American Assets Trust, Inc.
Form 10-K
February 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-35030

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**27-3338708**
(State of Organization)	**(IRS Employer Identification No.)**
11455 El Camino Real, Suite 200, San Diego, California	**92130**
(Address of Principal Executive Offices)	**(Zip Code)**

(858) 350-2600

(Registrant s Telephone Number, Including Area Code)

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

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

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

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. x Yes ¨ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). x Yes ¨ No

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

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

Large Accelerated Filer	x	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). ¨ Yes x No

The aggregate market value of the Registrant s common shares held by non-affiliates of the Registrant, based upon the closing sales price of the Registrant s common shares on June 29, 2012 was $804.0 million.

The number of Registrant s common shares outstanding on February 22, 2013 was 39,664,212.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of American Assets Trust, Inc. s Proxy Statement with respect to its 2013 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant s fiscal year are incorporated by reference into Part III hereof.

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AMERICAN ASSETS TRUST, INC.

ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED DECEMBER 31, 2012

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Forward Looking Statements.

We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- *adverse economic or real estate developments in our markets;*
- *our failure to generate sufficient cash flows to service our outstanding indebtedness;*
- *defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;*
- *difficulties in identifying properties to acquire and completing acquisitions;*
- *difficulties in completing dispositions;*
- *our failure to successfully operate acquired properties and operations;*
- *our inability to develop or redevelop our properties due to market conditions;*
- *fluctuations in interest rates and increased operating costs;*
- *risks related to joint venture arrangements;*
- *our failure to obtain necessary outside financing;*
- *on-going litigation;*

general economic conditions;

financial market fluctuations;

risks that affect the general retail, office, multifamily and mixed-use environment;

the competitive environment in which we operate;

decreased rental rates or increased vacancy rates;

conflicts of interests with our officers or directors;

lack or insufficient amounts of insurance;

environmental uncertainties and risks related to adverse weather conditions and natural disasters;

other factors affecting the real estate industry generally;

limitations imposed on our business and our ability to satisfy complex rules in order for us to continue to qualify as a REIT for U.S. federal income tax purposes; and

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- *changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.*

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, or new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled Item 1A. Risk Factors.

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PART I

ITEM 1. BUSINESS

General

References to we, our, us and our company refer to American Assets Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including American Assets Trust, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this report as our Operating Partnership.

We are a full service, vertically integrated and self-administered real estate investment trust, or REIT, that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Oregon, Washington, Hawaii, and Texas. As of December 31, 2012 our portfolio is comprised of eleven retail shopping centers; seven office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Additionally, as of December 31, 2012, we owned land at five of our properties that we classified as held for development. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon, Bellevue, Washington and Oahu, Hawaii.

We are a Maryland corporation that was formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering and the related acquisition of our Predecessor (as defined below) on January 19, 2011. After the completion of our initial public offering and the Formation Transactions (as defined below) on January 19, 2011, our operations have been carried on through our Operating Partnership. Our company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 68.4% of our Operating Partnership as of December 31, 2012. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Our Predecessor is not a legal entity but rather a combination of entities whose assets included entities owned and/or controlled by Ernest S. Rady and his affiliates, including the Rady Trust, which in turn owned (1) controlling interests in entities owning 17 properties and the property management business of American Assets, Inc. and (2) noncontrolling interests in entities owning four properties (the assets described at (1) and (2) are the Acquired Assets, and do not include our Predecessor s noncontrolling 25% ownership interest in Novato FF Venture, LLC, the entity that owns the Fireman s Fund Headquarters in Novato, California.). The Formation Transactions included the acquisition by our Operating Partnership of the (a) Acquired Assets, (b) the entities that own Waikiki Beach Walk (a mixed-used property consisting of a retail portion and a hotel portion), or the Waikiki Beach Walk entities, and (c) the entities that own Solana Beach Towne Centre and Solana Beach Corporate Centre, or the Solana Beach Centre entities (including our Predecessor s ownership interest in these entities).

As noted above, since our initial public offering and the Formation Transactions occurred on January 19, 2011, the results of operations and financial condition for the entities acquired by us in connection with our initial public offering and related Formation Transactions are not included in certain historical financial statements. More specifically, our results of operations and financial condition for the year ended December 31, 2010 reflect the results of operations and financial condition for our Predecessor. Our results of operations for the years ended December 31, 2011 and 2012 reflect the results of operations and financial condition for our Predecessor together with the entities we acquired at the time of our initial public offering, namely, the Waikiki Beach Walk entities and the Solana Beach Centre entities, as well as First & Main, Lloyd District Portfolio, Solana Beach Highway 101, One Beach Street, City Center Bellevue and Geary Marketplace, each acquired subsequent to our initial public offering. The results of operations for each of these acquisitions are included in our consolidated statements of operations only from the date of acquisition. Additionally, in August 2011, we

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sold Valencia Corporate Center and in December 2012, we sold 160 King Street; and we have reclassified our financial statements for all periods prior to the sales to reflect Valencia Corporate Center and 160 King Street as discontinued operations.

Our Competitive Strengths

We believe the following competitive strengths distinguish us from other owners and operators of commercial real estate and will enable us to take advantage of new acquisition and development opportunities, as well as growth opportunities within our portfolio:

Irreplaceable Portfolio of High Quality Retail and Office Properties. We have acquired and developed a high quality portfolio of retail and office properties located in affluent neighborhoods and sought-after business centers in Southern California, Northern California, Oahu, Hawaii, Portland, Oregon, San Antonio, Texas and Bellevue, Washington. Many of our properties are located in in-fill locations where developable land is scarce or where we believe current zoning, environmental and entitlement regulations significantly restrict new development. We believe that the location of many of our properties will provide us an advantage in terms of generating higher internal revenue growth on a relative basis.

Experienced and Committed Senior Management Team with Strong Sponsorship. The members of our senior management team have significant experience in all aspects of the commercial real estate industry.

Properties Located in High-Barrier-to-Entry Markets with Strong Real Estate Fundamentals. Our core markets currently include Southern California, Northern California, Oregon, Washington and Hawaii, which we believe have attractive long-term real estate fundamentals driven by favorable supply and demand characteristics.

Extensive Market Knowledge and Long-Standing Relationships Facilitate Access to a Pipeline of Acquisition and Leasing Opportunities. We believe that our in-depth market knowledge and extensive network of long-standing relationships in the real estate industry provide us access to an ongoing pipeline of attractive acquisition and investment opportunities in and near our core markets, while also facilitating our leasing efforts and providing us with opportunities to increase occupancy rates at our properties.

Internal Growth Prospects through Development, Redevelopment and Repositioning. The development and redevelopment potential at several of our properties presents compelling growth prospects and our expertise enhances our ability to capitalize on these opportunities.

Broad Real Estate Expertise with Retail and Office Focus. Our senior management team has strong experience and capabilities across the real estate sector with significant expertise in the retail and office asset classes, which provides for flexibility in pursuing attractive acquisition, development and repositioning opportunities. Ernest Rady, our Executive Chairman, John Chamberlain, our Chief Executive Officer, and Robert Barton, our Chief Financial Officer, each have over 25 years of commercial real estate experience, and the other members of senior management each have over 15 years of commercial real estate experience.

Business and Growth Strategies

Our primary business objectives are to increase operating cash flows, generate long-term growth and maximize stockholder value. Specifically, we pursue the following strategies to achieve these objectives:

Capitalizing on Acquisition Opportunities in High-Barrier-to-Entry Markets. We intend to pursue growth through the strategic acquisition of attractively priced, high quality properties that are well located in their submarkets, focusing on markets that generally are characterized by strong supply and demand characteristics, including high barriers to entry and diverse industry bases, that appeal to institutional investors.

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- ***Repositioning/Redevelopment and Development of Office and Retail Properties.*** Our strategy is to selectively reposition and redevelop several of our existing or newly-acquired properties, and we will also selectively pursue ground-up development of undeveloped land where we believe we can generate attractive risk-adjusted returns.
- ***Disciplined Capital Recycling Strategy.*** Our strategy is to pursue an efficient asset allocation strategy that maximizes the value of our investments by selectively disposing of properties whose returns appear to have been maximized and redeploying capital into acquisition, repositioning, redevelopment and development opportunities with higher return prospects, in each case in a manner that is consistent with our qualification as a REIT.
- ***Proactive Asset and Property Management.*** We actively manage our properties, employ targeted leasing strategies, leverage our existing tenant relationships and focus on reducing operating expenses to increase occupancy rates at our properties, attract high quality tenants and increase property cash flows, thereby enhancing the value of our properties.

Employees

At December 31, 2012, we had 114 employees. None of our employees are represented by a collective bargaining unit. We believe that our relationship with our employees is good.

Tax Status

We elected to be taxed as a REIT and operate in a manner that allows us to qualify as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2011. We believe that our organization and method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT. To maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our REIT taxable income to our stockholders.

Insurance

We carry comprehensive liability, fire, extended coverage, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket insurance policy, in addition to other coverages, such as trademark and pollution coverage, that may be appropriate for certain of our properties. We believe the policy specifications and insured limits are appropriate and adequate for our properties given the relative risk of loss, the cost of the coverage and industry practice; however, our insurance coverage may not be sufficient to fully cover our losses. We do not carry insurance for certain losses, including, but not limited to, losses caused by riots or war. Some of our policies, like those covering losses due to terrorism and earthquakes, are insured subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses, for such events. In addition, all but one of our properties are subject to an increased risk of earthquakes. While we will carry earthquake insurance on all of our properties the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes. We may reduce or discontinue earthquake, terrorism or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. Also, if destroyed, we may not be able to rebuild certain of our properties due to current zoning and land use regulations. As a result, we may be required to incur significant costs in the event of adverse weather conditions and natural disasters. In addition, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage if the market value of our portfolio increases. If we or one or more of our tenants experiences a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future as the costs associated with property and casualty renewals may be higher than anticipated.

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Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including laws such as the Americans with Disabilities Act of 1990, or ADA, and the Fair Housing Amendment Act of 1988, or FHAA, that impose further restrictions on our properties and operations. Under the ADA and the FHAA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA or the FHAA. If one or more of the properties in our portfolio is not in compliance with the ADA, the FHAA or any other regulatory requirements, we may be required to incur additional costs to bring the property into compliance and we might incur governmental fines or the award of damages to private litigants. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating from such property, including costs to investigate, clean up such contamination and liability for harm to natural resource. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property, or adjacent properties, for commercial or industrial purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. For example, Del Monte Center is currently undergoing remediation of dry cleaning solvent contamination from a former onsite dry cleaner. The prior owner of Del Monte Center entered into a fixed fee environmental services agreement in 1997 pursuant to which the remediation will be completed for approximately $3.5 million, with the remediation costs paid for through an escrow funded by the prior owner. We expect that the funds in this escrow account will cover all remaining costs and expenses of the environmental remediation. However, if the Regional Water Quality Control Board Central Coast Region were to require further work costing more than the remaining escrowed funds, we could be required to pay such overage although we may have a claim for such costs against the prior owner or our environmental remediation consultant. In addition to the foregoing, we possess Phase I Environmental Site Assessments for certain of the properties in our portfolio. However, the assessments are limited in scope (e.g., they do not generally include soil sampling, subsurface investigations or hazardous materials survey) and may have failed to identify all environmental conditions or concerns. Furthermore, we do not have Phase I Environmental Site Assessment reports for all of the properties in our portfolio and, as such, may not be aware of all potential or existing environmental contamination liabilities at the properties in our portfolio. As a result, we could potentially incur material liability for these issues, which could adversely impact our financial condition, results of operations, cash flow and the per share trading price of our common stock.

As the owner of the buildings on our properties, we could face liability for the presence of hazardous materials (e.g., asbestos or lead) or other adverse conditions (e.g., poor indoor air quality) in our buildings. Environmental laws govern the presence, maintenance, and removal of hazardous materials in buildings, and if we do not comply with such laws, we could face fines for such noncompliance. Also, we could be liable to third parties (e.g., occupants of the buildings) for damages related to exposure to hazardous materials or adverse conditions in our buildings, and we could incur material expenses with respect to abatement or remediation of

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hazardous materials or other adverse conditions in our buildings. In addition, some of our tenants routinely handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities.

Competition

We compete with a number of developers, owners and operators of retail, office, multifamily and mixed-use real estate, many of which own properties similar to ours in the same markets in which our properties are located and some of which have greater financial resources than we do. In operating and managing our portfolio, we compete for tenants based on a number of factors, including location, rental rates, security, flexibility and expertise to design space to meet prospective tenants needs and the manner in which the property is operated, maintained and marketed. As leases at our properties expire, we may encounter significant competition to renew or re-let space in light of the large number of competing properties within the markets in which we operate. As a result, we may be required to provide rent concessions or abatements, incur charges for tenant improvements and other inducements, including early termination rights or below market renewal options, or we may not be able to timely lease vacant space. In that case, our financial condition, results of operations, cash flow, per share trading price of our common stock and ability to satisfy our debt service obligations and to pay dividends may be adversely affected.

We also face competition when pursuing acquisition and disposition opportunities. Our competitors may be able to pay higher property acquisition prices, may have private access to opportunities not available to us and otherwise be in a better position to acquire a property. Competition may also have the effect of reducing the number of suitable acquisition opportunities available to us, increase the price required to consummate an acquisition opportunity and generally reduce the demand for retail, office, mixed-use and multifamily space in our markets. Likewise, competition with sellers of similar properties to locate suitable purchasers may result in us receiving lower proceeds from a sale or in us not being able to dispose of a property at a time of our choosing due to the lack of an acceptable return.

Segments

We operate in four business segments: retail, office, multifamily and mixed-use. Information related to our business segments for 2012, 2011 and 2010 is set forth in footnote 17 to our consolidated financial statements in Item 8 of this Report.

Tenants Accounting for over 10% of Revenues

None of our tenants accounted for more than 10% of total revenues in any of the years ended December 31, 2012, 2011 or 2010. salesforce.com at The Landmark at One Market accounted for approximately 13.3% and 15.1% of total office segment revenues for the years ended December 31, 2012 and 2011.

Foreign Operations

We do not engage in any foreign operations or derive any revenue from foreign sources.

