(232,652)	(76,273)	22,723
Reclassification of loss (gain) from AOCI to Interest Expense	49,435	(24,298)	(10,103)
Unconsolidated Funds' derivatives (our share)⁽²⁾:			
Other comprehensive (loss) gain before reclassifications	(410)	(5,023)	3,052
Reclassification of loss (gain) from AOCI to Income from unconsolidated Funds	106	(1,698)	(813)
Net current period OCI	(183,521)	(107,292)	15,070
OCI attributable to noncontrolling interests	52,948	35,886	(4,225)
OCI attributable to common stockholders	(130,573)	(71,406)	10,845
Ending balance	\$ (148,035)	\$ (17,462)	\$ 53,944

(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 2020 are classified for federal income tax purposes as follows:

<u>Record Date</u>	<u>Paid Date</u>	<u>Dividend Per Share</u>	<u>Ordinary Income %</u>	<u>Capital Gain %</u>	<u>Return of Capital %</u>	<u>Section 199A Dividend %</u>
12/31/2019	1/15/2020	\$ 0.28	49.8 %	— %	50.2 %	49.8 %
3/31/2020	4/15/2020	0.28	49.8 %	— %	50.2 %	49.8 %
6/30/2020	7/15/2020	0.28	49.8 %	— %	50.2 %	49.8 %
9/30/2020	10/15/2020	0.28	49.8 %	— %	50.2 %	49.8 %
Total / Weighted Average		<u>\$ 1.12</u>	49.8 %	— %	50.2 %	49.8 %

12. EPS

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

	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Numerator (In thousands):			
Net income attributable to common stockholders	\$ 50,421	\$ 363,713	\$ 116,086
Allocation to participating securities: Unvested LTIP Units	(830)	(1,594)	(546)
Net income attributable to common stockholders - basic and diluted	<u>\$ 49,591</u>	<u>\$ 362,119</u>	<u>\$ 115,540</u>
Denominator (In thousands):			
Weighted average shares of common stock outstanding - basic	175,380	173,358	169,893
Effect of dilutive securities: Stock options ⁽¹⁾	—	—	9
Weighted average shares of common stock and common stock equivalents outstanding - diluted	<u>175,380</u>	<u>173,358</u>	<u>169,902</u>
Net income per common share - basic	<u>\$ 0.28</u>	<u>\$ 2.09</u>	<u>\$ 0.68</u>
Net income per common share - diluted	<u>\$ 0.28</u>	<u>\$ 2.09</u>	<u>\$ 0.68</u>

- (1) 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 table below presents the weighted average OP Units and vested LTIP Units outstanding for the respective periods:

<u>(In thousands)</u>	<u>Year Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
OP Units	28,288	26,465	26,661
Vested LTIP Units	815	1,652	813

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

13. Stock-Based Compensation

Stock Incentive Plans

The Douglas Emmett, Inc. 2016 Omnibus Stock Incentive Plan, as amended, 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. On May 28, 2020, our stockholders approved an amendment to the 2016 Plan to, among other things, increase the number of common shares for future awards by 9.5 million. We had an aggregate of 9.1 million shares available for grant as of December 31, 2020. 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 1.1 million, 802 thousand, and 898 thousand LTIP Units to employees during 2020, 2019 and 2018, 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 55 thousand, 38 thousand, and 37 thousand LTIP Units to our non-employee directors during 2020, 2019 and 2018, respectively.

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

Compensation Expense

At December 31, 2020, the total unrecognized stock-based compensation expense for unvested LTIP Unit awards was \$19.3 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,		
	2020	2019	2018
Stock-based compensation expense, net	\$ 21,365	\$ 18,359	\$ 22,299
Capitalized stock-based compensation	\$ 5,448	\$ 4,698	\$ 5,006
Intrinsic value of options exercised	\$ —	\$ —	\$ 1,196

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, 2017	49	\$ 12.66	16	\$ 1,375	
Exercised	(49)	\$ 12.66			\$ 1,196
Outstanding at December 31, 2018	—	\$ —	0	\$ —	

(1) There were no options outstanding during the years ended December 31, 2020 and 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, 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	
Granted	1,190	\$ 21.12	\$ 25,175
Vested	(1,073)	\$ 24.58	\$ 26,369
Forfeited	(57)	\$ 28.20	\$ 1,623
Outstanding at December 31, 2020	984	\$ 25.71	

