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Douglas Emmett Inc
Form 10-K
February 17, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Commission file number: 1-33106

Douglas Emmett, Inc.

(Exact name of registrant as specified in its charter)

MARYLAND

(20-3073047)

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

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

(310) 255-7700

(Address, including Zip Code and Telephone Number, including Area Code, of Registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
p or
No 1

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes
1 or
No p

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes
p or
No 1

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 1

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non Accelerated Filer Smaller Reporting Company

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

The aggregate market value of the common stock, \$0.01 par value, held by non-affiliates of the registrant, as of June 30, 2016, was \$5.02 billion. (This computation excludes the market value of all shares of Common Stock reported as beneficially owned by executive officers and directors of the Registrant. Such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.)

The registrant had 153,094,197 shares of its common stock, \$0.01 par value, outstanding as of February 10, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be issued in conjunction with the registrant’s annual meeting of shareholders to be held in 2017 are incorporated by reference in Part III of this Report on Form 10-K. Such proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant’s fiscal year ended December 31, 2016.

DOUGLAS EMMETT, INC.
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GLOSSARY

Abbreviations used in this document:

ADA	Americans with Disabilities Act of 1990
ASC	Accounting Standards Codification
ASU	Accounting Standards Updates
BOMA	Building Owners and Managers Association
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Internal Revenue Code of 1986, as amended
COO	Chief Operating Officer
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 (Fund X and Partnership X)
GAAP	Generally Accepted Accounting Principles (United States)
IRS	Internal Revenue Service
IT	Information Technology
JV	Joint Venture
LIBOR	London Interbank Offered Rate
LTIP Units	Long-Term Incentive Plan Units
MGCL	Maryland General Corporation Law
NAREIT	National Association of Real Estate Investment Trusts
NYSE	New York Stock Exchange
OP Units	Operating Partnership Units
Operating Partnership	Douglas Emmett Properties, LP
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 on Form 10-K
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
S&P 500	Standard & Poor's 500 Index
TRS	Taxable REIT subsidiary(ies)
US	United States

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GLOSSARY

Defined terms used in this document:

Annualized Rent	Annualized cash base rent (excludes tenant reimbursements, parking income, lost rent recovered from insurance and other revenue) before abatements under leases commenced as of the reporting date. For our triple net Burbank and Honolulu office properties, annualized rent is calculated by adding expense reimbursements to base rent.
Consolidated Portfolio	Includes the properties in our consolidated results, which includes our consolidated JVs.
Percentage Leased	Signed leases not yet commenced as of the reporting date.
Rentable Square Feet	Based on the BOMA remeasurement and consists of leased square feet (including square feet with respect to signed leases not commenced), available square feet, building management use square feet and square feet of BOMA adjustment on leased space.
Total Portfolio	Includes our Consolidated Portfolio and the properties owned by our unconsolidated real estate Funds.

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Forward Looking Statements.

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

- adverse economic or real estate developments in Southern California and Honolulu, Hawaii;
- a general downturn in the economy, such as the global financial crisis that commenced in 2008;
- competition from other real estate investors in our markets
- decreased rental rates or increased tenant incentive and vacancy rates;
- defaults on, early termination of, or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- failure to generate sufficient cash flows to service our outstanding debt;
- failure to generate sufficient cash flows to make payments on a ground lease for one of our properties;
- difficulties in raising capital;
- difficulties in identifying properties to acquire and failure to complete acquisitions successfully;
- failure to successfully operate acquired properties;
- real estate investments are generally illiquid and difficult to sell quickly
- possible adverse changes in rent control laws and regulations;
- environmental uncertainties;
- risks related to natural disasters;
- lack or insufficient amount of insurance, or increases in the cost of maintaining existing insurance coverage;
- inability to successfully expand into new markets and submarkets;
- risks associated with property development;
 - risks associated with
 - JVs;
- conflicts of interest with our officers and reliance on key personnel;
- changes in real estate zoning laws and increases in real property tax rates;
- adverse results of litigation or governmental proceedings;
- complying with laws, regulations and covenants that are applicable to our properties;
- difficulty in liquidating our short term investments;
- the consequences of any possible terrorist attacks or wars;
- the consequences of any possible cyber attacks or intrusions;
- adoption of new accounting pronouncements could adversely affect our operating results;
- weaknesses in our internal controls over financial reporting could result in restatements of our operating results;
- failure to maintain our REIT status under federal tax laws; and

•changes to tax laws that could adversely affect us.

