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DEI - Douglas Emmett Inc at Citi Global Property CEO Conference

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PRESENTATION

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

Welcome to the 11:35 a.m. session at Day 1 of Citi's 2018 Global Property CEO Conference. This session is for investing clients only. And if media or other individuals are on line, please disconnect now. Disclosures are available here and on the webcast. For those in the room or the webcast, by now you know you can use veracast.com/ask and submit questions. I'll ask them. The code there Citi18. We're pleased to have with us Douglas Emmett; CEO, Jordan Kaplan. Jordan, I'll turn it over to you to introduce your company and management team, provide the audience 3 reasons why investors should buy your stock today, and then we'll go to Q&A.

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

Okay. Thanks a lot, Manny. Thank you all for being here. So to my right is Peter Seymour, our Chief Strategic Officer. And I know I've been asked in the last few meetings so I'm going to explain in 2 sentences or less. He provides a link between operations and capital markets, so we always know what's happening between the 2 and we're better coordinated. And I think most of you already know

Stuart McElhinney on my left, who is our Vice President and in charge of Investor Relations.

So they gave us the questions in advance so I have the answers right here on the page to what are the 3 good reasons to buy our stock. The first is -- and it has to do with fundamentals. We have extremely strong tenant demand, and effectively, no meaningful new supply coming into our market. So those fundamental metrics, which you guys have seen in play for the last few years, I recognize a lot of faces here, continue and they've been very good for us, right? We are in a unique position because of our operating platform and our overwhelming market share to take advantage of those fundamentals. And you have also seen that both on the expense side and on the growth side and on the way we've controlled costs.

Turnover. In terms of outside external growth, we have 4 basic ways that we push external growth. The first one and the one you've seen us do most often is just buying individual buildings in our markets, attaching to the [portfolio] and running them in concert with the other properties we own in those markets. The second one is that, we own a number of sites where we have entire blocks. We own residential projects that have entitlements to continue building residential. There is very little to no entitlements for office, but we have such large sites, you could still build in some locations residential, and we've been doing that. We're building a project in Brentwood and we're in construction also in Honolulu. Those ground-up projects are very successful, have very high yields. They're all over 7 cap rates because we already own the land and in some cases, they even come with parking that we can use. We are also repositioning a number of buildings. So there's a number of buildings that we own that are in markets that have strengthened dramatically where we have an opportunity to reposition that building and change the rents. We do a foot a month, not annual the way most of you do, but we can move rents $0.25, $0.50, even sometimes a $1 a foot a month and we have comparisons in those markets where we can see you can invest $15 million in a 400,000-foot building and move the rents on a per foot per month basis, a substantial amount. And finally, because of the density that we have in a number of these markets, it makes sense for us to do market influencing developments and add amenities. We're building parks in some areas. There's some areas where we're encouraging other kinds of retail. In Hawaii, I think, a lot of you are familiar with it. We own a lot of office in Hawaii in the downtown area, where there is too much office and rents have been lackluster. We feel that we can make a couple of more acquisitions and then take one of those buildings out of the market completely and convert it to housing, workforce housing, which there is extreme shortage of, and we're actually building that in Hawaii. By doing that, we would change the supply demand in Hawaii dramatically, move it into the -- because it's a small market, move the occupancy up dramatically up above the 90s and we'd be able to change rent structures there. So that's something where we're going in because we own so much, we're willing to make a move that impacts a whole market in a positive way because we get so much of that impact. So those are the 3 good reasons to buy our stock and the growth that we have going forward.

QUESTIONS AND ANSWERS

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

And then the other question that we prepared for you and shared. What's the single most important thing investors get wrong about your company?