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, 2020, 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 includes 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, 2020	December 31, 2019
Fair value	\$ 4,719,462	\$ 4,682,305
Carrying value	\$ 4,706,979	\$ 4,660,005

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, 2020	December 31, 2019
Fair value	\$ 11,865	\$ 12,218
Carrying value	\$ 10,871	\$ 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 in the consolidated balance sheets 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, 2020	December 31, 2019
Derivative Assets:		
Fair value - consolidated derivatives ⁽¹⁾	\$ —	\$ 22,381
Fair value - unconsolidated Fund's derivative ⁽²⁾	\$ —	\$ 889
Derivative Liabilities:		
Fair value - consolidated derivatives ⁽¹⁾	\$ 214,016	\$ 54,616
Fair value - unconsolidated Fund's derivative ⁽²⁾	\$ 137	\$ —

- (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) The amounts reflect 100%, not our pro-rata share, of our unconsolidated Fund's derivative. Our pro-rata share of the amounts related to the unconsolidated Fund's derivative is included in our Investment in unconsolidated Funds in our consolidated balance sheets. See "Guarantees" in Note 17 regarding our unconsolidated Fund's debt and derivative.

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,		
	2020	2019	2018
Office Segment			
Total office revenues	\$ 771,169	\$ 816,755	\$ 777,931
Office expenses	(268,259)	(264,482)	(252,751)
Office segment profit	502,910	552,273	525,180
Multifamily Segment			
Total multifamily revenues	120,354	119,927	103,385
Multifamily expenses	(37,154)	(33,681)	(28,116)
Multifamily segment profit	83,200	86,246	75,269
Total profit from all segments	\$ 586,110	\$ 638,519	\$ 600,449

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,		
	2020	2019	2018
Total profit from all segments	\$ 586,110	\$ 638,519	\$ 600,449
General and administrative expenses	(39,601)	(38,068)	(38,641)
Depreciation and amortization	(385,248)	(357,743)	(309,864)
Other income	16,288	11,653	11,414
Other expenses	(2,947)	(7,216)	(7,744)
Income from unconsolidated Funds	430	6,923	6,400
Interest expense	(142,872)	(143,308)	(133,402)
Gain on sale of investment in real estate	6,393	—	—
Gain from consolidation of JV	—	307,938	—
Net income	38,553	418,698	128,612
Less: Net loss (income) attributable to noncontrolling interests	11,868	(54,985)	(12,526)
Net income attributable to common stockholders	\$ 50,421	\$ 363,713	\$ 116,086

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 for our consolidated properties at December 31, 2020:

Year Ending December 31,	(In thousands)
2021	\$ 635,956
2022	553,974
2023	452,930
2024	355,428
2025	266,182
Thereafter	629,410
Total future minimum base rentals ⁽¹⁾	<u>\$ 2,893,880</u>

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

Tenant Receivables

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. During the years ended December 31, 2020, 2019 and 2018, no tenant accounted for more than 10% of our total revenues. See Note 2 for the details of our charges to revenue for uncollectible amounts and allowances for tenant receivables and deferred rent receivables.

Geographic Risk

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.

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

Swap Counterparty Credit Risk

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. Our swap contracts do not provide for right of offset between derivative contracts. 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.

Cash Balances

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

Asset Retirement Obligations

Conditional asset retirement obligations represent a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within our control. A liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site assessments have identified 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, 2020, 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, 2020, 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. In downtown Honolulu, we are converting a 25 story, 490,000 square foot office tower into approximately 500 apartments in phases over a number of years as the office space is vacated.

As of December 31, 2020, we had an aggregate remaining contractual commitment for these and other development projects of approximately \$148.2 million. As of December 31, 2020, we had an aggregate remaining contractual commitment for repositionings, capital expenditure projects and tenant improvements of approximately \$23.2 million.