Available Information

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission, or the SEC. You may obtain copies of these documents by visiting the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC s website at www.sec.gov. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at www.americanassetstrust.com, or by contacting our Secretary at our principal offices, which are located at 11455 El Camino Real, Suite 200, San Diego, California 92130. Our telephone number is (858) 350-2600. The information contained on our website is not a part of this report and is not incorporated herein by reference.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Policies and Procedures for Complaints Regarding Accounting, Internal Accounting Controls, Fraud or Auditing Matters and the charters of our audit committee, compensation committee and nominating and corporate governance committee are all available in the Corporate Governance section of the Investor Relations section of our website.

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ITEM 1A. RISK FACTORS

The following section includes the most significant factors that may adversely affect our business and operations. The risk factors describe risks that may affect these statements but are not all-inclusive, particularly with respect to possible future events. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. This discussion of risk factors includes many forward-looking statements. For cautions about relying on forward-looking statements, please refer to the section entitled Forward Looking Statements at the beginning of this Report immediately prior to Item 1.

Risks Related to Our Business and Operations

Our portfolio of properties is dependent upon regional and local economic conditions and is geographically concentrated in California, Oregon, Washington, Texas and Hawaii, which may cause us to be more susceptible to adverse developments in those markets than if we owned a more geographically diverse portfolio.

Our properties are located in California, Oregon, Washington, Texas and Hawaii, and substantially all of our properties are concentrated in California, Oregon, Washington and Hawaii, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. As a result, we are particularly susceptible to adverse economic or other conditions in these markets (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes and the cost of complying with governmental regulations or increased regulation), as well as to natural disasters that occur in these markets (such as earthquakes, wildfires and other events). For example, California, Oregon, Washington and Hawaii experienced economic downturns in recent years. As such, our retail and office properties were impacted by these conditions. Additionally, our properties in Hawaii were impacted by the effects of reduced tourism in Hawaii as a result of the economic downturn. If there is a further downturn in the economy in these markets, our operations and our revenue and cash available for distribution, including cash available to pay distributions to our stockholders, could be materially adversely affected. We cannot assure you that these markets will grow or that underlying real estate fundamentals will be favorable to owners and operators of retail, office, mixed-use or multifamily properties. Our operations may also be affected if competing properties are built in either of these markets. Moreover, submarkets within any of our core markets may be dependent upon a limited number of industries. In addition, the State of California continues to suffer from severe budgetary constraints and is regarded as more litigious and more highly regulated and taxed than many other states, all of which may reduce demand for retail, office, mixed-use or multifamily space in California. Any adverse economic or real estate developments in the California, Oregon, Washington or Hawaii markets, or any decrease in demand for retail, office, multifamily or mixed-use space resulting from the regulatory environment, business climate or energy or fiscal problems, could adversely impact our financial condition, results of operations, cash flow, our ability to satisfy our debt service obligations and our ability to pay distributions to our stockholders.

We have a substantial amount of indebtedness, which may expose us to the risk of default under our debt obligations.

At December 31, 2012, we had total debt outstanding of $1,057.7 million, a substantial portion of which contains non-recourse carve-out guarantees and environmental indemnities from us and our Operating Partnership, and we may incur significant additional debt to finance future acquisition and development activities. We also have a revolving credit facility with a capacity of $250.0 million, with no balance outstanding at December 31, 2012. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the dividends currently contemplated or necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

our cash flow may be insufficient to meet our required principal and interest payments;

we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;

we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

we may be forced to dispose of one or more of our properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;

we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and

our default under any loan with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, our financial condition, results of operations, cash flow and per share trading price of our common stock could be adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986, or the Code.

We depend on significant tenants in our office properties, and a bankruptcy, insolvency or inability to pay rent of any of these tenants may adversely affect the income produced by our office properties and could have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our common stock.

As of December 31, 2012, the three largest tenants in our office portfolio salesforce.com, the Veterans Benefits Administration and Autodesk, Inc. represented approximately 20.8% of the total annualized base rent in our office portfolio. salesforce.com, inc. is a provider of customer and collaboration relationship management services to various businesses and industries worldwide. The Veterans Benefits Administration is a division of the U.S. Department of Veterans Affairs and is responsible for administering financial and other forms of assistance to veterans and their dependents. Autodesk, Inc. is an American multinational corporation that focuses on 3-D design software for use in the architecture, engineering, construction, manufacturing, media and entertainment industries. The inability of a significant tenant to pay rent or the bankruptcy or insolvency of a significant tenant may adversely affect the income produced by our office properties. If a tenant becomes bankrupt or insolvent, federal law may prohibit us from evicting such tenant based solely upon such bankruptcy or insolvency. In addition, a bankrupt or insolvent tenant may be authorized to reject and terminate its lease with us. Any claim against such tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. If any of these tenants were to experience a downturn in its business or a weakening of its financial condition resulting in its failure to make timely rental payments or causing it to default under its lease, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. Any such event could have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our common stock.

Our retail shopping center properties depend on anchor stores or major tenants to attract shoppers and could be adversely affected by the loss of, or a store closure by, one or more of these tenants.

Our retail shopping center properties typically are anchored by large, nationally recognized tenants. At any time, our tenants may experience a downturn in their business that may weaken significantly their financial condition. As a result, our tenants, including our anchor and other major tenants, may fail to comply with their contractual obligations to us, seek concessions in order to continue operations or declare bankruptcy, any of

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which could result in the termination of such tenants leases and the loss of rental income attributable to the terminated leases. In addition, certain of our tenants may cease operations while continuing to pay rent, which could decrease customer traffic, thereby decreasing sales for our other tenants at the applicable retail property. In addition to these potential effects of a business downturn, mergers or consolidations among large retail establishments could result in the closure of existing stores or duplicate or geographically overlapping store locations, which could include stores at our retail properties.

Loss of, or a store closure by, an anchor or major tenant could significantly reduce our occupancy level or the rent we receive from our retail properties, and we may not have the right to re-lease vacated space or we may be unable to re-lease vacated space at attractive rents or at all. Moreover, in the event of default by a major tenant or anchor store, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with those parties. The occurrence of any of the situations described above, particularly if it involves an anchor tenant with leases in multiple locations, could seriously harm our performance and could adversely affect the value of the applicable retail property.

For example, Sears Holdings Corporation, the parent company of Sears Roebuck and Co. and Kmart Corporation, which leases retail space for a Kmart store at one of our properties with an aggregate of 119,590 leased square feet for an aggregate annualized base rent of $3.8 million as of December 31, 2011 announced in early 2012 that it would close approximately 80 stores during the year. The loss of Kmart as a tenant at our property could (1) decrease customer traffic for our other tenants at the property, thereby decreasing sales for such tenants and (2) make it more difficult for us to secure tenant lease renewals or new tenants for the property.

As of December 31, 2012, our largest anchor tenants were Lowe s, Kmart and Foodland Super Market, which together represented approximately 15.0% of our total annualized base rent of our retail portfolio in the aggregate, and 6.0%, 5.5% and 3.5%, respectively, of the annualized base rent generated by our retail properties. Foodland Super Market, Ltd. has ceased all operations in its leased premises and has subleased the premises to International Church of the Foursquare Gospel. Although we are currently collecting the rent for the leased premises, Foodland Super Market, Ltd. s lease expires in 2014 and it is unlikely that it will renew its lease with us. In the event that Foodland Super Market, Ltd. does not renew its lease with us, there can be no assurances that we will be able to re-lease such premises at market rents, or at all, which may materially adversely affect our financial condition, results of operations, cash flow and cash available for distribution and our ability to satisfy our debt service obligations.

Many of the leases at our retail properties contain co-tenancy or go-dark provisions, which, if triggered, may allow tenants to pay reduced rent, cease operations or terminate their leases, any of which could adversely affect our performance or the value of the applicable retail property.

Many of the leases at our retail properties contain co-tenancy provisions that condition a tenant s obligation to remain open, the amount of rent payable by the tenant or the tenant s obligation to continue occupancy on certain conditions, including: (1) the presence of a certain anchor tenant or tenants; (2) the continued operation of an anchor tenant s store; and (3) minimum occupancy levels at the applicable retail property. If a co-tenancy provision is triggered by a failure of any of these or other applicable conditions, a tenant could have the right to cease operations, to terminate its lease early or to a reduction of its rent. In periods of prolonged economic decline, there is a higher than normal risk that co-tenancy provisions will be triggered as there is a higher risk of tenants closing stores or terminating leases during these periods. In addition to these co-tenancy provisions, certain of the leases at our retail properties contain go-dark provisions that allow the tenant to cease operations while continuing to pay rent. This could result in decreased customer traffic at the applicable retail property, thereby decreasing sales for our other tenants at that property, which may result in our other tenants being unable to pay their minimum rents or expense recovery charges. These provisions also may result in lower rental revenue generated under the applicable leases. To the extent co-tenancy or go-dark provisions in our retail leases result in lower revenue or tenant sales or tenants rights to terminate their leases early or to a reduction of their rent, our performance or the value of the applicable retail property could be adversely affected.

We may be unable to renew leases, lease vacant space or re-let space as leases expire, thereby increasing or prolonging vacancies, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

As of December 31, 2012, leases representing 8.9% of the square footage and 9.6% of the annualized base rent of the properties in our office, retail and retail portion of our mixed-use portfolios will expire in 2013, and an additional 4.7% of the square footage of the properties in our office, retail and retail portion of our mixed-use portfolios was available. We cannot assure you that leases will be renewed or that our properties will be re-let at rental rates equal to or above the current average rental rates or that substantial rent abatements, tenant improvements, early termination rights or below market renewal options will not be offered to attract new tenants or retain existing tenants. In addition, our ability to lease our multifamily properties at favorable rates, or at all, may be adversely affected by the increase in supply and deterioration in the multifamily market stemming from the recent recession, and is dependent upon the overall level of spending in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, the downturn in the housing market, stock market volatility and uncertainty about the future. If the rental rates for our properties decrease, our existing tenants do not renew their leases or we do not re-let a significant portion of our available space and space for which leases will expire, our financial condition, results of operations, cash flow and per share trading price of our common stock could be adversely affected.

We may be unable to identify and complete acquisitions of properties that meet our criteria, which may impede our growth.

Our business strategy involves the acquisition of retail, office, multifamily and mixed-use properties. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategies. We continue to evaluate the market of available properties and may attempt to acquire properties when strategic opportunities exist. However, we may be unable to acquire properties identified as potential acquisition opportunities. Our ability to acquire properties on favorable terms, or at all, may be exposed to the following significant risks:

- we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete;

- even if we enter into agreements for the acquisition of properties, these agreements are subject to conditions to closing, which we may be unable to satisfy; and

- we may be unable to finance the acquisition on favorable terms or at all.

If we are unable to finance property acquisitions or acquire properties on favorable terms, or at all, our financial condition, results of operations, cash flow and per share trading price of our common stock could be adversely affected. In addition, failure to identify or complete acquisitions of suitable properties could slow our growth.

We face significant competition for acquisitions of real properties, which may reduce the number of acquisition opportunities available to us and increase the costs of these acquisitions.

The current market for acquisitions continues to be extremely competitive. This competition may increase the demand for the types of properties in which we typically invest and, therefore, reduce the number of suitable acquisition opportunities available to us and increase the prices paid for such acquisition properties. We also face significant competition for attractive acquisition opportunities from an indeterminate number of investors, including publicly traded and privately held REITs, private equity investors and institutional investment funds, some of which have greater financial resources than we do, a greater ability to borrow funds to acquire properties and the ability to accept more risk than we can prudently manage, including risks with respect to the geographic proximity of investments and the payment of higher acquisition prices. This competition will increase if

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investments in real estate become more attractive relative to other forms of investment. Competition for investments may reduce the number of suitable investment opportunities available to us and may have the effect of increasing prices paid for such acquisition properties and/or reducing the rents we can charge and, as a result, adversely affecting our operating results.

Our future acquisitions may not yield the returns we expect, and we may otherwise be unable to operate these properties to meet our financial expectations, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Our future acquisitions and our ability to successfully operate the properties we acquire in such acquisitions may be exposed to the following significant risks:

- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;
- we may acquire properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- our cash flow may be insufficient to meet our required principal and interest payments;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result our results of operations and financial condition could be adversely affected;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities, such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot operate acquired properties to meet our financial expectations, our financial condition, results of operations, cash flow and per share trading price of our common stock could be adversely affected.

We may not be able to control our operating costs or our expenses may remain constant or increase, even if our revenues do not increase, causing our results of operations to be adversely affected.

Factors that may adversely affect our ability to control operating costs include the need to pay for insurance and other operating costs, including real estate taxes, which could increase over time, the need periodically to repair, renovate and re-lease space, the cost of compliance with governmental regulation, including zoning and tax laws, the potential for liability under applicable laws, interest rate levels and the availability of financing. If our operating costs increase as a result of any of the foregoing factors, our results of operations may be adversely affected.

The expense of owning and operating a property is not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property. As a result, if revenues decline, we may not be able to reduce our expenses accordingly. Costs associated with real estate investments, such as real estate taxes, insurance, loan payments and maintenance, generally will not be reduced even if a property is not fully occupied or other circumstances cause our revenues to decrease. If we are unable to decrease operating costs when demand for our properties decreases and our revenues decline, our financial condition, results of operations and our ability to make distributions to our stockholders may be adversely affected.

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Our ability to grow will be limited if we cannot obtain additional capital.

If economic conditions and conditions in the capital markets are not favorable at the time we need to raise capital, we may need to obtain capital on less favorable terms than our current debt financings. Equity capital could include our common shares or preferred shares. We cannot guarantee that additional financing, refinancing or other capital will be available in the amounts we desire or on favorable terms. Our access to debt or equity capital depends on a number of factors, including the market s perception of our growth potential, our ability to pay dividends, and our current and potential future earnings. Depending on the outcome of these factors as well as the impact of the economic environment, we could experience delay or difficulty in implementing our growth strategy, including the development and redevelopment of our assets, on satisfactory terms, or be unable to implement this strategy.

High mortgage rates and/or unavailability of mortgage debt may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we may be unable to refinance the properties when the loans become due, or to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money. In addition, to the extent we are unable to refinance the properties when the loans become due, we will have fewer debt guarantee opportunities available to offer under our tax protection agreement.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure on any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

Some of our financing arrangements involve balloon payment obligations, which may adversely affect our ability to make distributions.

