

Edgar Filing: Douglas Emmett Inc - Form 10-Q

Douglas Emmett Inc
Form 10-Q
November 04, 2016
United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Commission file number 001-33106
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
(Address of principal executive offices) (Zip Code)

(310) 255-7700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 No

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 No

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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at	October 28, 2016
Common Stock, \$0.01 par value per share	151,526,990	shares

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Glossary

Abbreviations used in this document:

ASU	Accounting Standards Update
ATM	At-the-Market
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Internal Revenue Code of 1986, as amended
Company	Douglas Emmett, Inc.
EPS	Earnings Per Share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFO	Funds from Operations
Fund X	Douglas Emmett Fund X, LLC
Funds	Unconsolidated real estate funds
GAAP	Generally Accepted Accounting Principles
LIBOR	London Interbank Offered Rate
LTIP Units	Long-Term Incentive Plan Units
NAREIT	National Association of Real Estate Investment Trusts
OP Units	Operating Partnership Units
Operating Partnership	Douglas Emmett Properties, LP
Partnership X	Douglas Emmett Partnership X, LP
PCAOB	Public Company Accounting Oversight Board (United States)
REIT	Real Estate Investment Trust
Report	Quarterly Report on Form 10-Q
SEC	Securities and Exchange Commission (United States)
Securities Act	Securities Act of 1933, as amended
TRS	Taxable REIT subsidiary(ies)
US	United States
VIE	Variable Interest Entity

Defined terms used in this document:

Annualized cash base rent (excludes tenant reimbursements, parking and other income and lost rent recovered from insurance) before abatements under leases commenced as of the reporting date and expiring after the reporting date. For our triple net office properties (in Honolulu and two single tenant buildings in Los Angeles), annualized rent is calculated by adding expense reimbursements to base rent.

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Forward Looking Statements

This Report contains forward-looking statements within the meaning of 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 "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "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 presented in this Report, or those that we may make orally or in writing from time to time, are based on our beliefs and assumptions, as well as information currently available to us. The actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution 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 may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- adverse economic or real estate developments in Southern California and Honolulu, Hawaii;
- a general downturn in the economy, such as the global financial crisis that commenced in 2008;
- decreased rental rates or increased tenant incentive and vacancy rates;
- defaults on, early termination of, or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- failure to generate sufficient cash flows to service our outstanding indebtedness;
- difficulties in raising capital for our unconsolidated Funds;
- difficulties in identifying properties to acquire and completing acquisitions;
- failure to successfully operate acquired properties;
- failure to maintain our status as a REIT under federal tax laws;
- possible adverse changes in rent control laws and regulations;
- environmental uncertainties;
- risks related to natural disasters;
- lack or insufficient amount of insurance, or changes to the cost of maintaining existing insurance coverage;
- inability to successfully expand into new markets and submarkets;
- risks associated with property development;
- conflicts of interest with our officers;
- changes in real estate zoning laws and increases in real property tax rates;
- the negative results of litigation or governmental proceedings;
- the consequences of any possible future terrorist attacks or wars; and
- the consequences of any possible future cyber attacks or intrusions.

For further discussion of the above risk factors, see "Item 1A. Risk Factors" in our 2015 Annual Report on Form 10-K.

This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Douglas Emmett, Inc.

Consolidated Balance Sheets

(Unaudited; in thousands, except share data)

	September 30, 2016	December 31, 2015
Assets		
Investment in real estate:		
Land	\$ 1,025,704	\$ 897,916
Buildings and improvements	7,215,310	5,644,546
Tenant improvements and lease intangibles	795,600	696,647
Property under development	45,535	26,900
Investment in real estate, gross	9,082,149	7,266,009
Less: accumulated depreciation and amortization	(1,855,427)	(1,687,998)
Investment in real estate, net	7,226,722	5,578,011
Real estate held for sale, net	—	42,943
Cash and cash equivalents	158,415	101,798
Tenant receivables, net	2,168	1,907
Deferred rent receivables, net	90,480	79,837
Acquired lease intangible assets, net	4,990	4,484
Interest rate contract assets	—	4,830
Investment in unconsolidated real estate funds	144,930	164,631
Other assets	17,568	87,720
Total assets	\$ 7,645,273	\$ 6,066,161
Liabilities		
Secured notes payable and revolving credit facility, net	\$ 4,401,851	\$ 3,611,276
Interest payable, accounts payable and deferred revenue	94,792	57,417
Security deposits	46,144	38,683
Acquired lease intangible liabilities, net	74,151	28,605
Interest rate contract liabilities	28,046	16,310
Dividends payable	33,248	32,322
Total liabilities	4,678,232	3,784,613
Equity		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value, 750,000,000 authorized, 151,126,112 and 146,919,187 outstanding at September 30, 2016 and December 31, 2015, respectively	1,511	1,469
Additional paid-in capital	2,719,856	2,706,753
Accumulated other comprehensive loss	(23,661)	(9,285)
Accumulated deficit	(805,529)	(772,726)
Total Douglas Emmett, Inc. stockholders' equity	1,892,177	1,926,211
Noncontrolling interests	1,074,864	