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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Douglas Emmett's Q2 Quarterly Earnings Call. Today's call is being recorded. (Operator Instructions)

I will now turn the conference over to Mr. Stuart McElhinney, Vice President of Investor Relations for Douglas Emmett.

Stuart McElhinney - *Douglas Emmett, Inc. - VP of IR*

Thank you. Joining us today on the call are Jordan Kaplan, our President and CEO; Kevin Crummy, our CIO; and Peter Seymour, our CFO.

This call is being webcast live from our website and will be available for replay during the next 90 days. You can also find our earnings package at the Investor Relations section of our website. You can find reconciliations of non-GAAP financial measures discussed during today's call in the earnings package.

During the course of this call, we will make forward-looking statements. These forward-looking statements are based on the beliefs of, assumptions made by and information currently available to us. Our actual results 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 prove to be incorrect. Therefore, our actual future results can be expected to differ from our expectations, and those differences may be material. For a more detailed description of some potential risks, please refer to our SEC filings, which can be found in the Investor Relations section of our website. (Operator Instructions)

I will now turn the call over to Jordan.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Good morning, everyone. Thank you for joining us.

We had an excellent second quarter. Fundamentals in our market remained strong due to continued healthy tenant demand from a wide range of industries and meaningful barriers to new supply.

During the quarter, our total portfolio lease percentage moved above 92%, and our straight-line rent roll-up was 31%. These successes drove excellent operating results for the second quarter: same-property cash NOI, up 7.7%; FFO, up 7%; and AFFO, up 26%. Operating results like these, together with thoughtful management of our balance sheet, have been the foundation of our long-term success since we went public 13 years ago. We see current long-term rates and tight lending spreads as an opportunity to do some strategic balance sheet management.

As a result, by the end of 2019, we expect to eliminate all of our debt maturities prior to 2023; add almost 5 years to the weighted average life of $1.5 billion to $2 billion of debt, pushing our average debt maturity for that debt to 2027; fix the interest rate on all our outstanding floating-rate debt; add almost 5 years to the fixed interest period and lower the interest rate on the debt we refinance; increase our future financing flexibility by expanding our pool of unencumbered properties to almost 40% of our portfolio; and reduce our share of outstanding net debt by nearly $200 million before the impact of new acquisitions this year. Kevin will fill you in on our progress towards these goals. Over the long term, this program will provide ample liquidity for attractive acquisition and development opportunities while reducing future interest rate exposure.

Now I would like to talk a minute about our guidance. The combination of excellent operating results, The Glendon purchase and the impacts from our balance sheet activities made guidance this quarter a little complicated. First, based on the strength of our operating results, we are increasing guidance for occupancy and same-property cash NOI. Second, we expect those stronger operating results and the acquisition of The Glendon will positively impact our 2019 FFO by approximately $0.03 per share. And finally, we expect that onetime cash and noncash refinancing costs and dilution from the equity issuance will negatively impact our 2019 FFO by $0.04 to $0.06 per share. The net impact of these items reduces our guidance for 2019 FFO to between $2.08 and $2.12 per share.

With that, I will turn the call over to Kevin for more details.

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Thanks, Jordan, and good morning, everyone.

We had a busy quarter in the capital markets. During the last 3 months, we paid off $630 million of debt with an average interest rate of 3.5%, including $220 million just after quarter-end. We closed $540 million of 10-year secured, nonrecourse loans with interest effectively fixed at an average of 3.25% through 2027. This total includes the acquisition loan for The Glendon. We reduced our overall leverage by $200 million by issuing common stock at $41 per share, and we extended the fixed interest rate on $102 million loan for another 3 years. We are continuing to focus on extending our debt maturities and capitalizing on favorable interest rates and tight loan spreads with the goal of refinancing a total of $1.5 billion to $2 billion of debt by the end of 2019.

During the second quarter, we acquired The Glendon, a luxury mixed-use apartment community. The Glendon sits on a 4.5-acre parcel in the heart of Westwood Village with an easy walking distance of 3 million square feet of Class A office buildings, UCLA's campus, the UCLA Medical Center and over 300 local shops and restaurants. We paid $365 million for the 350 units and 50,000 square feet of street retail, which works out to roughly $870,000 per apartment unit. The Glendon is midway through a unit renovation program that has been very successful in increasing rents. The going-in cap rate was just under 4%, and we expect that to stabilize in the mid-5s as the renovation program is completed. The properties are owned by one of our existing consolidated joint ventures in which we own a 20% capital interest.

Growing our multifamily division has long been a goal of ours. Between our development program and the acquisition of The Glendon, I'm pleased that we've successfully grown our multifamily portfolio by over 15% during the last year to more than 4,000 total units. Our development projects will continue to fuel our residential portfolio growth moving forward. In Brentwood, the construction of our 376-unit high-rise apartment tower is progressing well. And in Hawaii, we still expect to deliver the first of about 500 new apartment units at 1132 Bishop in 2020.