Some of our financing arrangements require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

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Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Subject to maintaining our qualification as a REIT, we may enter into hedging transactions to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate cap agreements or interest rate swap agreements. These agreements involve risks, such as the risk that such arrangements would not be effective in reducing our exposure to interest rate changes or that a court could rule that such an agreement is not legally enforceable. In addition, interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates. Hedging could reduce the overall returns on our investments. Failure to hedge effectively against interest rate changes could materially adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock. In addition, while such agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the other parties to the agreements would not perform, we could incur significant costs associated with the settlement of the agreements or that the underlying transactions could fail to qualify as highly-effective cash flow hedges under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, Derivative and Hedging.

Our revolving credit facility restricts our ability to engage in some business activities, including our ability to incur additional indebtedness, make capital expenditures and make certain investments, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Our revolving credit facility contains customary negative covenants and other financial and operating covenants that, among other things:

- restrict our ability to incur additional indebtedness;
- restrict our ability to incur additional liens;
- restrict our ability to make certain investments (including certain capital expenditures);
- restrict our ability to merge with another company;
- restrict our ability to sell or dispose of assets;
- restrict our ability to make distributions to stockholders; and
- require us to satisfy minimum financial coverage ratios, minimum tangible net worth requirements and maximum leverage ratios.

These limitations restrict our ability to engage in some business activities, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock. In addition, our credit facility contains specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances.

If we invest in mortgage receivables, including originating mortgages, such investment would be subject to several risks, any of which could decrease the value of such investments and result in a significant loss to us.

From time to time, we may invest in mortgage receivables, including originating mortgages. In general, investments in mortgages are subject to several risks, including:

borrowers may fail to make debt service payments or pay the principal when due, which may make it necessary for us to foreclose our mortgages or engage in costly negotiations;

the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property;

- interest rates payable on the mortgages may be lower than our cost for the funds to acquire these mortgages; and

- the mortgages may be or become subordinated to mechanics or materialmen s liens or property tax liens, in which case we would need to make payments to maintain the current status of a prior lien or discharge it in its entirety to protect such mortgage investment.

If any of these risks were to be realized, the total amount we would recover from our mortgage receivables may be less than our total investment, resulting in a loss and our mortgage receivables may be materially and adversely affected.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole, including the recent dislocations in the credit markets and general global economic downturn. These conditions, or similar conditions existing in the future, may adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock as a result of the following potential consequences, among others:

- decreased demand for retail, office, multifamily and mixed-use space, which would cause market rental rates and property values to be negatively impacted;

- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans;

- our ability to obtain financing on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense; and

- one or more lenders under our credit facility could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

In addition, the economic downturn has adversely affected, and may continue to adversely affect, the businesses of many of our tenants. As a result, we may see increases in bankruptcies of our tenants and increased defaults by tenants, and we may experience higher vacancy rates and delays in re-leasing vacant space, which could negatively impact our business and results of operations.

We are subject to risks that affect the general retail environment, such as weakness in the economy, the level of consumer spending, the adverse financial condition of large retailing companies and competition from discount and internet retailers, any of which could adversely affect market rents for retail space and the willingness or ability of retailers to lease space in our shopping centers.

A portion of our properties are in the retail real estate market. This means that we are subject to factors that affect the retail sector generally, as well as the market for retail space. The retail environment and the market for retail space have been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the level of consumer spending and consumer confidence, the adverse financial condition of some large retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets and increasing competition from discount retailers, outlet malls, internet retailers and other online businesses. Increases in consumer spending via the internet may significantly affect our retail tenants ability to generate sales in their stores. In addition, some of our retail tenants face competition from the expanding market for digital content and hardware. New and enhanced technologies, including new digital technologies and new web services technologies, may increase competition for certain of our retail tenants.

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Any of the foregoing factors could adversely affect the financial condition of our retail tenants and the willingness of retailers to lease space in our shopping centers. In turn, these conditions could negatively affect market rents for retail space and could materially and adversely affect our financial condition, results of operations, cash flow, the trading price of our common shares and our ability to satisfy our debt service obligations and to pay distributions to our stockholders.

We have limited operating history as a REIT or a publicly traded company and may not be able to successfully operate as a REIT or a publicly traded company.

We have limited operating history as a REIT or a publicly traded company. We cannot assure you that the past experience of our senior management team will be sufficient to successfully operate our company as a REIT or a publicly traded company, including the requirements to timely meet disclosure requirements of the SEC, and comply with the Sarbanes-Oxley Act of 2002. We were required to develop and implement control systems and procedures in order to qualify and maintain our qualification as a REIT and satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with New York Stock Exchange, or NYSE, listing standards, and this transition could place a significant strain on our management systems, infrastructure and other resources. Failure to operate successfully as a public company or maintain our qualification as a REIT would have an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock. See -Risks Related to Our Status as a REIT-Failure to qualify as a REIT would have significant adverse consequences to us and the value of our common stock.

We face significant competition in the leasing market, which may decrease or prevent increases of the occupancy and rental rates of our properties.

We compete with numerous developers, owners and operators of real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below market renewal options in order to retain tenants when our tenants leases expire. As a result, our financial condition, results of operations, cash flow and per share trading price of our common stock could be adversely affected.

We may be required to make rent or other concessions and/or significant capital expenditures to improve our properties in order to retain and attract tenants, causing our financial condition, results of operations, cash flow and per share trading price of our common stock to be adversely affected.

To the extent adverse economic conditions continue in the real estate market and demand for retail, office, multifamily and mixed-use space remains low, we expect that, upon expiration of leases at our properties, we will be required to make rent or other concessions to tenants, accommodate requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants. As a result, we may have to make significant capital or other expenditures in order to retain tenants whose leases expire and to attract new tenants in sufficient numbers. Additionally, we may need to raise capital to make such expenditures. If we are unable to do so or capital is otherwise unavailable, we may be unable to make the required expenditures. This could result in non-renewals by tenants upon expiration of their leases, which could cause an adverse effect to our financial condition, results of operations, cash flow and per share trading price of our common stock.

The actual rents we receive for the properties in our portfolio may be less than our asking rents, and we may experience lease roll down from time to time, which could negatively impact our ability to generate cash flow growth.

As a result of various factors, including competitive pricing pressure in our submarkets, adverse conditions in the California, Oregon, Washington, Texas and Hawaii real estate markets, a general economic downturn and the desirability of our properties compared to other properties in our submarkets, we may be unable to realize the asking rents across the properties in our portfolio. In addition, the degree of discrepancy between our asking rents and the actual rents we are able to obtain may vary both from property to property and among different leased spaces within a single property. If we are unable to obtain rental rates that are on average comparable to our asking rents across our portfolio, then our ability to generate cash flow growth will be negatively impacted. In addition, depending on asking rental rates at any given time as compared to expiring leases in our portfolio, from time to time rental rates for expiring leases may be higher than starting rental rates for new leases.

We may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell such assets.

In the future we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our Operating Partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

We are subject to the business, financial and operating risks inherent to the hospitality industry, including competition for guests with other hospitality properties and general and local economic conditions that may affect demand for travel in general, any of which could adversely affect the revenues generated by our hospitality properties.

Because we own the Waikiki Beach Walk-Embassy Suites in Hawaii and the Santa Fe Park RV Resort in California, we are susceptible to risks associated with the hospitality industry, including:

- competition for guests with other hospitality properties, some of which may have greater marketing and financial resources than the managers of our hospitality properties;
- increases in operating costs from inflation, labor costs (including the impact of unionization), workers compensation and healthcare related costs, utility costs, insurance and other factors that the managers of our hospitality properties may not be able to offset through higher rates;
- the fluctuating and seasonal demands of business travelers and tourism, which seasonality may cause quarterly fluctuations in our revenues;
- general and local economic conditions that may affect demand for travel in general;
- periodic oversupply resulting from excessive new development;
- unforeseen events beyond our control, such as terrorist attacks, travel-related health concerns, including pandemics and epidemics, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and unusual weather patterns, including natural disasters such as earthquakes or wildfires; and
- decreased reimbursement revenue from the licensor for traveler reward programs.

If our hospitality properties do not generate sufficient revenues, our financial position, results of operations, cash flow, per share trading price of our common stock and ability to satisfy our debt service obligations and to pay distributions to you may be adversely affected.

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We must rely on third-party management companies to operate the Waikiki Beach Walk Embassy Suites in order to maintain our qualification as a REIT under the Code, and, as a result, we will have less control than if we were operating the hotel directly.

In order for us to maintain our qualification as a REIT, we have leased the Waikiki Beach Walk Embassy Suites to WBW Hotel Lessee, LLC, our taxable REIT subsidiary, or TRS, lessee, and engaged a third party management company to operate our hotel. While we have some input into operating decisions for the hotel leased by our TRS lessee and operated under a management agreement, we will have less control than if we managed the hotel ourselves. Even if we believe that our hotel is not being operated efficiently, we may not have sufficient rights under the management agreement to enable us to force the management company to change its method of operation. We cannot assure you that the management company will successfully manage our hotel. A failure by the management company to successfully manage the hotel could lead to an increase in our operating expenses or a decrease in our revenue, or both, which could adversely impact our financial condition, results of operations, cash flow, our ability to satisfy our debt service obligations and our ability to pay distributions to our stockholders.

If our relationship with the franchisor of the Waikiki Beach Walk-Embassy Suites was to deteriorate or terminate, it could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We cannot assure you that disputes between us and the franchisor of the Waikiki Beach Walk Embassy Suites will not arise. If our relationship with the franchisor were to deteriorate as a result of disputes regarding the franchise agreement under which our hotel operates or for other reasons, the franchisor could, under certain circumstances, terminate our current license with them or decline to provide licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our franchisor, Embassy Suites , could cause us to expend additional funds on upgraded operating standards, which may adversely affect our results of operations and reduce cash available for distribution to stockholders.

Under the terms of our franchise license agreement, our hotel operator must comply with operating standards and terms and conditions imposed by the franchisor of the hotel brand, Embassy Suites . Failure by us, our TRS lessees or any hotel management company that we engage to maintain these standards or other terms and conditions could result in the franchise license being canceled or the franchisor requiring us to undertake a costly property improvement program. If the franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we may be liable to the franchisor for a termination payment, which we expect could be as high as approximately $5.7 million based on operating performance through December 31, 2012. In addition, our franchisor may impose upgraded or new brand standards, such as substantially upgrading the bedding, enhancing the complimentary breakfast or increasing the value of guest awards under its frequent guest program, which can add substantial expense for the hotel. Furthermore, under certain circumstances, the franchisor may require us to make certain capital improvements to maintain the hotel in accordance with system standards, the cost of which can be substantial and may adversely affect our results of operations and reduce cash available for distribution to our stockholders.

Embassy Suites , our franchisor, has a right of first offer with respect to the Waikiki Beach Walk Embassy Suites , which may limit our ability to obtain the highest price possible for the hotel.

Pursuant to the terms of our franchise agreement for the Waikiki Beach Walk-Embassy Suites , the franchisor has a right of first offer to purchase the hotel if we propose to sell all or a portion of the hotel or any interest therein. In the event that we choose to dispose of the hotel, we would be required to notify the franchisor, prior to offering the hotel to any other potential buyer, of the price and conditions on which we would be willing

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to sell the hotel, and the franchisor would have the right, within 30 days of receiving such notice, to make an offer to purchase the hotel. If the franchisor makes an offer to purchase that is equal to or greater than the price and on substantially the same terms set forth in our notice, then we will be obligated to sell the hotel to the franchisor at that price and on those terms. If the franchisor makes an offer to purchase for less than the price stated in our notice or on less favorable terms, then we may reject the franchisor s offer. The existence of this right of first offer could adversely impact our ability to obtain the highest possible price for the hotel as, during the term of the franchise agreement, we would not be able to offer the hotel to potential purchasers through a competitive bid process or in a similar manner designed to maximize the value obtained for the property without first offering to sell this property to the franchisor.

Our real estate development activities are subject to risks particular to development, such as unanticipated expenses, delays and other contingencies, any of which could adversely affect our financial condition, results of operations, cash flow and the per share trading price of our common stock.

We may engage in development and redevelopment activities with respect to certain of our properties. To the extent that we do so, we will be subject to the following risks associated with such development and redevelopment activities:

- unsuccessful development or redevelopment opportunities could result in direct expenses to us;
- construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable;
- time required to complete the construction or redevelopment of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting our cash flow and liquidity;
- contractor and subcontractor disputes, strikes, labor disputes or supply disruptions;
- failure to achieve expected occupancy and/or rent levels within the projected time frame, if at all;
- delays with respect to obtaining or the inability to obtain necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws;
- occupancy rates and rents of a completed project may not be sufficient to make the project profitable;
- our ability to dispose of properties developed or redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and
- the availability and pricing of financing to fund our development activities on favorable terms or at all.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development or redevelopment activities once undertaken, any of which could have an adverse effect on our financial condition, results of operations, cash flow and the per share trading price of our common stock.

Our success depends on key personnel whose continued service is not guaranteed, and the loss of one or more of our key personnel could adversely affect our ability to manage our business and to implement our growth strategies, or could create a negative perception in the capital markets.

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Messrs. Rady, Chamberlain and Barton, who have extensive market knowledge and relationships and exercise substantial influence over our operational, financing, acquisition and disposition activity. Among the reasons that these individuals are important to our success is that each has a national or regional industry reputation that attracts business and investment opportunities and assists us in negotiations with lenders, existing and potential tenants and industry personnel. If we lose their services, our relationships with such personnel could diminish.

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Many of our other senior executives also have extensive experience and strong reputations in the real estate industry, which aid us in identifying opportunities, having opportunities brought to us and negotiating with tenants and build-to-suit prospects. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry participants, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Mr. Rady is involved in outside businesses, which may interfere with his ability to devote time and attention to our business and affairs.

We rely on our senior management team, including Mr. Rady, for the day-to-day operations of our business. Our employment agreement with Mr. Rady requires him to devote a substantial portion of his business time and attention to our business. Mr. Rady continues to serve as chairman of the board of directors and president of American Assets, Inc. and chairman of the board of directors of Insurance Company of the West. As such, Mr. Rady has certain ongoing duties to American Assets, Inc. and Insurance Company of the West that could require a portion of his time and attention. Although we expect that Mr. Rady will continue to devote a substantial majority of his business time and attention to us, we cannot accurately predict the amount of time and attention that will be required of Mr. Rady to perform such ongoing duties. To the extent that Mr. Rady is required to dedicate time and attention to American Assets, Inc. and/or Insurance Company of the West, his ability to devote a substantial majority of his business time and attention to our business and affairs may be limited and could adversely affect our operations.