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

Okay. So I think the thing that is most important to understand. It's not like I haven't said it, is that, we manage to cash flow, and we have much less noncash income than our peers. So when we're compared to our peers and you look at FFO multiples, et cetera, the actual amount of noncash income in that number is a lot lower for us than it is for our peers. That's being driven primarily by the fact that our operating platform, which I just kind of crowed about is very sophisticated. And what it's designed to do is to reduce turnover cost and downtime. Now you didn't hear me say, get the highest rents. And like everybody, we want the highest rents. But what we've discovered, particularly in our market and small tenants is there is a lot more money, a lot more cash flow to be captured by reducing downtime and turnover costs. So, for instance, 40% of our tenants don't even use a broker, that's interesting [stay]. You don't hear that from many office companies. So that platform is designed to take advantage of those opportunities and generate the most cash flow. I think that's one of the things people understand the least. And the other thing that we're able to do as a result of that is manage the platform more efficiently. We have one of the lowest G&As of any of our peers as a percentage of revenue. And because our turnover costs are so low, our dividend-to-AFFO ratio is also very low where if you look at a number of our peers, our yield is the same, but our dividend as a percentage of the cash flow we actually have available is 58, 59, 60, numbers like that, which means we're generating a lot of cash flow, which you may say, who cares, but who cares is that if you look past back over the last few years, we've grown the company a lot and only onetime issued stock and now a lot of it and it dramatically increased the size of the company and a lot of those moves have been done, with cash flow that we were able to retain because we generate so much cash to grow the company. And that cycle has been much stronger and harder to be recognized by investors because I know you guys look quarter-to-quarter, you don't look over like for the last 4 years, they were able to reduce their debt, buy all these buildings, take control such -- but we have been able to do that. And if you look back in history, Manny, certainly has all our numbers going from the time we went public, you'll see that we were able to do that without issuing very much stock.

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

Do you think...

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

I misunderstood.

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

What was that?

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

That's it. I misunderstood.

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

That was it? One question we get a lot or I'm sure you do too is leverage. And in your comments, you mentioned taking down debt, people still feel like your leverage is higher than peers, how do you address that question or that matter?

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

Well, I'm very comfortable with our leverage. And frankly, we reduced our leverage over the last couple of quarters and got our debt coverage down to about the average of where our peers are. And I would like to say that we did that because we wanted to respect the wishes of our investors and get us to where they wanted us to be. It's actually not the reason we did that. It was somewhat coincidental, that we happen to hit the average of our peer set. We did it primarily because we feel that we have a lot, an unusual amount of built-in opportunities to deploy capital at very high returns and the growth stuff I talked about earlier. When we buy a building, it's great. And we're able to get more out it than anybody else. But the IRRs on those buildings are like, we'll buy a building now; our [projectile] all cash, IRR all cash will be somewhere in the mid-7s, right? And that's very good. I mean, I know people are doing deals way below that and we're taking advantage and we have lower (inaudible). We buy something. I always know we're going to reduce the expenses a couple of bucks. So we're able to get a little better returns out of those deals, but they're not bank breakers. But some of these things, like building these apartments or when we reposition buildings or we go and try and impact the market, have very high IRRs like IRRs that I haven't seen any type of pro formas since we were buying buildings in the '90s. And therefore, we want to pursue those. They're longer-term commitments, and I wanted to make sure we had the liquidity and capital available to be able to prosecute those through whatever may come over the next few years and that's why we positioned ourself in the way we are.

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

So if you look at your acquisition pipeline right now, where does that stand in terms of either buildings or volume?

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

There's [Hawaii into the side] because we're really counting on that trying to make a deal for a strategy we have out there. And I think we'll make it to 1 or maybe even 2 deals there. Separately, mostly focused on the Westside, I mean, we still have a reasonable opportunity, we have to win the bids to do 2 to 5 deals, which probably are pretty good in any particular year of individual building purchases.

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

And do you think you'd lean towards doing those in your JV structure? Or wholly owned, because you've sort of done a mix of both recently?