With that, I will now turn the call over to Stuart.

Stuart McElhinney - *Douglas Emmett, Inc. - VP of IR*

Thanks, Kevin. Good morning, everyone.

In Q2, we signed 221 office leases covering 869,000 square feet, including 295,000 square feet of new leases. Leasing spreads for the quarter were 31% for straight-line rent roll-up and 12% for cash roll-up. The lease rate for our total office portfolio increased by 45 basis points to 92.2% with increases in our lease percentage in almost every one of our submarkets. Occupancy increased by 10 basis points to 90.4%.

As we mentioned last quarter, Honolulu is seeing increased tenant demand as a result of our office-to-residential conversion strategy at 1132 Bishop. With our Honolulu office portfolio now 94% leased, we have less than 100,000 square feet of vacancy with more than 350,000 square feet of office tenants still needing to relocate out of 1132 Bishop.

On the multifamily side, our portfolio remained essentially fully leased at quarter-end, including our new Westwood property, where we acquired slightly more vacancy than our portfolio average.

I'll now turn the call over to Peter to discuss our results.

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

Thanks, Stuart. Good morning, everyone.

We are pleased with our Q2 results. Compared to a year ago, in the second quarter of 2019, we increased revenues by 5%. We increased FFO 7% to $107.8 million or $0.54 per share. We increased AFFO 25.8% to $95.5 million. We increased our same-property cash NOI by 7.7% driven by 8.6% office growth. Our multifamily same-property growth was restrained by some onetime insurance items. And without them, growth would have been closer to 3%. Our G&A for the quarter remains around 4% of revenues, well below that of our benchmark group.

Now turning to guidance. As Jordan mentioned, based on the strength of our operating results, we are increasing our guidance for same-property NOI growth to between 6% and 7% and our guidance for average occupancy to between 90% and 91%.

With respect to our FFO guidance, we expect that stronger operating results and the acquisition of The Glendon will positively impact our 2019 FFO by approximately $0.03 per share. We expect that onetime cash and noncash financing costs and dilution from the equity issuance, partially offset by interest expense savings and interest income, will negatively impact our 2019 FFO by $0.04 to $0.06 per share. These 2 offsetting factors net to about $0.02 per share. As a result, we expect 2019 FFO to be between $2.08 and $2.12 per share.

Other than the planned financings we have discussed, our guidance does not assume the impact of future acquisitions, dispositions or additional financings. For more information on the assumptions underlying our guidance, please refer to the schedule in the earnings package.

I will now turn the call over to the operator so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Alexander Goldfarb of Sandler O'Neill.

Alexander David Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research & Senior REIT Analyst*

A question on the balance sheet. Historically, Jordan, you've been hesitant to issue equity, but you seemed to be much more comfortable despite -- if we use consensus of 45, you issued below. And at the same time, on the debt side, you guys have always maintained a pretty flexible strategy, and your debt cost over the next few years is pretty low, only 3%, and yet you're aggressively going after it. So maybe you could just speak from the equity side and from the debt side why you feel more comfortable issuing especially below NAV and, given that your debt position is pretty good, why you feel compelled to get aggressive on going after debt that matures over the next 3 to 4 years.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

So well, first of all, I'm never comfortable issuing equity. That's one of the most uncomfortable decisions that we ever have to make here, my most uncomfortable decision. Chris, I've known you for a long time, that I want to own as much of the company as I can, and every time we issue equity, it dilutes us, me, Ken, Dan, all the rest of us that's sitting here. But we also have commitments to other goals vis-à-vis the balance sheet and reducing leverage and reducing our exposure to leverage and interest rate risk. So we came upon a situation where we were doing the deal for the apartment in Westwood, The Glendon, and it fit properly there to do that. We did end up putting that into a JV. And so we went ahead and reduced our leverage and built up a little more firepower going forward in terms of other development and things that we're doing. We generally have been trying to, over the years, slowly with excess cash reduce our leverage each year a little bit. So that's on that side.

We have not been very aggressive equity issuers. We've only issued equity 3 times in 13 years. So -- and then now the dilution that equity has created has been very, very minimal compared to, literally, when we went public.