We may be subject to on-going or future litigation, including existing claims relating to the entities that owned our properties prior to the Formation Transactions and otherwise in the ordinary course of business, which could have a material adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock.

We may be subject to on-going litigation, including claims in existence prior to the completion of the Formation Transactions relating to the entities that previously owned our properties and operated the businesses at our properties and otherwise in the ordinary course of business. Upon the completion of our initial public offering, we succeeded, as a result of completing the Formation Transactions, to certain claims arising in the ordinary course of business for unlawful detainer/eviction against certain tenants, damages for alleged breaches of leases, personal injury for slip-and-fall cases and claims with respect to the access and use of the properties by disabled persons under the ADA. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves; however, we cannot be certain of the ultimate outcomes of currently asserted claims or of those that may arise in the future. In addition, we may become subject to litigation in connection with the Formation Transactions in the event that prior investors dispute the valuation of their respective interests, the adequacy of the consideration received by them in the Formation Transactions or the interpretation of the agreements implementing the Formation Transactions. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

Potential losses from earthquakes in California, Oregon, Washington and Hawaii may not be fully covered by insurance.

Many of the properties we currently own are located in California, Oregon, Washington and Hawaii, which are areas especially subject to earthquakes. While we will carry earthquake insurance on all of our properties, the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes and will be subject to limitations involving large deductibles or co-payments. In addition, we may reduce or discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for any such policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. As a result, in the event of an earthquake, we may be required to incur significant costs, and, to the extent that a loss exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

We may not be able to rebuild our existing properties to their existing specifications if we experience a substantial or comprehensive loss of such properties.

In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications. Further, reconstruction or improvement of such a property would likely require significant upgrades to meet zoning and building code requirements. Environmental and legal restrictions could also restrict the rebuilding of our properties. For example, if we experienced a substantial or comprehensive loss of Torrey Reserve Campus in San Diego, California, reconstruction could be delayed or prevented by the California Coastal Commission, which regulates land use in the California coastal zone.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial condition and disputes between us and our co-venturers.

We may co-invest in the future with other third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. Consequently, with respect to any such arrangement we may enter into in the future, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives, and they may have competing interests in our markets that could create conflict of interest issues. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. In addition, a sale or transfer by us to a third party of our interests in the joint venture may be subject to consent rights or rights of first refusal, in favor of our joint venture partners, which would in each case restrict our ability to dispose of our interest in the joint venture. Where we are a limited partner or non-managing member in any partnership or limited liability company, if such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/ or directors from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. Our joint ventures may be subject to debt and, in the current volatile credit market, the refinancing of such debt may require equity capital calls.

Increased competition and increased affordability of residential homes could limit our ability to retain our residents, lease apartment homes or increase or maintain rents at our multifamily apartment communities.

Our multifamily apartment communities compete with numerous housing alternatives in attracting residents, including other multifamily apartment communities and single-family rental homes, as well as owner occupied single-and multifamily homes. Competitive housing in a particular area and an increase in the affordability of owner occupied single and multifamily homes due to, among other things, housing prices, oversupply, mortgage interest rates and tax incentives and government programs to promote home ownership, could adversely affect our ability to retain residents, lease apartment homes and increase or maintain rents.

Our growth depends on external sources of capital that are outside of our control and may not be available to us on commercially reasonable terms or at all, which could limit our ability, among other things, to meet our capital and operating needs or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

In order to maintain our qualification as a REIT, we are required under the Code, among other things, to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we intend to rely on third-party sources to fund our capital needs. We may not be able to obtain such financing on favorable terms or at all and any additional debt we incur will increase our leverage and likelihood of default. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market s perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock.

Recently, the capital markets have been subject to significant disruptions. If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and the real estate industry, including local oversupply, reduction in demand or adverse changes in financial conditions of buyers, sellers and tenants of properties, which could decrease revenues or increase costs, which would adversely affect our financial condition, results of operations, cash flow and the per share trading price of our common stock.

Our ability to pay expected dividends to our stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events include many of the risks set forth above under Risks Related to Our Business and Operations, as well as the following:

- local oversupply or reduction in demand for retail, office, multifamily or mixed-use space;

adverse changes in financial conditions of buyers, sellers and tenants of properties;

vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below market renewal options, and the need to periodically repair, renovate and re-let space;

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- increased operating costs, including insurance premiums, utilities, real estate taxes and state and local taxes;

- a favorable interest rate environment that may result in a significant number of potential residents of our multifamily apartment communities deciding to purchase homes instead of renting;

- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs;

- civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes and floods, which may result in uninsured or underinsured losses;

- decreases in the underlying value of our real estate;

- changing submarket demographics; and

- changing traffic patterns.

In addition, periods of economic downturn or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases, which would adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, our ability to dispose of one or more properties within a specific time period is subject to certain limitations imposed by our tax protection agreement, as well as weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, such as the recent economic downturn, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.

In addition, the Code imposes restrictions on a REIT s ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interest. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which may adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Our property taxes could increase due to property tax rate changes or reassessment, which would adversely impact our cash flows.

Even if we continue to qualify as a REIT for federal income tax purposes, we will be required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. All of the properties in our portfolio that are located in California have been or will be reassessed as a result of our initial public offering and the Formation Transactions. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past. If the property taxes we pay increase, our cash flow would be adversely impacted, and our ability to pay any expected dividends to our stockholders could be adversely affected.

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As an owner of real estate, we could incur significant costs and liabilities related to environmental matters.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating from such property, including costs to investigate, clean up such contamination and liability for harm to natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property, or adjacent properties, for commercial or industrial purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. For example, Del Monte Center is currently undergoing remediation of dry cleaning solvent contamination from a former onsite dry cleaner. The prior owner of Del Monte Center entered into a fixed fee environmental services agreement in 1997 pursuant to which the remediation will be completed for approximately $3.5 million, with the remediation costs paid for through an escrow funded by the prior owner. We expect that the funds in this escrow account will cover all remaining costs and expenses of the environmental remediation. However, if the Regional Water Quality Control Board Central Coast Region were to require further work costing more than the remaining escrowed funds, we could be required to pay such overage although we may have a claim for such costs against the prior owner or our environmental remediation consultant. In addition to the foregoing, we possess Phase I Environmental Site Assessments for certain of the properties in our portfolio. However, the assessments are limited in scope (e.g., they do not generally include soil sampling, subsurface investigations or hazardous materials survey) and may have failed to identify all environmental conditions or concerns. Furthermore, we do not have Phase I Environmental Site Assessment reports for all of the properties in our portfolio and, as such, may not be aware of all potential or existing environmental contamination liabilities at the properties in our portfolio. As a result, we could potentially incur material liability for these issues, which could adversely impact our financial condition, results of operations, cash flow and the per share trading price of our common stock.

As the owner of the buildings on our properties, we could face liability for the presence of hazardous materials (e.g., asbestos or lead) or other adverse conditions (e.g., poor indoor air quality) in our buildings. Environmental laws govern the presence, maintenance, and removal of hazardous materials in buildings, and if we do not comply with such laws, we could face fines for such noncompliance. Also, we could be liable to third parties (e.g., occupants of the buildings) for damages related to exposure to hazardous materials or adverse conditions in our buildings, and we could incur material expenses with respect to abatement or remediation of hazardous materials or other adverse conditions in our buildings. In addition, some of our tenants routinely handle and use hazardous or regulated substances and wastes as part of their operations at our properties, which are subject to regulation. Such environmental and health and safety laws and regulations could subject us or our tenants to liability resulting from these activities. Environmental liabilities could affect a tenant s ability to make rental payments to us, and changes in laws could increase the potential liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us.

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We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to you or that such costs or other remedial measures will not have an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock. If we do incur material environmental liabilities in the future, we may face significant remediation costs, and we may find it difficult to sell any affected properties.

Our properties may contain or develop harmful mold or suffer from other air quality issues, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury is alleged to have occurred.

We may incur significant costs complying with various federal, state and local laws, regulations and covenants that are applicable to our properties.

The properties in our portfolio are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or restrict our use of our properties and may require us to obtain approval from local officials of community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic or hazardous material abatement requirements. There can be no assurance that existing laws and regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our growth strategy may be affected by our ability to obtain permits, licenses and zoning relief. Our failure to obtain such permits, licenses and zoning relief or to comply with applicable laws could have an adverse effect on our financial condition, results of operations, cash flow and per share trading price of our common stock.

In addition, federal and state laws and regulations, including laws such as the ADA and the FHAA, impose further restrictions on our properties and operations. Under the ADA and the FHAA, all public accommodations must meet federal requirements related to access and use by disabled persons. Some of our properties may currently be in non-compliance with the ADA or the FHAA. If one or more of the properties in our portfolio is not in compliance with the ADA, the FHAA or any other regulatory requirements, we may be required to incur additional costs to bring the property into compliance and we might incur governmental fines or the award of damages to private litigants. In addition, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely impact our financial condition, results of operations, cash flow and per share trading price of our common stock.

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Risks Related to Our Organizational Structure

Ernest S. Rady and his affiliates, directly or indirectly, own a substantial beneficial interest in our company on a fully diluted basis and have the ability to exercise significant influence on our company and our Operating Partnership, including the approval of significant corporate transactions.

As of December 31, 2012, Mr. Rady and his affiliates owned approximately 13.9% of our outstanding common stock and 26.6% of our outstanding common units, which together represent an approximate 35.8% beneficial interest in our company on a fully diluted basis. Consequently, Mr. Rady may be able to significantly influence the outcome of matters submitted for stockholder action, including the approval of significant corporate transactions, including business combinations, consolidations and mergers. In addition, we may not, without prior limited partner approval, directly or indirectly transfer all or any portion of our interest in the Operating Partnership before the later of the death of Mr. Rady and the death of his wife, in connection with a merger, consolidation or other combination of our assets with another entity, a sale of all or substantially all of our assets, a reclassification, recapitalization or change in any outstanding shares of our stock or other outstanding equity interests or an issuance of shares of our stock, in any case that requires approval by our common stockholders. As a result, Mr. Rady has substantial influence on us and could exercise his influence in a manner that conflicts with the interests of other stockholders.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of units in our Operating Partnership, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our Operating Partnership or any partner thereof, on the other. Our directors and officers have duties to our company under Maryland law in connection with their management of our company. At the same time, we, as the general partner of our Operating Partnership, have fiduciary duties and obligations to our Operating Partnership and its limited partners under Maryland law and the partnership agreement of our Operating Partnership in connection with the management of our Operating Partnership. Our fiduciary duties and obligations as the general partner of our Operating Partnership may come into conflict with the duties of our directors and officers to our company.

Under Maryland law, a general partner of a Maryland limited partnership has fiduciary duties of loyalty and care to the partnership and its partners and must discharge its duties and exercise its rights as general partner under the partnership agreement or Maryland law consistently with the obligation of good faith and fair dealing. The partnership agreement provides that, in the event of a conflict between the interests of our Operating Partnership or any partner, on the one hand, and the separate interests of our company or our stockholders, on the other hand, we, in our capacity as the general partner of our Operating Partnership, are under no obligation not to give priority to the separate interests of our company or our stockholders, and that any action or failure to act on our part or on the part of our directors that gives priority to the separate interests of our company or our stockholders that does not result in a violation of the contract rights of the limited partners of the Operating Partnership under its partnership agreement does not violate the duty of loyalty that we, in our capacity as the general partner of our Operating Partnership, owe to the Operating Partnership and its partners.

Additionally, the partnership agreement provides that we will not be liable to the Operating Partnership or any partner for monetary damages for losses sustained, liabilities incurred or benefits not derived by the Operating Partnership or any limited partner, except for liability for our intentional harm or gross negligence. Our Operating Partnership must indemnify us, our directors and officers, officers of our Operating Partnership and our designees from and against any and all claims that relate to the operations of our Operating Partnership, unless (1) an act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active and deliberate dishonesty, (2) the person actually received an improper personal benefit in violation or breach of the partnership agreement or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. Our

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Operating Partnership must also pay or reimburse the reasonable expenses of any such person upon its receipt of a written affirmation of the person s good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay any amounts paid or advanced if it is ultimately determined that the person did not meet the standard of conduct for indemnification. Our Operating Partnership will not indemnify or advance funds to any person with respect to any action initiated by the person seeking indemnification without our approval (except for any proceeding brought to enforce such person s right to indemnification under the partnership agreement) or if the person is found to be liable to our Operating Partnership on any portion of any claim in the action. No reported decision of a Maryland appellate court has interpreted provisions similar to the provisions of the partnership agreement of our Operating Partnership that modify and reduce our fiduciary duties or obligations as the general partner or reduce or eliminate our liability for money damages to the Operating Partnership and its partners, and we have not obtained an opinion of counsel as to the enforceability of the provisions set forth in the partnership agreement that purport to modify or reduce the fiduciary duties that would be in effect were it not for the partnership agreement.

We assumed unknown liabilities in connection with the Formation Transactions, and any recourse against third parties, including the prior investors in our assets, for certain of these liabilities will be limited.

As part of the Formation Transactions, we acquired entities and assets that were subject to existing liabilities, some of which may be unknown or unquantifiable. These liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims by tenants, vendors or other persons dealing with our predecessor entities (that had not been asserted or threatened prior to our initial public offering), tax liabilities and accrued but unpaid liabilities incurred in the ordinary course of business. While in some instances we may have the right to seek reimbursement against an insurer, any recourse against third parties, including the prior investors in our assets, for certain of these liabilities will be limited. There can be no assurance that we will be entitled to any such reimbursement or that ultimately we will be able to recover in respect of such rights for any of these historical liabilities.

Our charter and bylaws, the partnership agreement of our Operating Partnership and Maryland law contain provisions that may delay, defer or prevent a change of control transaction that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Our charter contains certain ownership limits with respect to our stock. Our charter, subject to certain exceptions, authorizes our board of directors to take such actions as it determines are advisable to preserve our qualification as a REIT. Our charter also prohibits the actual, beneficial or constructive ownership by any person of more than 7.275% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 7.275% in value of the aggregate outstanding shares of all classes and series of our stock, excluding any shares that are not treated as outstanding for federal income tax purposes. Our board of directors, in its sole and absolute discretion, may exempt a person, prospectively or retroactively, from these ownership limits if certain conditions are satisfied. Our board of directors has granted to each of (1) Mr. Rady (and certain of his affiliates), (2) Cohen & Steers Management, Inc. and (3) RREEF America L.L.C. an exemption from the ownership limits that will allow them to own, in the aggregate, up to 19.9%, 15% and 10%, respectively, in value or in number of shares, whichever is more restrictive, of our outstanding common stock, subject to various conditions and limitations. The restrictions on ownership and transfer of our stock may:

- discourage a tender offer or other transactions or a change in management or of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests; or

- result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

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We could increase the number of authorized shares of stock, classify and reclassify unissued stock and issue stock without stockholder approval.