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

We would always choose to do deals in the JV structure unless there is something about the deal or the strategy of the company that means that we have to own it directly. So we did a deal recently that was no [PNA] deal. You can't do those in a JV structure. There are some strategic moves like the deals we're working on in Hawaii that has to be wholly owned by us. Now that doesn't mean that once it's wholly owned, we can't take our strategy, cook it, prove a little bit of the concept and bring a partner into it later at a more, let's say, reasonable price from our perspective. But we would want to do as much of those deals ourselves as we could. Now we may not have that choice because the people we're trying to do deals with might say, "Hey, I like your idea too, so I want to be part of it." So they may not be as willing to just do a cash sale. They're not as willing to do a cash sale. But any other deals, other than that, individual building purchases, I feel the JV structure is one of the best assets we've been able to build over the last 4 or 5 years, with those relationships that we have with sovereigns, both in Asia and in the Middle East and actually -- and in the Americas. And whether in any particular deal, you can look at that deal and say, this is a very, particularly well loved deal, very high-return deal, therefore, we would want the company to own the whole thing. I would always go towards that structure because we built that structure and it won't -- you can't keep that structure alive without performing and continuing to produce product for it. And so, that's almost a separate goal to maintain and manage that structure in a positive way for those investors so they stay engaged with us. Because over the long haul for the company, it's just an invaluable asset to have access to that capital.

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

Questions in the room? Maybe if we can stick to Hawaii. What -- you don't get questions in the room. Maybe if you think about the time frame for what you want to do in Hawaii, it sounds like you're pretty active right now pounding the pavement to get somewhere, but if we're thinking about how long it will take you to buy an office building, clear it out, redo it and how much capital. I mean, you're looking at a long-term plan. So just help us define long term?

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

So that's been a question we've been already asked in a lot of meetings. And I will admit that I come into this without a lot of credibility since I thought in '17, we'd make a deal -- here we are in '18. I still think in '18, we will make the 1 or 2 deals that we need to make to make it viable for us to then pursue that structure. And just to remind people of what that structure is. So the basics of the downtown Honolulu market, the office market, we own about 30 -- of the downturn, we own about 36% of that market. I think on our stat, it shows 34%, because they include a building that's outside of downtown. But that market went through at the end of the '80s, little mini building boom. And effectively, it's a -- the downturn is about 4.5 million feet and the buildings are roughly, call it, 500,000 feet. Hawaii, the market in general, mid-80s leased, right? If you were to take 10% out of the market, mid-90s leased, right? It's extremely expensive to build in Hawaii. No one's going to show up and build another building and when they do, I want to be applauding, like, $800 to $1,000 a foot to build another building. So we looked at that market, it's extremely contained. It has all the other characteristics that we like. There's a variety of industries driving that market. Obviously, Hawaii is driven by tourism and the military and to some extent construction and tech. But that downtown has a good mix of industries, it's a downtown, it's the capital. And so we said to ourselves, what do we need to do to invigorate downtown? Well, Hawaii, now on a separate track, is extremely underserved on residential. They have had the same residential rental growth that you've seen us also exhibiting on the Westside. It creates really strong and good net in every way. So we said, what if we took one of these buildings and spent the money to convert it to workforce housing? You would pull about 10% out of the market. It would have an immediate impact on occupancy in the market. We would then be able to go in, make deals with whatever remaining tenants are in the building that we choose to move into our other buildings, our other buildings will fill up. And by the way, other landmarks in the market would benefit from this too. But we own enough of the market that we would benefit a lot. And then we would build that out.

I would say, the deal on the conversion is a median deal, it's not a great deal like the stuff we're describing you that we're doing ground up on other sites because it's expensive to convert an office building, but it's not a bad deal, maybe a person would do that if left to their own devices. But the impact on the other office space is extraordinary. Colossal IRRs for the capital being put in. If you take the capital that we spend to redo one building in the residential plus capital needed to move tenants and then fill the other buildings, the leasing costs associated with that, very, very high returns like north of 20s, I mean, very high returns. So we said, all right, how do we boost and get the best out of that? Well, if you think right now, we own 36%, but we're going to take one of our buildings out of the mix, we're going to own a lower percent of the office because we're pulling out one for residential. So in order for that deal to be as reliably positive as I think it will be, we want to own a little more office to get a little more of the benefit, let's call, post conversion. Those are the deals that you keep hearing that we're trying to make with some of the other landlords. And I think we're getting some traction. It's not lost on them. They think what we're saying is right, and therefore, they want to participate in that. They may want to participate, which was initially indicated in just a -- its actual JV structure of downtown. They may choose to participate in a structure where they just take OP in it, and they say, well, you're about 10%, 15% of Hawaii. So we'll get 10% or 15% of that. And we also like what's happening on the Westside, maybe someone will even sell for cash because they just want to get out and they're done, but that's a variety of deals we're working on there. And when you ask about the timeline, it's all kind of kicked off by making a deal. I suspect that once we make a deal or so and we integrate it in and start that process, it'll take a little time for the market to be impacted because we're going at that point stop leasing in that building and just be moving the tenants to other buildings. But the speed at which tenants move depending on which building we're converting will vary, but it will have a positive impact right away. How much is that impact reflected to the system, I mean, you've got to move in the tenants, you've got to roll your own space to higher rents, but it will have a very positive impact.