In terms of debt, we keep our leverage very flexible, just like you said. It's flexible because it's nonrecourse loans so -- that are on properties, on pools of property, and they're all LIBOR floaters that are swapped. So we watch for opportunities to improve that, whether it's improving the index or improving the spread. We happen to be at a time right now when index -- the indexes are very low and spreads are very tight in our opinion. We did a deal at $90 million over. We did a deal of $110 million over. So I mean those are low. In history, I would say, we would average $125 million to $140 million. When the numbers get above $150 million, spreads are getting very -- getting wide. When they're below $120 million, I could say spreads are tight. Certainly, in terms of the index, indexes are quite low now. I'm not saying they're at their lowest, but they're quite low. When we see that happen, when those 2 come together -- so a lot of times, the index will go down but spreads will gap out. When we see them together come down with opportunities to do deals in the low 3s or even in the mid-2s and put away debt, then we go -- we're going to do that and we stretch the horizon of our debt out each time.

That way, you don't -- you're not letting the -- you're not letting your last loan determine which market you refi in, and we determine which market we refi in. Now historically, we tend to refi a couple of years early, right? So on a 7-year loan, we'll refi 2 years early, 1.5 years early. So we're always going to be a little early on debt as it comes up. That's because we never want to have our back against the wall with debt that's coming due and face maybe a close debt market or a poor interest rate market or whatever else may be going on.

So when we see an opportunity like this come up, which I feel this is an opportunity, when we see something like this come up, we run to extend our maturities, lower our rate the best we can. And that's what we -- literally, everybody in the capital market is working on at the moment, except Kevin is working on buying.

So that's the program we're trying to pursue. And because it's so impactful to everything we're doing, we haven't completed it, we're midway through it. But we wanted to make sure the information got out to everybody now that that's what we were doing.

Alexander David Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research & Senior REIT Analyst*

Okay. And then the second question is, and I think this came out on the last call, the upcoming lease expirations, Honolulu, Sherman Oaks/Encino, maybe you can just talk a little bit about that. Obviously, you spoke about your guidance, how it'd be going up if not for the capital activities. So does that mean that the lease expirations in these markets won't be a drag on your numbers, they'll be accretive? Or is there a little bit of headwind in the next few quarters?

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Alex, overall, it looks like pretty normal growth for us. What you're seeing in Honolulu is probably some expirations at our conversion at 1132 Bishop. So that's the conversion property. So that -- we're not worried about those. Obviously, we're -- other than moving office tenants out of that building. And then Sherman Oaks/Encino has some medium-sized tenants rolling later this year, but we've seen really good activity there.

Operator

The next question comes from Alexander Pernokas of Bank of America Merrill Lynch.

Alexander Mark Pernokas - *BofA Merrill Lynch, Research Division - Analyst*

I was wondering, just keeping in with topic of leverage, can you talk more about your plans for target leverage on a net debt-to-EBITDA basis and what that number look like in the short term versus the intermediate or longer term?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, right now, I think we're a little under 7, right?

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

Yes.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Yes. 6.5. I don't feel we're -- I mean I don't feel we're in a position that I need to do anything about it like in a net risk position or anything like that. I mean there's 2 debt -- generally, debt could be very good, right? I mean leveraging your position with the fixed cost against equity that gets all the remaining economics. I mean that improves things for all of us. The only problems with debt are number one, repayment risk, which can risk the mortality of the company; or number two, the cost of maintaining that debt can go up if you have to refi at a time when interest rates are higher. We refi very early in the process to make sure we don't get caught at tough times. I don't think there's any question about mortality risk. I mean our leverage is down around 30%. So that's -- for real estate, that's a very low number, and I don't think there's any question that we have a level of debt that risks the mortality of the company.

So the only question with debt is how exposed do we want to be to moving interest rates. And if I step back -- if we step back and look at the company and we look at the risks -- just globally, at the risk facing the company, and I'm not making any predictions about rates here, but I would say this, we're -- we feel very comfortable about the direction of where our tenants, tenant demand, the lack of new supply, the fundamentals in our markets and the fundamentals of growth in rental rates and our ability to continue in operating our properties, continue our development programs.

And there's not much that can get in that way, save 2 things. One is a big move in the national economy, the national economy obviously impact us; and second, a big move in interest rates. So we can't do anything about a big move in the national economy, but we can when it's opportune, not all the time because it's expensive to do this, reduce our exposure to interest rate risk. So as we continue reducing the amount of leverage we have vis-à-vis the size of the company, then big moves in interest rate the wrong way, which I'm sure will happen at some point in the future, I'm not predicting it at any time soon, we would be less subject to and it would be less painful for the company, not deadly painful, just less painful.

Alexander Mark Pernokas - *BofA Merrill Lynch, Research Division - Analyst*

Okay. Cool. So it sounds like...

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Did that answer your question?

Alexander Mark Pernokas - *BofA Merrill Lynch, Research Division - Analyst*

Yes. So it sounds like you're not targeting a specific level or anything, that you're just going to continue to be opportunistic with it. Cool.