Our board of directors, without stockholder approval, has the power under our charter to amend our charter to increase the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue, to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into one or more classes or series of stock and set the terms of such newly classified or reclassified shares. As a result, we may issue series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common stock. Although our board of directors has no such intention at the present time, it could establish a class or series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Certain provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price and/or supermajority and stockholder voting requirements on these combinations; and

- control share provisions that provide that control shares of our company (defined as shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights with respect to their control shares, except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by the MGCL, our board of directors has, by board resolution, elected to opt out of the business combination provisions of the MGCL. However, we cannot assure you that our board of directors will not opt to be subject to such business combination provisions of the MGCL in the future.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. These provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby we elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors.

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Certain provisions in the partnership agreement of our Operating Partnership may delay or prevent unsolicited acquisitions of us.

Provisions in the partnership agreement of our Operating Partnership may delay, or make more difficult, unsolicited acquisitions of us or changes of our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- a requirement that we may not be removed as the general partner of our Operating Partnership without our consent;
- transfer restrictions on common units;
- our ability, as general partner, in some cases, to amend the partnership agreement and to cause the Operating Partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our Operating Partnership without the consent of the limited partners; and
- the right of the limited partners to consent to direct or indirect transfers of the general partnership interest, including as a result of a merger or a sale of all or substantially all of our assets, in the event that such transfer requires approval by our common stockholders.

In particular, we may not, without prior partnership approval, directly or indirectly transfer all or any portion of our interest in our Operating Partnership, before the later of the death of Mr. Rady and the death of his wife, in connection with a merger, consolidation or other combination of our assets with another entity, a sale of all or substantially all of our assets, a reclassification, recapitalization or change in any outstanding shares of our stock or other outstanding equity interests or an issuance of shares of our stock, in any case that requires approval by our common stockholders. The partnership approval requirement is satisfied, with respect to such a transfer, when the sum of (1) the percentage interest of limited partners consenting to the transfer of our interest, plus (2) the product of (a) the percentage of the outstanding common units held by us multiplied by (b) the percentage of the votes that were cast in favor of the event by our common stockholders equals or exceeds the percentage required for our common stockholders to approve the event resulting in the transfer. As of December 31, 2012, the limited partners, including Mr. Rady and his affiliates and our other executive officers and directors, owned approximately 31.6% of our outstanding common units and approximately 15.8% of our outstanding common stock, which together represent an approximate 42.1% beneficial interest in our company on a fully diluted basis.

Our charter and bylaws, the partnership agreement of our Operating Partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Tax protection agreements could limit our ability to sell or otherwise dispose of certain properties, even though a sale or disposition may otherwise be in our stockholders best interest.

In connection with the Formation Transactions, we entered into tax protection agreements with certain limited partners of our Operating Partnership, including Mr. Rady and his affiliates and an affiliate of Mr. Chamberlain, that provide that if we dispose of any interest with respect to Carmel Country Plaza, Carmel Mountain Plaza, Del Monte Center, Loma Palisades, Lomas Santa Fe Plaza, Waikele Center or the ICW Plaza portion of Torrey Reserve Campus, which we collectively refer to as the tax protected properties, in a taxable transaction during the period from the closing of our initial public offering through the seventh anniversary of such closing, we will indemnify such limited partners for their tax liabilities attributable to their share of the built-in gain that existed with respect to such property interest as of the time of our initial public offering and tax liabilities incurred as a result of the reimbursement payment; provided that, subject to certain exceptions and limitations, such indemnification rights will terminate for any such protected partner that sells, exchanges or otherwise disposes of more than 50% of his or her common units. Notwithstanding the foregoing the Operating

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Partnership s indemnification obligations under the tax protection agreement will terminate upon the later of the death of Mr. Rady and the death of his wife. The tax protected properties represented 29.0% of our portfolio s annualized base rent as of December 31, 2012 and including total revenue for Waikiki Beach Walk-Embassy Suites for the 12 month period ended December 31, 2012. We have no present intention to sell or otherwise dispose of the properties or interest therein in taxable transactions during the restriction period. If we were to trigger the tax protection provisions under these agreements, we would be required to pay damages in the amount of the taxes owed by these limited partners (plus additional damages in the amount of the taxes incurred as a result of such payment). In addition, although it may otherwise be in our stockholders best interest that we sell one of these properties, it may be economically prohibitive for us to do so because of these obligations.

Our tax protection agreements may require our Operating Partnership to maintain certain debt levels that otherwise would not be required to operate our business.

Our tax protection agreements provide that during the period from the closing of our initial public offering through the seventh anniversary of such closing, our Operating Partnership will offer certain holders of common units the opportunity to guarantee its debt, and following such period, our Operating Partnership will use commercially reasonable efforts to provide such prior investors with debt guarantee opportunities. We will be required to indemnify such holders for their tax liabilities resulting from our failure to make such opportunities available to them (and any tax liabilities incurred as a result of the indemnity payment). Notwithstanding the foregoing the Operating Partnership s indemnification obligations under the tax protection agreement will terminate upon the later of the death of Mr. Rady and the death of his wife. Subject to certain exceptions and limitations, such holders rights to guarantee opportunities will terminate for any given holder that sells, exchanges or otherwise disposes of more than 50% of his or her common units. We agreed to these provisions in order to assist certain prior investors in deferring the recognition of taxable gain as a result of and after the formation transactions. These obligations may require us to maintain more or different indebtedness than we would otherwise require for our business.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our investment and financing policies are exclusively determined by our board of directors. Accordingly, our stockholders do not control these policies. Further, our charter and bylaws do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged which could result in an increase in our debt service. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk. Changes to our policies with regards to the foregoing could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

As permitted by Maryland law, our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or

- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from such director or officer will be limited.

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We are a holding company with no direct operations and, as such, we will rely on funds received from our Operating Partnership to pay liabilities, and the interests of our stockholders will be structurally subordinated to all liabilities and obligations of our Operating Partnership and its subsidiaries.

We are a holding company and conduct substantially all of our operations through our Operating Partnership. We do not have, apart from an interest in our Operating Partnership, any independent operations. As a result, we rely on distributions from our Operating Partnership to pay any dividends we might declare on shares of our common stock. We also rely on distributions from our Operating Partnership to meet our obligations, including any tax liability on taxable income allocated to us from our Operating Partnership. In addition, because we are a holding company, claims of stockholders are structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our Operating Partnership and its subsidiaries will be available to satisfy the claims of our stockholders only after all of our and our Operating Partnership s and its subsidiaries liabilities and obligations have been paid in full.

Our Operating Partnership may issue additional partnership units to third parties without the consent of our stockholders, which would reduce our ownership percentage in our Operating Partnership and would have a dilutive effect on the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our stockholders.

We may, in connection with our acquisition of properties or otherwise, issue additional partnership units to third parties. Such issuances would reduce our ownership percentage in our Operating Partnership and affect the amount of distributions made to us by our Operating Partnership and, therefore, the amount of distributions we can make to our stockholders. To the extent that our stockholders do not directly own partnership units, our stockholders will not have any voting rights with respect to any such issuances or other partnership level activities of our Operating Partnership.

Our operating structure subjects us to the risk of increased hotel operating expenses.

Our lease with our TRS lessee requires our TRS lessee to pay us rent based in part on revenues from the Waikiki Beach Walk-Embassy Suites . Our operating risks include decreases in hotel revenues and increases in hotel operating expenses, which would adversely affect our TRS lessee s ability to pay us rent due under the lease, including but not limited to the increases in:

- wage and benefit costs;
- repair and maintenance expenses;
- energy costs;
- property taxes;
- insurance costs; and
- other operating expenses.

Increases in these operating expenses can have an adverse impact on our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

Future sales of common stock or common units by our directors and officers, or their pledgees, as a result of margin calls or foreclosures could adversely affect the price of our common stock and could, in the future, result in a loss of control of our company.

Our directors and officers may pledge shares of common stock or common units owned or controlled by them as collateral for loans or for margin purposes in favor of third parties. Depending on the status of the various loan obligations for which the stock or units ultimately serve as collateral and the trading price of our

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common stock, our directors and/or officers, and their affiliates, may experience a foreclosure or margin call that could result in the sale of the pledged stock or units, in the open market or otherwise. Unlike for our directors and officers, sales by these pledgees may not be subject to the volume limitations of Rule 144 of the Securities Act. A sale of pledged stock or units by pledgees could result in a loss of control of our company, depending upon the number of shares of stock or units sold and the ownership interests of other stockholders. In addition, sale of these shares or units, or the perception of possible future sales, could have a materially adverse effect on the trading price of our common stock or make it more difficult for us to raise additional capital through sales of equity securities.

Risks Related to Our Status as a REIT

Failure to maintain our qualification as a REIT would have significant adverse consequences to us and the value of our common stock.

We elected to be taxed and to operate in a manner that allowed us to qualify as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2011. We have not requested and do not plan to request a ruling from the Internal Revenue Service, or IRS, that we qualify as a REIT. Therefore, we cannot be assured that we will qualify as a REIT, or that we will remain qualified as such in the future. If we lose our REIT status, we will face serious tax consequences that would substantially reduce the funds available for distribution to you for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Any such corporate tax liability could be substantial and would reduce our cash available for, among other things, our operations and distributions to stockholders. In addition, if we fail to maintain our qualification as a REIT, we will not be required to make distributions to our stockholders. As a result of all these factors, our failure to maintain our qualification as a REIT also could impair our ability to expand our business and raise capital, and could materially and adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code, or the Treasury Regulations, is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to maintain our qualification as a REIT. In order to maintain our qualification as a REIT, we must satisfy a number of requirements, including requirements regarding the ownership of our stock, requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as rents from real property. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially adversely affect our investors, our ability maintain our qualification as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we maintain our qualification as a REIT for federal income tax purposes, we may be subject to some federal, state and local income, property and excise taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our taxable REIT subsidiaries will be subject to tax as regular corporations in the jurisdictions they operate.

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If our Operating Partnership failed to qualify as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

We believe that our Operating Partnership will be treated as a partnership for federal income tax purposes. As a partnership, our Operating Partnership will not be subject to federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our Operating Partnership s income. We cannot be assured, however, that the IRS will not challenge the status of our Operating Partnership or any other subsidiary partnership in which we own an interest as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our Operating Partnership or any such other subsidiary partnership as an entity taxable as a corporation for federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT. Also, the failure of our Operating Partnership or any subsidiary partnerships to qualify as a partnership could cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

Our ownership of taxable REIT subsidiaries will be limited, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our taxable REIT subsidiaries are not conducted on arm s length terms.

We own an interest in one taxable REIT subsidiary, our TRS lessee, and may acquire securities in additional taxable REIT subsidiaries in the future. A taxable REIT subsidiary is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a taxable REIT subsidiary. If a taxable REIT subsidiary owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a taxable REIT subsidiary. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to federal income tax as a regular C corporation. In addition, a 100% excise tax will be imposed on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm s length basis.

A REIT s ownership of securities of a taxable REIT subsidiary is not subject to the 5% or 10% asset tests applicable to REITs. Not more than 25% of our total assets may be represented by securities (including securities of one or more taxable REIT subsidiaries), other than those securities includable in the 75% asset test. We anticipate that the aggregate value of the stock and securities of our taxable REIT subsidiaries and other nonqualifying assets will be less than 25% of the value of our total assets, and we will monitor the value of these investments to ensure compliance with applicable ownership limitations. In addition, we intend to structure our transactions with our taxable REIT subsidiaries to ensure that they are entered into on arm s length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation or to avoid application of the 100% excise tax discussed above.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions, and the unavailability of such capital on favorable terms at the desired times, or at all, may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, which could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

To maintain our REIT status, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income

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and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market s perception of our growth potential, our current debt levels, the market price of our common stock, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, and could adversely affect our financial condition, results of operations, cash flow and per share trading price of our common stock.

We may in the future choose to make dividends payable partly in our common stock, in which case you may be required to pay tax in excess of the cash you receive.

To maintain our REIT status, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, excluding net capital gains. In order to preserve cash to repay debt or for other reasons, we may satisfy the REIT distribution requirements by distributing taxable dividends that are payable partly in our stock and partly in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, such sales may have an adverse effect on the per share trading price of our common stock.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from qualified dividends payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for the 20% rate. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the per share trading price of our common stock.

The tax imposed on REITs engaging in prohibited transactions may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

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Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To maintain our qualification as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement could cause us to: (1) sell assets in adverse market conditions; (2) borrow on unfavorable terms; or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could have an adverse effect on our business results, profitability and ability to execute our business plan. Moreover, if we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

Legislative or other actions affecting REITs could have a negative effect on us, including our ability to maintain our qualification as a REIT or the federal income tax consequences of such qualification.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our Portfolio

As of December 31, 2012, our operating portfolio was comprised of 23 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space (including mixed-use retail space), 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of December 31, 2012, we owned land at five of our properties that we classified as held for development.