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

Guarantees

We have made certain environmental and other limited indemnities and guarantees covering customary non-recourse carve-outs for our unconsolidated 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, 2020, 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, 2020. The amounts represent 100% (not our pro-rata share) of the amounts related to our Fund:

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, 2020, assuming a zero-percent LIBOR interest rate during the remaining life of the swap, the maximum future payments under the swap agreement were \$0.2 million.
- (3) Loan agreement includes a zero-percent LIBOR floor. The corresponding swap does not include such a floor.

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

DORENE C. DOMINGUEZ
Chairwoman & Chief Executive Officer
Vanir Group of Companies Inc.

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 Emeritus, 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

Fried, Frank, Harris, Shiver & Jacobson LLP
Washington D.C.

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*

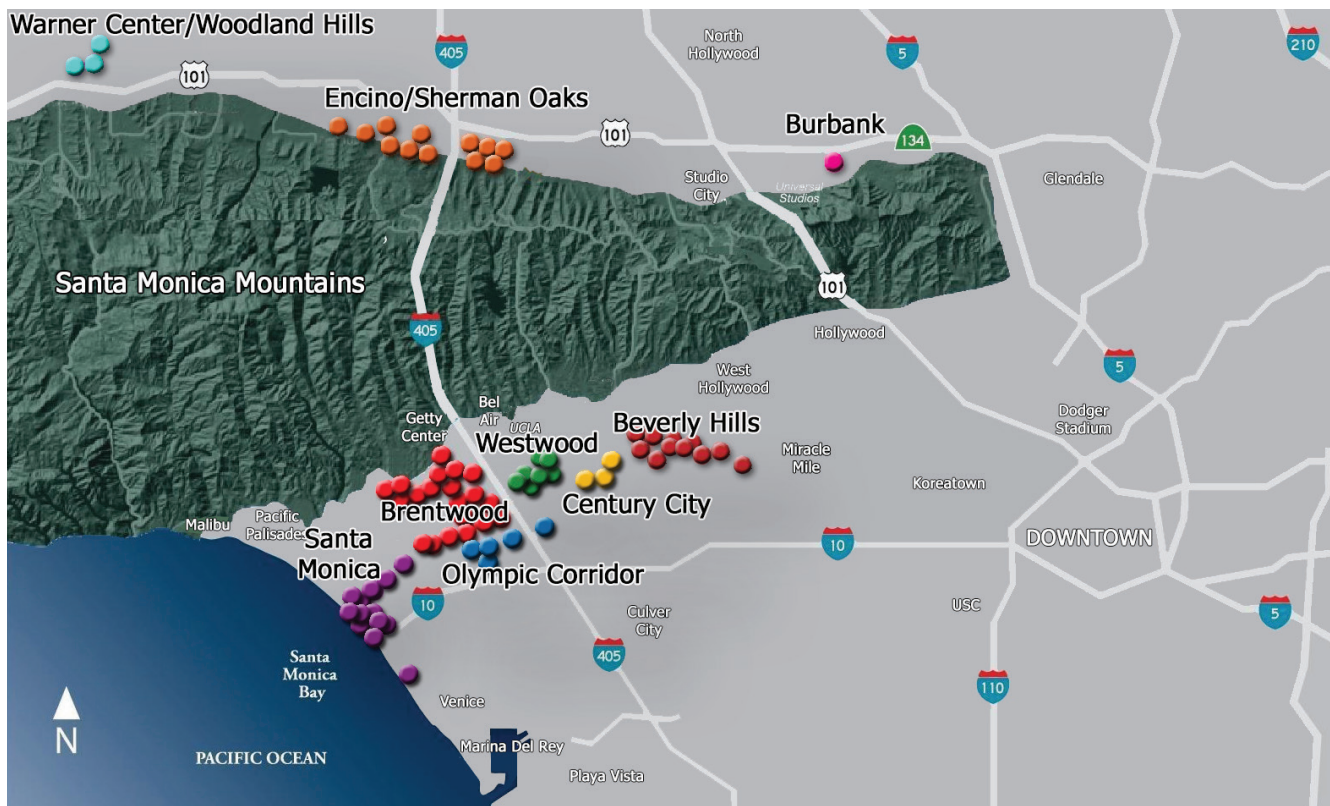
*Please see our definitive proxy statement for our upcoming annual meeting for important instructions on how to register for, attend, participate in and vote at the annual meeting. There is no in person attendance at the annual meeting.



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.

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