And then I guess my second question would be, could you talk a little bit about the Warner Center? It seems to be the laggard of the submarkets. Can you maybe give us an update there on market conditions? And what you're seeing for leasing prospects?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Yes. Alex, we continue to see good activity in Warner Center. Obviously, it's a laggard versus the rest of our markets where it sits right now, but we made good progress there over the last 1.5 years. I think we're up 250 basis points in lease rate over the last 1.5 years. So generally pleased with the direction it's heading, and we are seeing good tenant demand there. So we're optimistic going forward.

Operator

The next question comes from Blaine Heck of Wells Fargo.

Blaine Matthew Heck - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

So you guys had a great quarter from a same-store perspective, mostly driven by the 7% increase in same-store cash revenues, I think. So can you just talk about the drivers of that growth? I know you guys have got some occupancy growth year-over-year in there and rent growth has been strong. But was there anything else in the quarter you can point to that drove that large an increase?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

No. It's just the fundamentals of the business. As what you pointed to, occupancy increases and steady growth in revenues. It's a strong quarter, and we expect generally that to continue.

Blaine Matthew Heck - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

All right. Great. And then second question, I was hoping you could give a little bit more in detail on the time line for 1132 Bishop. You've taken 125,000 square feet offline already. Stuart, you just mentioned more expirations coming up. Are you just going to be taking back all of the space that expires? Or is there any challenge with respect to making sure you're repositioning the space in large blocks? And then the supplemental also says that in order for the first units to deliver, timely approvals need to be obtained. Can you just talk about the nature of those approvals and your thoughts on getting those by the delivery date?

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Sure. Blaine, it's Kevin. We do have a little bit of wood to chop left with the city relative to some approvals, but it's nothing that we don't think we're going to work through. And we've announced that our timing is to deliver the first phase of the units next year, and we still feel comfortable with that.

And regarding the timing of the overall project, I mean it's going to take a couple of years to bleed everybody out of this building and migrate them out into the marketplace. And so -- and the timing of this, I think that the more construction we do, the more rapidly some people will want to get out of their leases. And so I can't really give you a defined time line for the actual conversion, but it's going to be somewhere over the next couple of years before we have that building 100% residential.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

But we're able to convert -- when we get an entire floor back, we're able to convert floor by floor. Obviously, you can't covert half of the floor.

Operator

The next question comes from Craig Mailman of KeyBanc Capital Markets.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Just to clarify on the debt side. So it seems like from the $220 million you guys paid off subsequent to quarter-end, you still have about $700 million of kind of 2022's that are left that you guys would want to pay off this year. Is that kind of correct? And you guys don't have any more refinances in guidance. Is that because of minimal impact of where you can refinance versus kind of the in-place rates? Or is it just going to be sort of end-of-year timing?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

I don't have that what you're looking at in front of you -- of me, but I could say this. I believe when we end this year, we're trying to get $1.5 billion to $2 billion of debt refinanced. That debt, once it's done, will have eliminated all maturities through 2024. Is that right?

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

From here until 2023.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

'23? All the maturities before '23. So I mean you could -- I don't know where on the schedule you're looking at, but there's that amount of debt that we can shift out.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Okay. So it's a bit more than $1 billion still today?

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

I mean -- no, just to clarify on our schedule, the 3 loans that mature in 2022, it's $920 million of principal.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Right. And you guys paid off $220 million subsequent to the quarter-end, right? Is that any of the -- so...

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

That was for '23 maturity.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

That was the '23...

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

That was for 2023 maturity.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Got you. Okay. So you guys are still north of $1 billion to refinance roughly.

Peter D. Seymour - *Douglas Emmett, Inc. - CFO*

Yes.

Craig Allen Mailman - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Okay. That's helpful. And then just on the investment side. You guys have talked about kind of $200 million a year spending between redev and developments. Could you kind of talk about maybe where you are in the next 1 or 2 to go on ground up for the resi program and maybe timing on when we should expect to hear more about those?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, we're -- we have -- we effectively finished the 1 at MHA. We have a big 1 launching in at -- in Hawaii, right, the conversion. We have the 1 we're building on Wilshire, right? So there's -- those are taking a lot of cash to do those. And then we're working actively at 2 additional sites, both from -- actually, 3 additional sites, 1 in Hawaii and 2 in L.A., to get them geared up for entitlements so that they kind of our entitled online as those are completing. And then those will sort of slot into it. And hopefully, we'll be able to properly move crews over to it.

Operator

The next question comes from John Guinee of Stifel.