Retail and Office Portfolios

Property	Location	Year Built/ Renovated	Number of Buildings	Net Rentable Square Feet	Percentage Leased	Annualized Base Rent	Annualized Base Rent Per Leased Square Foot
RETAIL PROPERTIES							
Carmel Country Plaza	San Diego, CA	1991	9	78,098	100.0%	$ 3,418,273	$ 43.77
Carmel Mountain Plaza[1]	San Diego, CA	1994	13	520,228	92.1	10,333,487	21.57
South Bay Marketplace[1]	San Diego, CA	1997	9	132,877	100.0	2,150,465	16.18
Rancho Carmel Plaza	San Diego, CA	1993	3	30,421	89.3	765,496	28.18
Lomas Santa Fe Plaza	Solana Beach, CA	1972/1997	9	209,569	94.8	5,265,448	26.50
Solana Beach Towne Centre	Solana Beach, CA	1973/2000/2004	12	246,730	99.4	5,652,581	23.05
Del Monte Center [1]	Monterey, CA	1967/1984/2006	16	676,571	98.9	9,192,149	13.74
Geary Marketplace	Walnut Creek, CA	2012	3	35,156	100.0	1,068,883	30.40
The Shops at Kalakaua	Honolulu, HI	1971/2006	3	11,671	100.0	1,569,640	134.49
Waikele Center	Waipahu, HI	1993/2008	9	537,823	94.8	17,616,476	34.55
Alamo Quarry Market [1]	San Antonio, TX	1997/1999	16	589,501	99.9	12,895,221	21.90
Subtotal / Weighted Average Retail Portfolio			102	3,068,645	97.0%	$ 69,928,119	$ 23.49
OFFICE PROPERTIES							
Torrey Reserve	San Diego, CA	1996-2000	9	456,850	93.1%	$ 15,431,733	$ 36.28
Solana Beach Corporate Centre	Solana Beach, CA	1982/2005	4	212,019	93.5	6,752,284	34.06
The Landmark at One Market [2]	San Francisco, CA	1917/2000	1	421,934	100.0	18,966,745	44.95
One Beach Street	San Francisco, CA	1924/1972/1987/1992	1	97,614	100.0	2,794,437	28.63
First & Main	Portland, OR	2010	1	361,229	98.8	11,150,871	31.24
Lloyd District Portfolio	Portland, OR	1940-2011	6	605,413	85.3	11,462,073	22.20
City Center Bellevue	Bellevue, WA	1987	1	490,508	92.1	13,595,919	30.10
Subtotal / Weighted Average Office Portfolio			23	2,645,567	93.3%	$ 80,154,062	$ 32.47
Total / Weighted Average Retail and Office Portfolio			**125**	**5,714,212**	**95.3%**	**$ 150,082,181**	**$ 27.56**

Mixed-Use Portfolio

Retail Portion	Location	Year Built/ Renovated	Number of Buildings	Net Rentable Square Feet	Percent Leased	Annualized Base Rent	Annualized Base Rent Per Leased Square Foot
Waikiki Beach Walk Retail[3]	Honolulu, HI	2006	3	96,707	95.5%	$ 9,977,318	$ 108.03

Hotel Portion	Location	Year Built/ Renovated	Number of	Units	Average Occupancy	Average Daily Rate	Revenue per

			Buildings				Available Room
Waikiki Beach Walk Embassy Suites™	Honolulu, HI	2008	2	369	88.9%	$ 264.06	$ 234.75

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Multifamily Portfolio

Property	Location	Year Built/ Renovated	Number of Buildings	Units	Percentage Leased	Annualized Base Rent	Average Monthly Base Rent per Leased Unit
Loma Palisades	San Diego, CA	1958/2001-2008	80	548	97.4%	$ 9,932,424	$ 1,551
Imperial Beach Gardens	Imperial Beach, CA	1959/2008-present	26	160	98.8	2,619,372	1,381
Mariner s Point	Imperial Beach, CA	1986	8	88	100	1,189,188	1,126
Santa Fe Park RV Resort (4)	San Diego, CA	1971/2007-2008	1	126	74.0	913,200	816
Total / Weighted Average Multifamily			**115**	**922**	**94.7%**	**$ 14,654,184**	**$ 1,399**

(1) Net rentable square feet at certain of our retail properties includes square footage leased pursuant to ground leases, as described in the following table:

Property	Number of Ground Leases	Square Footage Leased Pursuant to Ground Leases	Aggregate Annualized Base Rent
Carmel Mountain Plaza	6	127,112	$ 1,020,900
South Bay Marketplace	1	2,824	$ 91,320
Del Monte Center	2	295,100	$ 201,291
Alamo Quarry Market	4	31,994	$ 459,075

(2) This property contains 421,934 net rentable square feet consisting of The Landmark at One Market (377,714 net rentable square feet) as well as a separate long-term leasehold interest in approximately 44,220 net rentable square feet of space located in an adjacent six-story leasehold known as the Annex. We currently lease the Annex from an affiliate of the Paramount Group pursuant to a long-term master lease effective through June 30, 2016, which we have the option to extend until 2026 pursuant to two five-year extension options.

(3) Waikiki Beach Walk-Retail contains 96,707 net rentable square feet consisting of 94,093 net rentable square feet that we own in fee and approximately 2,614 net rentable square feet of space in which we have a subleasehold interest pursuant to a sublease from First Hawaiian Bank effective through December 31, 2021.

(4) The Santa Fe Park RV Resort is subject to seasonal variation, with higher rates of occupancy occurring during the summer months. The number of units at the Santa Fe Park RV Resort includes 122 RV spaces and four apartments.

In the tables above:

The net rentable square feet for each of our retail properties and the retail portion of our mixed-use property is the sum of (1) the square footages of existing leases, plus (2) for available space, the field-verified square footage. The net rentable square feet for each of our office properties is the sum of (1) the square footages of existing leases, plus (2) for available space, management s estimate of net rentable square feet based, in part, on past leases. The net rentable square feet included in such office leases is generally determined consistently with the Building Owners and Managers Association, or BOMA, 1996 measurement guidelines.

Percentage leased for each of our retail and office properties and the retail portion of the mixed-use property is calculated as square footage under leases as of December 31, 2012, divided by net rentable square feet, expressed as a percentage. The square footage under lease includes leases which may not have commenced as of December 31, 2012. Percentage leased for our multifamily properties is calculated as total units rented as of December 31, 2012, divided by total units available, expressed as a percentage.

Annualized base rent is calculated by multiplying base rental payments (defined as cash base rents, before abatements) for the month ended December 31, 2012, by 12. Annualized base rent per leased square foot is calculated by dividing annualized base rent, by square footage under lease as of December 31, 2012. In the case of triple net or modified gross leases, annualized base rent does not include tenant reimbursements for real estate taxes, insurance, common area or other operating

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expenses. Total abatements for leases in effect as of December 31, 2012 for our retail and office portfolio equaled approximately $4.6 million for the year ended December 31, 2012. There were no abatements for the retail portion of our mixed-use portfolio for the year ended December 31, 2012. Total abatements for leases in effect as of December 31, 2012 for our multifamily portfolio equaled approximately $0.03 million for the year ended December 31, 2012.

Units represent the total number of units available for sale/rent at December 31, 2012.

Average occupancy represents the percentage of available units that were sold during the 12-month period ended December 31, 2012, and is calculated by dividing the number of units sold by the product of the total number of units and the total number of days in the period. Average daily rate represents the average rate paid for the units sold and is calculated by dividing the total room revenue (i.e., excluding food and beverage revenues or other hotel operations revenues such as telephone, parking and other guest services) for the 12-month period ended December 31, 2012, by the number of units sold. Revenue per available room, or RevPAR, represents the total unit revenue per total available units for the 12-month period ended December 31, 2012 and is calculated by multiplying average occupancy by the average daily rate. RevPAR does not include food and beverage revenues or other hotel operations revenues such as telephone, parking and other guest services.

Average monthly base rent per leased unit represents the average monthly base rent per leased units for the 12-month period ended December 31, 2012.

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Tenant Diversification

At December 31, 2012, our operating portfolio had approximately 776 leases with office and retail tenants, of which 4 expired on December 31, 2012 and 10 had not yet commenced. Our residential properties had approximately 780 leases with residential tenants at December 31, 2012, excluding Santa Fe Park RV Resort. The retail portion of our mixed-use property had approximately 61 leases with retailers. No one tenant or affiliated group of tenants accounted for more than 6.6% of our annualized base rent as of December 31, 2012 for our retail, office and retail portion of our mixed-use property portfolio. The following table sets forth information regarding the 25 tenants with the greatest annualized base rent for our combined retail, office and retail portion of our mixed-use property portfolios as of December 31, 2012.

Tenant	Property(ies)	Lease Expiration	Total Leased Square Feet	Rentable Square Feet as a Percentage of Total	Annualized Base Rent [1]	Annualized Base Rent as a Percentage of Total
salesforce.com, inc.	The Landmark at One Market	6/30/2019 4/30/2020 5/31/2021	226,892	3.9%	$ 10,624,175	6.6%
Lowe s	Waikele Center	5/31/2018	155,000	2.7	4,221,786	2.6
Kmart	Waikele Center	6/30/2018	119,590	2.1	3,826,880	2.4
Veterans Benefits Administration	First & Main	8/31/2020	93,572	1.6	3,006,453	1.9
Autodesk, Inc. [2]	The Landmark at One Market	12/31/2015 12/31/2017	68,869	1.2	2,984,838	1.9
Microsoft Corporation [2]	The Landmark at One Market	12/31/2012	45,795	0.8	2,976,675	1.9
Treasury Tax Administration [3]	First & Main	8/31/2015	70,660	1.2	2,583,330	1.6
Insurance Company of the West	Torrey Reserve Campus	12/31/2016	81,040	1.4	2,449,631	1.5
Foodland Super Market [4]	Waikele Center	1/25/2014	50,000	0.9	2,430,981	1.5
Treasury Call Center [5]	First & Main	8/31/2020	63,648	1.1	2,184,302	1.4
Caradigm USA LLC	City Center Bellevue	8/14/2017	68,956	1.2	2,103,158	1.3
Sports Authority	Carmel Mountain Plaza, Waikele Center	11/30/2013 7/18/2018	90,722	1.6	2,076,602	1.3
Nordstrom Rack	Carmel Mountain Plaza, Alamo Quarry Market	9/30/2022 10/31/2022	69,047	1.2	1,990,316	1.2
Quicksilver	Waikiki Beach Walk	12/31/2015	8,365	0.1	1,978,920	1.2
Alliant International University	One Beach Street	10/31/2019	64,161	1.1	1,775,176	1.1
Sprouts Farmers Market	Solana Beach Towne Centre, Carmel Mountain Plaza, Geary Marketplace	6/30/2014 3/31/2025 9/30/2032	71,431	1.2	1,763,776	1.1
Ross Dress for Less	Lomas Santa Fe Plaza, Carmel Mountain Plaza, South Bay Marketplace	1/31/2013 1/31/2014 1/31/2018	81,125	1.4	1,595,826	1.0
Portland Energy Conservation [6]	First & Main	1/31/2021	73,422	1.3	1,588,118	1.0
Integra Telecom Holdings	Lloyd District Portfolio	1/31/2014 5/31/2014	62,588	1.1	1,540,625	1.0
California Bank & Trust	Torrey Reserve Campus	5/31/2019 10/31/2019	29,985	0.5	1,403,806	0.9
HDR Engineering	City Center Bellevue	12/31/2017	54,290	0.9	1,402,407	0.9
McDermott Will & Emery [7]	Torrey Reserve Campus	11/30/2018	25,044	0.4	1,362,208	0.9
Inome, Inc.	City Center Bellevue	7/31/2017	37,276	0.6	1,360,574	0.9
Old Navy	South Bay Marketplace, Waikele Center,Alamo Quarry Market	4/30/2016 7/31/2016 9/30/2017	59,780	1.0	*	*

Officemax	Waikele Center, Alamo Quarry Market	1/31/2014 9/30/2017	47,962	0.8	1,176,511	0.7
TOTAL			**1,819,220**	**31.3%**	**$ 60,407,074**	**37.8%**

* Data withheld at tenant s request.

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(1) Annualized base rent is calculated by multiplying (i) base rental payments (defined as cash base rents before abatements) for the month ended December 31, 2012 for the applicable lease(s) by (ii) 12.
(2) Autodesk has entered into a lease to expand into the 45,795 square feet of space previously leased by Microsoft. Between December 2007 and December 2012, Autodesk subleased 45,795 square feet of space leased to Microsoft at The Landmark at One Market. We entered into a lease directly with Autodesk for Autodesk to take over this space upon the termination of Microsoft s lease in December 2012 at an initial annualized base rent of $47.00 per square foot.
(3) The earliest option termination date under this lease is September 1, 2013.
(4) Foodland Super Market, Ltd. has ceased all operations in its leased premises and has subleased the premises to International Church of the Foursquare Gospel. Although we are currently collecting the rent for the leased premises, Foodland Super Market, Ltd. s lease expires in 2014 and it is unlikely that it will renew its lease with us. We expect to collect the full amount remaining under the lease in accordance with its terms; however, there can no assurances that we will do so.
(5) The earliest option termination date under this lease is September 1, 2017.
(6) The earliest option termination date under this lease is February 1, 2016.
(7) McDermott Will & Emery has vacated this space in conjunction with its relocation to a new office building, and they have subleased a portion of this space. We will continue to collect rent from McDermott Will & Emery regardless of whether the remaining space is subleased. The lease has an early termination option on January 1, 2015.

Geographic Diversification

Our properties are located in Southern California, Northern California, Oregon, Washington, Texas and Hawaii. The following table shows the number of properties, the net rentable square feet and the percentage of total portfolio net rentable square footage in each region as of December 31, 2012. Our four multifamily properties are excluded from the table below and are all located in Southern California. The hotel portion of our mixed-use property is also excluded and is located in Hawaii.

Region	Number of Properties	Net Rentable Square Feet	Percentage of Net Rentable Square Feet (1)
Southern California	8	1,886,792	32.5%
Northern California	4	1,231,275	21.2
Oregon	2	966,642	16.6
Washington	1	490,508	8.4
Texas	1	589,501	10.1
Hawaii (2)	3	646,201	11.1
Total	**19**	**5,810,919**	**100.0%**

(1) Percentage of Net Rentable Square Feet is calculated based on the total net rentable square feet available in our retail portfolio, office portfolio and the retail portion of our mixed-use portfolio.
(2) Includes the retail portion related to the mixed-use property.

Segment Diversification

The following table sets forth information regarding the total property operating income for each of our segments for the year ended December 31, 2012 (dollars in thousands).

Segment	Number of Properties	Property Operating Income	Percentage of Property Operating Income
Retail	11	$ 67,036	44.9%
Office	7	54,321	36.3
Mixed-Use	1	8,938	6.0
Multifamily	4	19,057	12.8

Total	**23**	**$ 149,352**	**100.0%**

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Lease Expirations

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2012, plus available space, for each of the ten calendar years beginning January 1, 2013 at the properties in our retail portfolio, office portfolio and the retail portion of our mixed-use portfolio. The square footage of available space includes the space from four leases that terminated on December 31, 2012. In 2013, we expect a similar level of leasing activity for new and expiring leases compared to prior years with overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

The lease expirations for our multifamily portfolio and the hotel portion of our mixed-use portfolio are excluded from this table because multifamily unit leases generally have lease terms ranging from 7 to 15 months, with a majority having 12-month lease terms, and because rooms in the hotel are rented on a nightly basis. The information set forth in the table assumes that tenants do not exercise any renewal options.