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

So maybe , this is a naive question. But why not stop that leasing flow today? Why not empty out the building today? Be ready for this, be ready to go sooner. Yes, it didn't happen in '17. You didn't buy another one. Why aren't we seeing that [pinrounded] vacancy drop in one of your buildings you're going to convert?

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

So first of all, we don't know until we know the group of buildings that we're going to control. At the end of the day, we can't say for sure, which building we will convert. It may be one that we already own and it may be one that we're about to own. Secondly, in that case, we would bear an overwhelming brunt of the impact of having taken the -- emptying the building not even getting in the rents, right, except maybe the one that we convert. And we would also boost the value of the other buildings, which I want to control before I even control them. So we're not incentivized to do a move that's going to make it more expensive to execute that program.

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

Questions in the room? Yes.

Unidentified Analyst

(inaudible)

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

For those on the webcast, the question is what are net effective growth trends in L.A.?

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

Yes. And we have a chart that shows how we've seen a couple of peaks, that's what you're referring to, right? And we are now rising into, I hope not another one, but I'm sure it is going to be one eventually because everything comes down eventually. And the question is, what does that look like not face rate, but net effective? And net effective looks as good or better than face rate. And I'm going to tell you why. You've seen -- I know in other markets, you've seen a run-up in concessions, primarily TIs I think and maybe also free rent. As a result of that, we have a lot of investors ask us questions about those things. And you did see in the terms of the numbers that we published some change in those numbers too. So that runs in the face of saying, Hey, we're actually not seeing a big change in concessions and our net effectives are moving fast. The cause of that change is that, in the last 2 years, we bought a few million square feet that had real role and vacancy, more than 2 million square feet. And when we've owned the building for a long time, we control everything in the process. We have in-house space planners, leasing, lawyers, construction. And as a result of owning the entire assembly line, we have a lot of control over kind of the way the space is eventually built out that we lease. And we encourage tenants to build it out and we'll call it a more standard format that doesn't take a lot of TIs. Also some of the buildings that we bought have had a little bit larger tenants, which also take more TIs. As a result, over the last, we'll call it, 6 quarters, maybe a little more, the leasing, which has been highly concentrated in new acquisitions that we've done and the TIs enrolling some larger [portfolios], et cetera, in those buildings, has had higher TIs than we're normally used to because it takes about 5 years for us to own a building to have roll the leases to more standardized leasing, to have rolled the TIs to a more standardized buildout. And we just spent more money early on getting that done. Still those TI numbers are reflected in the average TIs that you're seeing in our quarterly report. So while it looks like they've run up. If you look at the stuff we've owned for a long time, they have not run up at all. And we've really benefited a lot from just a run-up in rents, with the net number -- the detraction from the net number being concessions, having remained even, down to constant. The only place where you're seeing higher concessions and you're used to seeing us give is in these newer buildings where we're having to build up to TIs, because the space is just built -- become a little wanky and we go, "all right, we get it, we've got to standardize the space. " But we've been doing that.

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

Other questions in the room? There is one here on the veracast app. It's multipart so I'm going to try to break it up. Interesting to hear that JV partner an appetite to do more. Is there a defined amount of capital allocated by the partners to the venture?