John William Guinee - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Great. I'm looking over the last 3.5 years of your lease economics, and it's been stunningly consistent, about 27% to 30% growth in GAAP rents, 11% to 13% growth in cash rents, holding re-leasing costs between about $5.75 and $6 per square foot per lease year. Is this sustainable? And for how long?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, we hope it's sustainable. I think that it's sustainable as long as the national economy keeps up, holds its own. In terms of a gateway market that's performing that way, I think we have stronger, more solid underpinning to be able to continue performing than some of the other markets that are single-industry dependent. And I also think that we are priced -- we continue as we sit here now to be priced below, whether it be New York or certain areas in Boston, certainly, San Francisco or areas in Washington. So I -- without a national trip, I think that we have a very good running path ahead of us. But a change in the national economy could be -- obviously, could be hard on us and whatever, some type of trade war that was particularly impactful to the rest. I don't know it is, but it's nothing happening here local.

John William Guinee - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

And then a follow-up. Most of your peers have a big 150,000, 100,000, 150,000 square foot lease expirations, which always seem to go vacant. Do you have any of those on the horizon?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

No. Not that I can think of because we really don't barely have any of those. So even when you look at our kind of largest tenant list, those tenants tend to be many, many tenancies at different locations that make that single person or, say, whether it be Bank of America in their various locations, UCLA in their 20 locations or whatever it is. So we don't happen to have that sort of chunky, severe depression followed by elation of having leased that's -- signed a gigantic lease. We are much more of a flow business.

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Yes. And I think in the entire portfolio, there are only 4 that are over 100,000 square feet, and those that aren't expiring anytime soon.

Operator

The next question comes from Manny Korchman of Citi.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Thank you for the equity discussion earlier in the call. I guess as you thought about doing the common equity, how did you weigh that against contributing more assets to either the existing JV or other JVs?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, it's much more complicated to contribute assets that I didn't just buy to contribute assets that we've owned for a while than it is to contribute an asset that we just purchased. When you contribute an asset that you just purchased, you don't have to have a price discussion with your partners because it's the price you purchased it for. When you contribute one that you've owned for a while, it's more complicated because they don't feel like you're exactly on the same page with them in terms of the price that you go in. Now that's not to say that those aren't also discussions that we have, but we weren't prepared to have that discussion then.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Jordan, and just can you give us updated thoughts on what's going on in Downtown L.A. and how interested you are to get involved in that market right now?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, I'm happy that things are -- and there's development and construction and things going on in Downtown L.A. and all the great activity around USC and things that are happening. But it's not putting it a negative, not positive, nothing. It's not a typical Douglas Emmett market when you look at how focused we are on smaller tenants, the mix of industry, amenity base, being able to control what's going on, lack of new real limitation on new supply, it wouldn't be a typical market for us, so you shouldn't expect to see us headed down there soon.

Operator

The next question comes from John Kim of BMO Capital Markets.

Piljung Kim - *BMO Capital Markets Equity Research - Senior Real Estate Analyst*

On your multifamily same-store growth, I know it's impacted a little bit by insurance this quarter. But overall, it seems a little bit weaker than some of your multifamily peers. Can you just discuss the occupancy dip that you had in Santa Monica and Brentwood? And also, in Santa Monica, it looks like the rents were flat sequentially. I just wanted to see if you could elaborate on this.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, let's start with what you -- I felt that the same-store on our resi was a little weaker than we expected it to come out as. Obviously, part of that has to do with the bad expense comparison in the previous quarter. I think in Peter's remarks, he said that it was -- it would have been more like 3% had we not had the insurance income come in, in the previous quarter. But our resi, you're right, when you look backwards, we've been running more of a 4 to 6 program, which has been extremely strong. And now even taking out the insurance gain that we had before, you're looking more of a 3.

I don't know if anything going on that is limiting on that front. We've had tremendous growth. I don't know what would cause a pause. Certainly, there's noise quarter-to-quarter. Certainly, we aren't taking it as an indication that it slowed down. I mean I know because I'm reading reports all the time that there's a tremendous shortage of for-rent housing in the markets that we're in. And certainly, everyone from the city council to the Governor to everybody else is trying to figure out a way to increase the for-rent housing in these areas along transit corridors, really, a lot of areas where we own apartments now because they're just running at 100% full always. And rents continue moving. So I don't know if any issues, but I also agree with you. I thought this quarter was a little lighter than I would've otherwise expected.

Piljung Kim - *BMO Capital Markets Equity Research - Senior Real Estate Analyst*

Okay. And then on the office front, I think by recollection, you had 7 office assets that were repositioned: 5 were back in the same-store pool this year, 2 are still under renovation. Can you just clarify those numbers? But also, what was the impact of the renovated office assets to your same-store growth this period?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, we're getting the renovated buildings as they roll in are definitely improving our same-store because, as we've said to you, the renovations are impactful. I mean we're seeing shifts. We -- even when the renovation isn't completed, we're seeing shifts. So obviously, we're anxious. First of all, we're anxious to have the same-store pool be as large as possible because when it's too small, it gets too much kind of random noise quarter-to-quarter. And as it gets larger, it's a little easier to predict. And so we're trying to push as much into it as we can. But if you're saying the renovated buildings are carrying their load and more, I'm sure they are because they -- when you're doing same-store and comparing back, we're seeing same-store accelerated improvement from those renovations, which is, by the way, what we predicted.