Year of Lease Expiration	Square Footage of Expiring Leases	Percentage of Portfolio Net Rentable Square Feet	Annualized Base Rent (1)	Percentage of Portfolio Annualized Base Rent	Annualized Base Rent Per Leased Square Foot (2)
Available	274,778	4.7%	$	%	$
Month to Month	59,936	1.0	905,633	0.6	15.11
2013	517,447	8.9	15,414,746	9.6	29.79
2014	636,750	11.0	19,210,748	12.0	30.17
2015	641,066	11.0	20,905,162	13.1	32.61
2016	449,693	7.7	15,631,329	9.8	34.76
2017	643,725	11.1	21,564,788	13.5	33.50
2018	1,122,332	19.3	22,727,223	14.2	20.25
2019	335,523	5.8	12,431,127	7.8	37.05
2020	379,463	6.5	11,391,479	7.1	30.02
2021	241,303	4.2	8,648,300	5.3	35.84
2022	163,636	2.8	5,265,806	3.3	32.18
Thereafter	259,482	4.5	5,962,896	3.7	22.98
Signed Leases Not Commenced	85,785	1.5			
Total:	**5,810,919**	**100.0%**	**$ 160,059,237**	**100.0%**	**$ 27.54**

(1) Annualized base rent is calculated by multiplying base rental payments (defined as cash base rents (before abatements)) for the month ended December 31, 2012 for the leases expiring during the applicable period, by 12.

(2) Annualized base rent per leased square foot is calculated by dividing annualized base rent for leases expiring during the applicable period by square footage under such expiring leases.

ITEM 3. LEGAL PROCEEDINGS

We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation if determined adversely to us. We may be subject to on-going litigation, including existing claims relating to American Assets, Inc., certain prior direct and indirect owners of our portfolio and the properties comprising our portfolio and we expect to otherwise be party from time to time to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of our common stock began trading on the NYSE under the symbol AAT on January 13, 2011. Prior to that time there was no public market for our common stock. On February 15, 2013, the reported close sale price per share was $29.66.

	Per Share Price		Dividend per
Period	Low	High	Common Share
First Quarter (January 13 - March 31) 2011	$ 20.45	$ 22.00	$ 0.17
Second Quarter 2011	$ 21.10	$ 23.34	$ 0.21
Third Quarter 2011	$ 17.73	$ 23.25	$ 0.21
Fourth Quarter 2011	$ 16.47	$ 21.66	$ 0.21
First Quarter 2012	$ 19.92	$ 23.11	$ 0.21
Second Quarter 2012	$ 22.16	$ 24.25	$ 0.21
Third Quarter 2012	$ 24.63	$ 28.00	$ 0.21
Fourth Quarter 2012	$ 26.03	$ 28.41	$ 0.21

On February 15, 2013, we had 49 stockholders of record of our common stock. Certain shares are held in street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Distribution Policy

We pay and intend to continue to pay regular quarterly dividends to holders of our common stock and to make dividend distributions that will enable us to meet the distribution requirements applicable to REITs and to eliminate or minimize our obligation to pay income and excise taxes. Dividend amounts depend on our available cash flows, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as our board of directors deems relevant.

Recent Sales of Unregistered Equity Securities; Use of Proceeds from Registered Securities

On January 19, 2011, we completed our initial public offering, a sale of 31,625,000 shares of common stock at an offering price of $20.50 per share pursuant to (1) a Registration Statement on Form S-11, as amended (Reg. No. 333-169326) that was declared effective by the SEC on January 12, 2011 and (2) an immediately effective Registration Statement on Form S-11 (Reg. No. 333-171680) filed with the SEC on January 13, 2011 pursuant to Rule 462(b) of the Securities Act. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and Morgan Stanley & Co. Incorporated acted as joint book-running managers for our initial public offering and as representatives of the underwriters. We received net proceeds from our initial public offering of approximately $594.6 million, reflecting the gross proceeds of $648.3 million, net of underwriting fees of $45.4 million and offering expenses of $8.3 million.

We contributed the net proceeds of our initial public offering to our Operating Partnership in exchange for common units and our Operating Partnership used the net proceeds received from us as described below:

- approximately $342.0 million to repay in full certain outstanding indebtedness, including applicable prepayment costs, exit fees and defeasance costs of $24.3 million;

- $10.8 million for loan transfer and consent fees and credit facility origination fees;

- approximately $6.1 million to pay non-accredited prior investors in connection with the Formation Transactions;

approximately $7.6 million for tenant improvements and leasing commissions at The Landmark at One Market; and

approximately $0.9 million for the renovation of Solana Beach Towne Centre.

We utilized the remaining proceeds for general corporate purposes, including working capital, acquisitions, transfer taxes and paying distributions. This use of proceeds does not represent a material change from the use of proceeds described in the final prospectus we filed pursuant to Rule 424(b) of the Securities Act with the SEC on January 14, 2011.

We invested the net proceeds in a money market account and Government National Mortgage Association, or GNMA, securities in a manner that was consistent with our intention to qualify as a REIT for U.S. federal income tax purposes. On August 20, 2012, we sold all of our outstanding GNMA securities to help finance our acquisition of City Center Bellevue.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

No equity securities were purchased by us during 2012.

Equity Compensation Plan Information

Information about our equity compensation plans is incorporated by reference in Item 12 of Part III of this annual report on Form 10-K.

Stock Performance Graph

The information below shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

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The following graph shows our cumulative total stockholder return for the period beginning with the initial listing of our common stock on the NYSE on January 13, 2011 and ending on December 31, 2012. The graph assumes a $100 investment in each of the indices on January 13, 2011 and the reinvestment of all dividends. The graph also shows the cumulative total returns of the Standard & Poor s 500 Stock Index, or S&P 500 Index, and an industry peer group, SNL US REIT Equity Index. Note that historic stock price performance is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth summary selected financial and operating data on a historical combined basis for the Company and for our Predecessor prior to our initial public offering and American Assets Trust, Inc. prior to our initial public offering. Our Predecessor was comprised of certain entities and their consolidated subsidiaries that, prior to the completion of the Formation Transactions, owned directly or indirectly 17 retail, office and multifamily properties, and unconsolidated equity interests in four retail, mixed-use and office properties. We refer to these entities and their subsidiaries as the ownership entities. Prior to the completion of the Formation Transactions, each of the ownership entities owned, directly or indirectly, one or more retail, office, mixed-use or multifamily property. Upon completion of our initial public offering and the Formation Transactions, we acquired the 17 retail, office and multifamily properties owned directly or indirectly by our Predecessor, as well our Predecessor s unconsolidated equity interests in three other retail, office and mixed-use properties, and assumed the ownership and operation of its business. As a result of the completion of the Formation Transactions we have acquired direct or indirect ownership of a total of 20 retail, office, mixed-use and multifamily properties. Subsequently, we sold two office properties and acquired four other office properties and one retail property.

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You should read the following summary selected financial data in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data. The following data is in thousands, except per share and share data.

	American Assets Trust, Inc.	Predecessor Year Ended December 31,			
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Revenue:					
Rental income	$ 225,249	$ 194,168	$ 115,165	$ 102,831	$ 107,178
Other property income	10,217	8,617	2,583	4,615	4,159
Total revenues	235,466	202,785	117,748	107,446	111,337
Expenses:					
Rental expenses	64,089	58,133	20,520	17,900	19,484
Real estate taxes	22,025	18,746	11,688	7,158	9,968
General and administrative	15,593	13,627	8,699	6,950	8,603
Depreciation and amortization	61,853	55,936	34,419	26,365	27,460
Total operating expenses	163,560	146,442	75,326	58,373	65,515
Operating income	71,906	56,343	42,422	49,073	45,822
Interest expense	(57,328)	(54,580)	(43,251)	(39,818)	(39,719)
Early extinguishment of debt		(25,867)			
Loan transfer and consent fees		(8,808)			
Gain on acquisition		46,371	4,297		
Other income (expense), net	(629)	212	(1,846)	(4,707)	(18,155)
Income (loss) from continuing operations	13,949	13,671	1,622	4,548	(12,052)
Discontinued operations:					
Loss (gain) from discontinued operations	932	1,672	552	691	(2,078)
Gain on sale of real estate property	36,720	3,981			2,625
Results from discontinued operations	37,652	5,653	552	691	547
Net income (loss)	51,601	19,324	2,174	5,239	(11,505)
Net income attributable to restricted shares	(529)	(482)			
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities		2,458	2,205	1,205	4,488
Net (income) loss attributable to Predecessor s controlled owners equity		(16,995)	(4,379)	(6,444)	7,017
Net loss attributable to unitholders in the Operating Partnership	(16,133)	(1,388)			
Net income attributable to American Assets Trust, Inc. stockholders	$ 34,939	$ 2,917	$	$	$
Income from continuing operations attributable to common stockholders per share					
Basic earnings (loss) per share	$ 0.24	$ (0.02)			
Diluted earnings (loss) per share	$ 0.24	$ (0.02)			
Net income attributable to common stockholders per share					
Basic earnings per share	$ 0.90	$ 0.08			

Diluted earnings per share	$ 0.90	$ 0.08
Weighted average shares of common stock outstanding basic	38,736,113	36,748,806
Weighted average shares of common stock outstanding diluted	57,053,909	54,219,807
Dividends declared per share	$ 0.84	$ 0.80

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	American Assets Trust, Inc.	Predecessor			
		Year Ended December 31,			
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Net real estate	$ 1,668,182	$ 1,403,946	$ 867,316	$ 696,679	$ 713,278
Total assets	1,827,587	1,709,281	1,117,357	938,991	971,118
Notes payable	1,044,682	912,067	830,468	677,797	685,579
Total liabilities	1,141,858	1,029,553	962,236	768,028	781,944
Stockholders equity and owner s equity	638,361	626,031	121,874	133,173	148,864
Noncontrolling interests	47,368	53,697	33,247	37,790	40,310
Total equity	685,729	679,728	155,121	170,963	189,174
Total liabilities and equity	1,827,587	1,709,281	1,117,357	938,991	971,118
Other Data:					
Funds from operations (FFO) [(1)]	$ 77,892	$ 74,574	$ 55,120	$ 51,840	$ 47,421
FFO attributable to common stock and units	77,538	57,285			

(1) We present FFO because we consider FFO an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, impairment losses, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

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The following table sets forth a reconciliation of our FFO to net income, the nearest GAAP equivalent, for the periods presented (in thousands):

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Net income (loss)	$ 51,601	$ 19,324	$ 2,174	$ 5,239	$ (11,505)
Plus: Real estate depreciation and amortization (including discounted operations)	63,011	58,543	37,642	29,858	31,089
Plus: Depreciation and amortization on unconsolidated [1] real estate joint ventures (pro rata)		688	15,304	16,743	14,626
Plus: Impairment of investment in real estate joint ventures					15,836
Less: Gain on sale of real estate	(36,720)	(3,981)			(2,625)
Funds from operations, as defined by NAREIT	77,892	74,574	55,120	51,840	47,421
Less: FFO attributable to Predecessor s controlled and noncontrolled owners equity		(16,973)	(55,120)	(51,840)	(47,421)
Less: Nonforfeitable dividends on restricted stock awards	(354)	(316)			
FFO attributable to common stock and units	$ 77,538	$ 57,285	$	$	$

(1) Includes depreciation and amortization of our discontinued operations.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited historical consolidated financial statements and notes thereto appearing in Item 8. Financial Statements and Supplementary Data of this report. As used in this section, unless the context otherwise requires, we, us, our, and our company mean American Assets Trust, Inc., a Maryland corporation and its consolidated subsidiaries, following completion of our initial public offering and the Formation Transactions and our Predecessor for the periods presented prior to the initial public offering. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth under Item 1A. Risk Factors or elsewhere in this document. See Item 1A. Risk Factors and Forward-Looking Statements.

Overview

Our Company

We are a full service, vertically integrated and self-administered REIT that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Oregon, Washington, Texas, and Hawaii. As of December 31, 2012, our portfolio was comprised of eleven retail shopping centers; seven office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and four multifamily properties. Additionally, as of December 31, 2012, we owned land at five of our properties that we classified as held for development. Our core markets include San Diego, the San Francisco Bay Area, Portland, Oregon, Bellevue, Washington and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Rady Trust, and did not have any operating activity until the consummation of our initial public offering and the related acquisition of our Predecessor on January 19, 2011. After the completion of our initial public offering and the Formation Transactions on January 19, 2011, our operations have been carried on through our Operating Partnership. Our company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 68.4% of our Operating Partnership as of December 31, 2012. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Our Predecessor

Our Predecessor included (1) entities owned and/or controlled by Mr. Rady and his affiliates, including the Rady Trust, which in turn owned controlling interests in 17 properties and the property management business of American Assets, Inc., or the controlled entities, and (2) noncontrolling interests in entities owning four properties, or the noncontrolled entities. Our Predecessor accounted for its investment in the noncontrolled entities under the equity method of accounting.

Prior to June 30, 2010, the noncontrolled entities owned an office property located in San Francisco, California referred to as The Landmark at One Market. We refer to the entities owning The Landmark at One Market as the Landmark entities. The outside ownership interest in the Landmark entities was acquired by our Predecessor on June 30, 2010 for a cash payment of $23.0 million. As of June 30, 2010, The Landmark at One Market was controlled by our Predecessor. All but one of the properties owned by the controlled entities and noncontrolled entities were managed by American Assets, Inc., an entity controlled by Mr. Rady. The noncontrolled entities managed by American Assets, Inc. include the entities that owned Solana Beach Towne Centre and Solana Beach Corporate Centre, or the Solana Beach Centre entities, and the entity that owned the Fireman s Fund Headquarters office property. The remaining property not managed by American Assets, Inc. is Waikiki Beach Walk, which is managed by Outrigger Hotels & Resorts. We refer to ABW Lewers LLC and the Waikiki Beach Walk-Embassy Suites , the entities that owned this non-American Assets, Inc. managed property, as the Waikiki Beach Walk entities.