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

Well, there is multiple partners and there is multiple groups that even could become partners that we have had very, very good dialogue with. So I am sure some of them may say, we have as much capital as we want to allocate it and some of them may say, we can't get in. I think if you were to just kind of do some averaging, I think most of the sovereigns and those large foreign partners in general, if you survey them, separate from me, you'd find they're extremely under allocated to our markets, and they have a huge focus on putting more capital into our markets.

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

Next part of the question. What's their IRR requirement?

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

Well, I think either we've trained them to require over 7 all-cash IRR or that's where they were, I don't know. But we're certainly are in heated agreement that that's the range in which we like to operate. When it gets on an all-cash basis, forget about debt. We're not using very much leverage anyways. When the numbers get below that, both sides, they all get uncomfortable. So that seems to be the range that we all want to operate in.

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

And the final part of this, how do you balance the desire to grow the JV versus your discipline historical dealmaking? And do you plan to do the redevelopment-type projects in JV as well?

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

Well, I mean, we're taking big pieces of the deal. And so I don't think whatever the discipline that we've had and deals that we haven't done versus deals we've done, I think, are totally consistent whether it's in a JV platform or directly owned, our price hurdles and all the rest of it is the same. So I don't expect that discipline to change. In terms of -- what was the second part of your question was...

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

So the first part was, how do you grow the JV versus disciplined dealmaking? And the second part is do you do the redevelopments in JV as well?

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

Yes. Let's say this, we want to have a long and good relationship with those partners. We're also -- if we know we have a redevelopment prospect or we have a new development prospect for residential they're just absurdly easy to do and be successful, I am not trying to sell those gains in favor of just protecting the platform. But I do believe that once we have cooked some of those things, whether it'd be a group of residential that we've built up to be in a portfolio that is reasonably well established or at least it's prospects are reasonably well established or whether it's a strategy like that downturn Honolulu office strategy, that those do create an opportunity then to bring in capital, provided we have good use of that capital and a way to do that that's tax efficient. And all that other good stuff to bring in capital and improve and tighten the relationship with those partners by providing them with some extremely good product.

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

Questions in the room? So there was a deal announced this morning for Westside Pavilion between HPP and Macerich. I assume that you guys at least took a look at that or thought about that, maybe you can give us your view on what's going on there and how that changes the landscape?

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

Well, I think that in general, I mean, I think it's a great deal for Victor for Hudson. I think they've already proven that concept with what they've done on Olympic. I think it's going to be fantastic for the Westside. There's very large tenants that we know would be good to have in the Westside, that have sort of been knocking on the glass from the outside and haven't had any where to go. And you saw that before with the game company that went in on his Olympic project right? I mean where they were dispersed and all of a sudden, he got them to consolidate. And not only was that great for that area on Olympic, but that was one public company where you saw that was great. And probably a lot of you also saw that Kilroy benefited dramatically from that move because they also expanded out and other tenants went in and filled the projects across the street, right? I expect that and better from what's going to happen there. I think, first of all, Victor's good at that. He's going to do a fantastic job at repositioning that project with some big tenants and creative space. And I think the spinoff, the strength that will come in in the market, the vibrancy that it will create, will just have great impacts all the way throughout, and I'm very positive about it.

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

Was that a project or a conversation that you've had with Macerich?

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

No. I mean, I don't believe I did? No.

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

Questions in the room? So I don't think any other REITs in the room or in the rooms next door have a Chief Strategic Officer. Just wondering why that position exists? And sort of what that brings to the table?