Piljung Kim - *BMO Capital Markets Equity Research - Senior Real Estate Analyst*

I'm just wondering because some of your peers will keep the renovated assets in the same-store pool through the renovation process, some do not. And I'm just wondering if you had considered, I guess, the more conservative approach.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, I will say this. I would reverse what you just said because what we actually -- I would say, a year or 2 ago, we went around and met with people. And they're like, "You're out of your mind. You have so little in same-store. You have all these buildings out that you're doing. You need to include more buildings in same-store." And we said, all right. We'll put them out. We'll put them in, which more conservative is to include as much in same-store as you can and not pull buildings out, which you can be accused of cherry-picking or whatever the case may be." So we said, "All right. We'll put everything in." It's going to make things better, not worse, which, at the time, people were thinking that we were keeping them out because they made things worse. So we put them all in, okay? So I would say that if you were to talk to your peers, they go, "okay. Thank you. You took the conservative approach. Win, lose or draw, you put most of your buildings in unless they're extremely impacted." So that's what we did. You're calling that the not conservative approach. That's not what we were told.

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Part of the change also was including the -- all the buildings and the -- most of the buildings in the JVs because we had previously excluded all the buildings in our JVs from same-store. So that includes the buildings that are not going through repositionings.

Operator

The next question comes from Dave Rodgers of Baird.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Dave?

Operator

Mr. Rodgers, please go ahead, sir.

David Bryan Rodgers - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. Can you hear me?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Yes.

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

Yes.

David Bryan Rodgers - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Sorry, not sure what happened. But I guess on the acquisition pipeline, just curious, Kevin, can you give us some additional detail on the change in interest rate and spread, if that's kind of shaking more things loose, increasing the appetite and maybe how the pipeline looks today between multifamily and office?

Kevin Andrew Crummy - *Douglas Emmett, Inc. - CIO*

The interest rate movement is all kind of so recent that most real estates are slow business, and it takes a while to sell something. And so most of the people who've made decisions to gear up and sell, made those decisions early in the year. The pipeline has been pretty good. I don't think that we're seeing a lot more flowing out due to the movement in interest rates. But the number of offerings in the market has been pretty solid. And I think the balance is kind of the same between multi and office that we typically see. Things like The Glendon don't come up very often because that was 350 units, which is a larger property for our markets, but there's a steady flow of multifamily throughout the market as well.

David Bryan Rodgers - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And then maybe, Jordan, just coming back to your comments earlier with regard to leverage on the portfolio. Obviously, if the goal is to kind of continue to push leverage down, not necessarily to a specific number, you've got a lot of developments. Would you contemplate kind of contributing those developments or redevelopment to completion? Or is it really just going to be the acquisitions? And I guess I'm thinking where the equity component is going to come in to continue to delever the portfolio with the bigger and bigger development and redevelopment pipeline.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

We are willing to do deals where we contribute assets into a pool in those JV-style pool, but it's just much more complicated. We have a group of JV partners and documents that are organized extremely well to just buy something and put it in on structure and fees and otherwise that's prenegotiated and ready to go. But of course, in that situation, there's no issue about what the cost that it's contributing on. It's much more complicated to contribute, whether it be development assets or a section of -- or group of assets or whatever because you have to agree on pricing and other things. That is definitely on our -- that is something that we do think about doing. We just haven't happened to have done it here.

Operator

The next question comes from Rich Anderson of SMBC.

Richard Charles Anderson - *SMBC Nikko Securities Inc., Research Division - Research Analyst*

So Jordan, when I think about your office portfolio and how it's so different than many of your peers in terms of its size, tenant -- typical tenant size and whatnot, and then I think about your history running multifamily assets over the past many years and still do today, does it feel like your business having experienced it for a wide range of different types of office buildings flows more like a multifamily portfolio than an office portfolio just in terms of CapEx and some of the other sort of things that tend to bite other office REITs in the neck because there's so much capital involved? Does it feel a little bit like multifamily, too? Or is that just kind of a silly observation on my part?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

That's 100% the way we feel. That's an exact on the nose exactly how I feel. Thank you for saying it. And I -- and it's funny to have someone say it back to us because I've been saying for a while, we're moving -- we're trying to move -- I'm saying it internally, though. I haven't been saying to the outside world. We're trying to move the feel, the look and feel of leasing office space over to the same look and feel that you get when you rent an apartment. So if you go to rent an apartment, you don't walk in and say, "Hey, gut the place, and I'm going to send in my planner." You don't say, "Let me introduce you to my lawyer." You don't say, "Let me introduce you to my construction company that we're going to have to do all this." Well, you know what you say? "Hmm, can you -- can I get paint and carpet?" And then you hand in the lease. Okay.