For further discussion of these and other risk factors see Item 1A. "Risk Factors" in this Report. 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.

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PART I

Item 1. Business Overview

Business description

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed REIT. We are one of the largest owners and operators of high-quality office and multifamily properties located in premier coastal submarkets in Los Angeles and Honolulu. 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. We intend to increase our market share in our existing submarkets of Los Angeles County and Honolulu, and may selectively enter into other submarkets with similar characteristics where we believe we can gain significant market share.

Through our interest in our Operating Partnership and its subsidiaries, our consolidated JVs, and our investments in our unconsolidated Funds, we own or partially own, acquire, develop and manage real estate, consisting primarily of office and multifamily properties. At December 31, 2016, we owned a Consolidated Portfolio of (i) fifty-nine office properties (including ancillary retail space) totaling approximately 15.9 million rentable square feet, which included seven office properties owned by our consolidated JVs, (ii) ten multifamily properties containing 3,320 apartment units, and (iii) the fee interests in two parcels of land subject to ground leases from which we earn ground rent income. Alongside our Consolidated Portfolio, we also manage and own equity interests in our unconsolidated Funds which, at December 31, 2016, owned eight additional office properties totaling approximately 1.8 million square feet of space. We manage these eight properties alongside our Consolidated Portfolio, and we therefore present our office portfolio statistics on a Total Portfolio basis, with a combined sixty-seven Class A office properties totaling approximately 17.7 million square feet. 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. For more information, see Item 2 “Properties” of this Report.

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

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

First we select submarkets that are supply constrained, with high barriers to entry, key lifestyle amenities, proximity to high-end executive housing and a strong, diverse economic base. Virtually no entitled Class A office space is currently under construction in any of our targeted submarkets. Our submarkets are dominated by small, affluent tenants, whose rent is very small relative to their revenues and often not the paramount factor in their leasing decisions. At December 31, 2016, our office portfolio median size lease 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 2014, 2015 and 2016, no tenant accounted for more than 10% of our total revenues.

Disciplined Strategy of Acquiring Substantial Market Share.

Once we select a submarket, we follow a disciplined strategy of gaining substantial market share to provide us with extensive local transactional market information, pricing power in lease and vendor negotiations and an enhanced ability to identify and negotiate investment opportunities. As a result, we average approximately a 27% share of the Class A office space in our submarkets.

Proactive Asset and Property Management.

Our fully integrated and focused operating platform provides the unsurpassed tenant service demanded in our submarkets, with in-house leasing, proactive asset and property management and internal design and construction services, which we believe provides us with a competitive advantage in managing our property portfolio. Our in-house

leasing agents and legal specialists allow us to lease a large property portfolio with a diverse group of smaller tenants, closing an average of approximately three office leases each business day, and our in-house construction company allows us to compress the time required for building out many smaller spaces, resulting in reduced vacancy periods. Our property management group oversees day-to-day property management of both our office and multifamily portfolios, allowing us to benefit from the operational efficiencies permitted by our submarket concentration.

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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 its partnership agreement to manage and conduct its business, 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 Funds

In addition to fifty-two office properties and ten 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 seven office properties in our core markets totaling 2.3 million square feet and in which we own a weighted average of 29% at December 31, 2016 based on square footage. We are entitled to (i) distributions based on invested capital as well as (in the case of two of the JVs) 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.

We also manage and own equity interests in two unconsolidated Funds through which we and institutional investors own eight office properties totaling 1.8 million square feet in our core markets. We are entitled to (i) priority distributions, (ii) distributions based on invested capital (a weighted average of 60.0% at December 31, 2016 based on square footage), (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. 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. For more information regarding our JVs and our Funds, see Notes 3 and 5, respectively, to our consolidated financial statements in Item 15 of this Report.

Taxation

We believe that we qualify, and we intend to continue to qualify, for taxation as a REIT under the Code, although we cannot assure that this has happened or will happen. See Item 1A "Risk Factors" of this Report 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)