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

Well, we have -- we keep talking about our operating platform and refining and changing it and how effective it is. And our operating platform has to operate within the world of fiefdoms; leasing, construction, property management. And each of those are run and they need to be coordinated, and then that all needs to be coordinated with capital markets. And what we've done, the parent power of that operating platform is that, we produce a wild amount of statistics. So we have -- because of our penetration in the markets and our deal flow, we can see everything from what various -- and the acquisitions we do, we see what other people are paying for services. We know what we're paying for services. We see leasing costs, we see time to signing letter of intent, we see showings, we see letter of intent to signing lease, how quickly average -- I mean, they are just incredible. What is the -- what does paint -- carpet cost us on average. We have all this information, right? But what is that information worth, if it's not actionable and you can't use it to improve the cash flow and operations of the company. Well, that takes strategy because you can have some piece of information. If we raise rents, we'll get a higher rental rate. But what happens to occupancy? What happens to deal flow? Okay, someone has to be looking at all that information and coordinating it across, right? Property management is trying to make the tenants happy as possible and will probably give them the best lease they could ever get. Leasing is trying to get the highest rates. Construction wants to get it done for the lowest price. There is a lot of strategy behind, with the information that we have, incentivizing everybody to do the right thing net net net for the company. And also taking that information and using it properly in our acquisitions, in integrating our acquisitions, what should we buy, what shouldn't we buy, where don't we believe rents, where do we believe net effective rents, what's happening with this industry, why are we pushing in this direction versus that direction, that dataflow analyzing it, advising on it, coordinating those groups, that's a position we've always filled. We didn't call it that. It was actually filled by some other people. We're still at the company. A lot of you might remember, Ted, who was the CFO at that time had that, one of those central roles. It's also a job that takes a long time to learn. I mean, you've got to be supersmart, you've got to be very comfortable with all the stuff, but then you have to have all the relationships of all the departments and sit in all the meetings, it's torturous, right, and it takes a few years. We thought about filling that position, like how do we fill that position right? And what we kind of came up with was, we're going to have to teach them all of the specifics of our company and what happens within our company anyways. So we need someone who is just smart and good with analytics and they're going to learn the rest with the way we work and understanding statistically what we do. And that -- and I've known Peter for a long time. He's a very smart guy, and he can tell -- like you tell a little of your background. And we said, this guy could fit and spend that time in the community and in the company with the learnings because he's lived there forever and be able to make the best use of the information. And we know it's a long learning curve and has to be a personality that fits in with all those teams. It doesn't take a leasing guy, who thinks he's the king of the world and hammer him on the head, it doesn't take the construction guy who thinks he's in charge of everything that ever [happen to him. So you have to have someone] who can work together. So we thought he would be a good fit for that.

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

Final question?

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

IS our story too simple, and therefore, it's hard to come up with questions for us?

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

Maybe people are scared of you, you're intimidating out there.

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

Maybe, I doubt that. I think it's more likely that, we're like the house of pancakes. We make pancakes very well, don't ask us to do anything else. We've gotten the price of pancakes down to $0.45 a cake.

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

Any questions in the room?

Unidentified Analyst

I guess, like you've gone from not doing a lot of development to having 2 apartment projects, to whatever you're going to do in Hawaii. It's a lot operationally to have on your plate plus all the operationally intensive regular things that you've just described. And -- so I'm just kind of wondering how you're thinking about staffing? And if whether you need to kind of bulk up to over the next couple of years to kind of get to the...?

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

So knowing -- so we've known this was coming for the last few years. So we actually have been hiring. We hired 2 of our most expensive senior positions in the construction in the last year. And so we have been staffing that up and restructuring the way that department works. There is now one, that's a lady actually, that's in charge of all 3 divisions. We've broken in divisions, TIs, ground up, and design development repositioning. All 3 of those divisions have heads and then those heads answer up to this one person. So we actually did that -- have done that restructuring by seating those people in those jobs. And also you're talking about one of the things that cause us to have like a central kind of wheelhouse for all strategy, which is why we also created Peter's job so that we can make sure that was being properly coordinated through the system. And so we have been doing that, and we actually have hired probably the 2 most important positions have already been hired.

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

And with that, we're going to go to rapid-fire. They are not about pancakes. Do you expect public-to-public or public-to-private M&A in the office sector in 2018?

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

I don't know that there would be a lot of movement, but I would think it would be public-to-private. I don't believe there will be a lot, but I'd expect it to be more public to private.

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

What will same-store NOI growth be for the office sector in 2019?

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

That's a very tough one. But I'll -- just so you have a number in the box, I'll tell you 2% to 5%.

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

Where will the 10-year treasury yield be 1 year from today?

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

I have no idea. I mean, there's 3.5.

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

Thank you.