That's what happens. That is what we're going for, and I'm telling you, we're achieving it. I mean when you look at the stats in terms of speed to move in; TI costs, our signature suites program, which is the prepared suites and moving people into them; the form leases; the quickness of negotiating these leases and getting them done because we only have certain clauses that are allowed to be changed, you'd see that we've actually taken giant steps in that direction.

And the reason for all that is it seems like in the office business, one of the most -- when you look at the office business, the most discussed item is rental rate, but the most important item is turnover costs. And that's TI, commissions and downtime. TI commissions and downtime represent so much more year-in and year-out money than whether you got another $0.05 or $0.10 or whatever the case may have been on the rental rate. And so the whole platform has shifted to focusing on those things. And as it has, what we've recognized is we need to operate more like the residential business where they're looking for very little downtime between units and then move the tenants in. So that's exactly -- and that's the mantra around here.

Richard Charles Anderson - *SMBC Nikko Securities Inc., Research Division - Research Analyst*

Say that again?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

You're exactly right. And that is the mantra around here.

Richard Charles Anderson - *SMBC Nikko Securities Inc., Research Division - Research Analyst*

Okay. And then secondly, again, along the lines of the typical size of your tenants, how do you feel about a company like WeWork and just what they're attempting to do? Is that a good tenant for you? Or do you feel that that's competition? I don't know to what degree that they're in your markets, but I'm just curious what -- where you stand on that issue.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

I don't know that they're a plus or a minus vis-à-vis our markets or us. I know they're very anxious to get some space in our markets. Our markets are fairly well leased, so it's hard for them to get in. My guess is the question of whether they're a plus or a minus has more to do with the endgame of WeWorks. Do they end up with a strategy that works long term and, therefore, they don't create like during recession a giant vacancy across everybody's markets? At the moment, their -- they haven't been very impactful plus or minus in our markets. But we don't have markets with a lot of vacancy. I think there's markets with vacancy where they've come in and taking -- taken huge amounts of space and then prove the economics of those markets because they supply it.

Operator

The next question comes from Daniel Ismail of Green Street Advisors.

Daniel Ismail - *Green Street Advisors, LLC, Research Division - Analyst of Office*

Jordan, you've been pretty vocal about your thoughts on Prop 13. I'm curious to hear your thoughts on the failure of Measure EE and if that provides any sort of litmus test for 2020's Prop 13 ballot measure.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

I thought it did provide a bit a litmus test. It -- as obviously, that needed to pass by -- need to pass 2/3, and it didn't even get 45%. And it only had -- the only advertising that was out there was the advertising in favor of it that was essentially seemed to be sponsored by the city. So I feel that they will not be for the people that haven't heard about this already. There's been -- it's been proposed by some groups that Prop 13 should run at a split role. So you should have Prop 13 protection on residential but not on all commercial space. But commercial space is very broad and impacts all small businesses, all -- everybody.

I mean it's just a dramatic change. And there's even been the county assessors for the various counties have already come out and said they don't know that that's even something that they could do would be to reappraise every single commercial property in the state. And one even said you'd have to -- whatever revenue the split role would generate, it'd be more than that to hire the people that do it. But anyway, I did not feel that this state has voters that are at all sympathetic to a split role or, frankly, any modification to Prop 13. And in fact, they have shown that they're not very sympathetic to almost any further taxes going forward.

We're offering a very high tax rate as of just today. And you're just not hearing a lot of that, whether it be from politicians or others. You have individual groups that would like to get their hands on more money that are pushing things, but you're not seeing that institutionally across the state. And certainly, a change to Prop 13 would be a particular shot at the residents of California, right? Because if you're going to say if you do -- if you're willing to have your business and do business in California, we're going to tax you. But if you're willing to have your business in any other state and only sell products in California, you can get out of the tax. That's a strange way to go, right? You would think that would be the opposite of what a state would want to do. And in fact, when we talk to politicians, I think they feel that way, too.

Daniel Ismail - *Green Street Advisors, LLC, Research Division - Analyst of Office*

Great. Maybe shifting over to the office markets just for a moment. Can you guys give us an update on year-over-year net effective rent growth in your various West L.A. submarkets?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, we're seeing very good growth. It depends on the market. We're seeing very -- obviously, we're starting to see some reasonable growth in Hawaii. We're seeing very good growth on the West side and we can see it on Sherman Oaks. And we're seeing, what I would call, very modest growth in Warner Center market. And even that one, as I think Stuart mentioned, has finally got a clear up arrow, which is nice.

Daniel Ismail - *Green Street Advisors, LLC, Research Division - Analyst of Office*

Relative to '18, is that -- would you frame it as a deceleration, stable or an acceleration in terms of year-over-year growth?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

I'd say '18 had an up arrow and '19 has an up arrow, but I wouldn't say the arrow's any bigger or smaller for either year. Are you just talking about Warner Center? Is that what you're asking?

Daniel Ismail - *Green Street Advisors, LLC, Research Division - Analyst of Office*

Oh, no. For West L.A. office.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Oh, all of it is just a -- our up arrow, as was asked earlier on the call of the same-store, our up arrow is getting a little cloudy when you say up arrow on market and up arrow from the gains we're making from redoing our buildings. So we're -- we might be seeing a little more action than the average of the market from those activities. The activities are seeing good gains. But of course, spread across the whole portfolio, they're still having some impact. That's what's brought up earlier.

Operator

The next question comes from Bill Crow of Raymond James.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Jordan, what is the possibility that they could try and solve the housing issue by speeding up the permitting process?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Oh, please. I will tell you this. It's not even lost on politicians at this point that SEQA has turned into a drag on promoting housing. And housing is a big goal across the board. I mean if you go to -- from city councils to mayors to governors to county Board assessors, it's housing, housing, housing, okay? And what they are hearing back is, first of all, you got to find a way to deal with it. NIMB or bananas, not in my backyard. Everybody goes, we need housing, just not in my backyard. Put in, in that guys and that guys for sure, not mine, okay? That's number one.

And number two is, we got to figure out a way to modify SEQA because SEQA is used not to protect. It's so rarely used to protect and so often used to -- as a sword and to attack. I mean you can see SEQA claims being generated out of law firms that are out of state. They find 1 person here. And I mean we had 1 against us where the person left and then the guy's secretary became the SEQA claimant. I mean it's just turned insane. And it's being used to just drag these out. They're not as effective against the company like ours, but it's the way a SEQA claim becomes effective is if you need to go out and raise your equity and you got to go out and raise the debt because you want to be able to stay in an apartment somewhere, and you get a SEQA claim, a lot of times, the debt won't fund till its claim clears or the equity won't fund till the claim clears, and that gives them leverage. Even the worst claim in the world that certainly a win if you can get into court, can stall a deal to the point where now that developer has to go and now argue with the SEQA claimant. And this is not lost on this offerings. I mean they're in the business of doing this.

So that is in the discussion. But obviously, there's points on both sides. The original reason for SEQA was probably a good reason. It's just being horrifically misused now. And so we need to look for ways to fix that. And you've seen -- there's precedent for that because when the state wants something big to happen, a stadium downtown or whatever, something big to happen, they will literally pass the bill and exempt them from SEQA to get them free of those nuisance lawsuits so that they can move through and get done. So I'm hopeful for something like that. I don't know how quickly it will occur, but people -- it is certainly recognized that, that is one of the things that's in the way.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Yes. I always like to hear your perspective on the politics out there. The follow-up question was on the signature suites, which you referenced a few questions ago. How important has that become into your business? And what is the rent differential between a signature suite and a traditional office space?

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Well, it's very important to our business. In fact, I just saw something that said we're trying to build out 30, 30 a month. Is that right? Was that the number? 30 a month. I mean we are so focused on those suites, and they are doing so well for us. I would say, to be most accurate in the question, is not that this -- the rent in the suite would be higher or lower. I would say the net cost of renting this suite and the downtime is much better package than when someone comes in and no matter how fast we are, when we have to modify that suite to fit them, that's a completely different deal. Somebody could come in and look at one of those suites, we can have them in next week.

I mean these numbers are crazy. They're so good in terms of the speed, the cost of the TI. But there's no TI, right? And having a suite also that is reusable at very little TI cost, it's a -- remember, we're using all space planners to build the suites to the most standard feel that we know will be appreciated by the widest class of people. And so when we do that, we get something that's very reusable and cost effective. And then you would say, "That, by itself, would be a fantastic win." And then you say, "Oh, by the way, and we lease them faster. And by the way, those buildouts are cheaper than the buildouts that we have to do and the person's spec-ing something that they particularly want. And by the way, they're in the space almost immediately and paying. Okay, everything good about that program."

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Sounds like it -- it sounds like that's one of the kicks to the same-store growth as well, right? Just above and beyond what the market might be giving you.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Yes, it is.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Jordan Kaplan, Chief Executive Officer, for any closing remarks.

Jordan L. Kaplan - *Douglas Emmett, Inc. - President, CEO & Director*

Thank you for joining us. We look forward to speaking with you next quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