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For the periods after January, 19, 2011, the date of the consummation of our initial public offering and the Formation Transactions, our operations have included the consolidated results of operations of the noncontrolled entities, excluding the Fireman s Fund Headquarters office property, which was not acquired by us. Since our initial public offering and the Formation Transactions occurred on January 19, 2011, the results of operations and financial condition for the entities acquired by us in connection with our initial public offering and related Formation Transactions are not included in certain historical financial statements. More specifically, our results of operations and financial condition for the years ended December 31, 2010 and 2009 reflect the results of operations and financial condition for our Predecessor. Our results of operations for the years ended December 31, 2012 and 2011 reflect the results of operation and financial condition for our Predecessor together with the entities we acquired at the time of our initial public offering, namely, the Waikiki Beach Walk entities and the Solana Beach Centre entities, as well as Geary Marketplace, City Center Bellevue, One Beach Street, First & Main, Lloyd District Portfolio, and Solana Beach Highway 101, each acquired subsequent to our initial public offering and discussed in more detail under Acquisitions and Dispositions . The results of operations for each of these acquisitions are included in our consolidated statements of operations only from the date of acquisition. Additionally, in August 2011, we sold Valencia Corporate Center, and in December 2012, we sold 160 King Street. As such, we have reclassified our financial statements for all periods prior to the sales to reflect Valencia Corporate Center and 160 King Street as discontinued operations.

Formation Transactions

On January 19, 2011, concurrently with the completion of our initial public offering, we completed a series of formation transactions pursuant to which we acquired, through a series of merger and contribution transactions, 100% of the ownership interests in the controlled entities, the Waikiki Beach Walk entities and the Solana Beach Centre entities (including our Predecessor s ownership interest in these entities). We did not acquire our Predecessor s noncontrolling 25% ownership interest in Novato FF Venture, LLC, the entity that owns Fireman s Fund Headquarters. In the aggregate, these interests comprise our ownership of our property portfolio.

To acquire the ownership interests in the entities that owned the properties included in our portfolio from their prior investors, we issued to such prior investors an aggregate of 7,030,084 shares of our common stock and 18,145,039 common units, with an aggregate value of $516.1 million, and we paid $6.1 million in cash to those prior investors that were non-accredited. Cash amounts were provided from the net proceeds of our initial public offering. The acquisition of these ownership interests was effected substantially concurrently with the completion of our initial public offering.

The net proceeds from our initial public offering were approximately $594.6 million (after deducting the underwriting discount and commissions and expenses of our initial public offering and the Formation Transactions). We contributed the net proceeds of the offering to our Operating Partnership in exchange for common units. Upon completion of our initial public offering, we entered into a $250.0 million revolving credit facility. In connection with our initial public offering, we repaid $342.0 million of indebtedness (including $24.3 million of defeasance costs), paid $6.1 million in cash to those prior investors that were non-accredited, and paid $10.8 million for loan transfer and consent fees and credit facility origination fees. Subsequently, we paid $7.6 million to fund tenant improvements and leasing commissions at The Landmark at One Market and $0.9 million for costs related to the renovation of Solana Beach Towne Centre. We utilized remaining net proceeds for general corporate purposes, including working capital, acquisitions, transfer taxes and paying distributions. Since the completion of our initial public offering and consummation of the Formation Transactions, our operations have been carried on through our Operating Partnership and subsidiaries of our Operating Partnership, including our taxable REIT subsidiary. Consummation of the Formation Transactions enabled us to (1) consolidate the ownership of our property portfolio under our Operating Partnership; (2) succeed to the property management business of American Assets, Inc.; and (3) facilitate our initial public offering. As a result, we are a vertically integrated and self-administered REIT providing substantial in-house expertise in asset management, property

management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

We determined that with respect to the Formation Transactions the Predecessor is the acquirer for accounting purposes, and therefore the contribution or acquisition by merger of interests in the controlled entities was considered a transaction between entities under common control since our Executive Chairman, Ernest S. Rady, or his affiliates, including the Rady Trust, owned the controlling interest in each of the entities comprising the Predecessor, which, in turn, owned a controlling interest in each of the controlled entities. As a result, the acquisition of interests in each of the controlled entities was recorded at our historical cost.

The contribution or acquisition by merger of interests in certain of the noncontrolled entities, which include the Waikiki Beach Walk entities and the Solana Beach Centre entities (including our Predecessor s ownership interest in these noncontrolled entities), was accounted for as an acquisition under the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on January 19, 2011, the date of the completion of the Formation Transactions. The acquisition of the ownership interests in the Landmark entities by the Predecessor was accounted for under the acquisition method of accounting on June 30, 2010 and was recorded at the Predecessor s historical cost when we acquired it on January 19, 2011 upon the consummation of the Formation Transactions.

The fair value of these assets and liabilities has been allocated in accordance with Accounting Standards Codification, or ASC, Section 805-10, *Business Combinations*. Our methodology of allocating the cost of acquisitions to assets acquired and liabilities assumed was based on estimated fair values, replacement cost and appraised values. We estimated the fair value of acquired tangible assets (consisting of land, building and improvements), identified intangible assets and liabilities (consisting of acquired above market leases, acquired in-place lease value and acquired below market leases) and assumed debt.

Based on these estimates, we allocated the purchase price to the applicable assets and liabilities. The value allocated to in-place leases will be amortized over the related lease term and reflected as depreciation and amortization. The value of above and below market in-place leases will be amortized over the related lease term and reflected as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The fair value of the debt assumed was determined using current market interest rates for comparable debt financings.

Taxable REIT Subsidiary

As part of the Formation Transactions, on November 5, 2010, we formed American Assets Services, Inc., a Delaware corporation that is wholly owned by our Operating Partnership and which we refer to as our services company. We have elected, together with our services company, to treat our services company as a taxable REIT subsidiary for federal income tax purposes. A taxable REIT subsidiary generally may provide non-customary and other services to our tenants and engage in activities that we may not engage in directly without adversely affecting our qualification as a REIT, provided a taxable REIT subsidiary may not operate or manage a lodging facility or provide rights to any brand name under which any lodging facility is operated. We may form additional taxable REIT subsidiaries in the future, and our Operating Partnership may contribute some or all of its interests in certain wholly owned subsidiaries or their assets to our services company. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable) as a regular corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries.

Revenue Base

Upon consummation of our initial public offering and the Formation Transactions, we acquired from our Predecessor and the noncontrolled entities an aggregate of 20 properties comprising approximately 3.0 million rentable square feet of retail space, 1.5 million rentable square feet of office space, a mixed-use asset comprised of approximately 97,000 rentable square feet of retail space and a 369-room all-suite hotel, and 922 multifamily units (including 122 RV spaces), which collectively comprised our initial portfolio. Subsequently, we acquired two operating office projects in Portland, Oregon, one operating office project in San Francisco, California, one operating office project in Bellevue, Washington, one operating retail project in Walnut Creek, California and sold one office project in Valencia, California and one office project in San Francisco, California. See further discussion in the Acquisitions and Dispositions section below. The properties in our portfolio are located in Southern California, Northern California, Portland, Oregon, Oahu, Hawaii, Bellevue, Washington and San Antonio, Texas.

Rental income consists of scheduled rent charges, straight-line rent adjustments and the amortization of above market and below market rents acquired. We also derive revenue from tenant recoveries and other property revenues, including parking income, lease termination fees, late fees, storage rents and other miscellaneous property revenues.

Retail Leases. Our retail portfolio included eleven properties with a total of approximately 3.1 million rentable square feet available for lease as of December 31, 2012. As of December 31, 2012, these properties were 97.0% leased. For the year ended December 31, 2012, the retail segment contributed 39.1%, of our total revenue. Historically, we have leased retail properties to tenants primarily on a triple-net lease basis, and we expect to continue to do so in the future. In a triple-net lease, the tenant is responsible for all property taxes and operating expenses. As such, the base rent payment does not include any operating expense, but rather all such expenses, to the extent they are paid by the landlord, are billed to the tenant. The full amount of the expenses for this lease type, to the extent they are paid by the landlord, is reflected in operating expenses, and the reimbursement is reflected in tenant recoveries.

During the year ended December 31, 2012, we signed 67 retail leases for 277,968 square feet with an average rent of $31.40 per square foot during the initial year of the lease term. Of the leases, 56 represent comparable leases where there was a prior tenant, with an increase of 2.0% in cash basis rent and an increase of 13.2% in straight-line rent compared to the prior leases.

Office Leases. Our office portfolio included seven properties with a total of approximately 2.6 million rentable square feet available for lease as of December 31, 2012. As of December 31, 2012, these properties were 93.3% leased. For the year ended December 31, 2012, the office segment contributed 33.2% of our total revenue. Historically, we have leased office properties to tenants primarily on a full service gross or a modified gross basis and to a limited extent on a triple-net lease basis. We expect to continue to do so in the future. A full-service gross or modified gross lease has a base year expense stop, whereby the tenant pays a stated amount of certain expenses as part of the rent payment, while future increases in property operating expenses (above the base year stop) are billed to the tenant based on such tenant s proportionate square footage of the property. The increased property operating expenses billed are reflected as operating expenses and amounts recovered from tenants are reflected as rental income in the statements of operations.

During the year ended December 31, 2012, we signed 68 office leases for 336,865 square feet with an average rent of $35.39 per square foot during the initial year of the lease term. Of the leases, 52 represent comparable leases where there was a prior tenant, with an increase of 11.4% in cash basis rent and an increase of 19.9% in straight-line rent compared to the prior leases.

Multifamily Leases. Our multifamily portfolio included three apartment properties, as well as an RV resort, with a total of 922 units (including 122 RV spaces) available for lease as of December 31, 2012. As of December 31, 2012, these properties were 94.7% leased. For the year ended December 31, 2012, the multifamily segment contributed 6.3% of our total revenue. Our multifamily leases, other than at our RV Resort, generally have lease terms ranging from 7 to 15 months, with a majority having 12-month lease terms. Tenants normally pay a base rental amount, usually quoted in terms of a monthly rate for the respective unit. Spaces at the RV Resort can be rented at a daily, weekly, or monthly rate. The average monthly base rent per leased unit as of December 31, 2012 was $1,399 compared to $1,404 at December 31, 2011.

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Mixed-Use Property Revenue. Our mixed-use property consists of approximately 97,000 rentable square feet of retail space and a 369-room all-suite hotel. Revenue from the mixed-use property consists of revenue earned from retail leases, and revenue earned from the hotel, which consists of room revenue, food and beverage services, parking and other guest services. As of December 31, 2012, the retail portion of the property was 95.5% leased, and for the year ended December 31, 2012, the hotel had an average occupancy of 88.9%. For the year ended December 31, 2012, the mixed-use segment contributed 21.5%, of our total revenue. We have leased the retail portion of such property to tenants primarily on a triple-net lease basis, and we expect to continue to do so in the future. As such, the base rent payment under such leases does not include any operating expenses, but rather all such expenses, to the extent they are paid by the landlord, are billed to the tenant. Rooms at the hotel portion of our mixed-use property are rented on a nightly basis.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management s best judgment, after considering past and current events and economic conditions. In addition, information relied upon by management in preparing such estimates includes internally generated financial and operating information, external market information, when available, and when necessary, information obtained from consultations with third party experts. Actual results could differ from these estimates. A discussion of possible risks which may affect these estimates is included in the section above entitled Item 1A. Risk Factors. Management considers an accounting estimate to be critical if changes in the estimate could have a material impact on our consolidated results of operations or financial condition.

Our significant accounting policies are more fully described in the notes to the consolidated financial statements included elsewhere in this report; however, the most critical accounting policies, which involve the use of estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates, are as follows:

Revenue Recognition and Accounts Receivable

Our leases with tenants are classified as operating leases. Substantially all such leases contain fixed rent escalations which occur at specified times during the term of the lease. Base rents are recognized on a straight-line basis from when the tenant controls the space through the term of the related lease, net of valuation adjustments, based on management s assessment of credit, collection and other business risks. Percentage rents, which represent additional rents based upon the level of sales achieved by certain tenants, are recognized at the end of the lease year or earlier if we have determined the required sales level is achieved and the percentage rents are collectible. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the related expenditures are incurred. We recognize revenue on the hotel portion of our mixed-use property from the rental of hotel rooms and guest services when the rooms are occupied and services have been provided.

Other property income includes parking income, general excise tax billed to tenants, fees charged to tenants at our multifamily properties and food and beverage sales at the hotel. Other property income is recognized when earned. For a tenant to terminate its lease agreement prior to the end of the agreed term, we may require that they pay a fee to cancel the lease agreement. Lease termination fees for which the tenant has relinquished control of the space are generally recognized on the termination date. When a lease is terminated early but the tenant continues to control the space under a modified lease agreement, the lease termination fee is generally recognized evenly over the remaining term of the modified lease agreement.

Current accounts receivable from tenants primarily relate to contractual minimum rent and percentage rent as well as real estate tax and other cost reimbursements. Accounts receivable from straight-line rent is typically longer term in nature and relates to the cumulative amount by which straight-line rental income recorded to date exceeds cash rents billed to date under the contractual lease agreement.

We make estimates of the collectability of our current accounts receivable and straight-line rents receivable which requires significant judgment by management. The collectability of receivables is affected by numerous different factors including current economic conditions, bankruptcies, the status of collectability of current cash rents receivable, tenants recent and historical financial and operating results, changes in our tenants credit ratings, communications between our operating personnel and tenants, the extent of security deposits and letters of credits held with respect to tenants, and the ability of the tenant to perform under the terms of their lease agreement. While we make estimates of potentially uncollectible amounts and provide an allowance for them through bad debt expense, actual collectability could differ from those estimates which could affect our net income. With respect to the allowance for current uncollectible tenant receivables, we assess the collectability of outstanding receivables by evaluating such factors as nature and age of the receivable, past history and current financial condition of the specific tenant including our assessment of the tenant s ability to meet its contractual lease obligations, and the status of any pending disputes or lease negotiations with the tenant. A change in the estimate of collectability of a receivable would result in a change to our allowance for doubtful accounts and corresponding bad debt expense and net income.

Additionally, our assessment of our tenants abilities to meet their contractual lease obligations includes consideration of the status of collectability of current cash rents receivable, tenants recent and historical financial and operating results, changes in our tenants credit ratings, communications between our operating personnel and tenants and the extent of security deposits and letters of credits held with respect to tenants.

Due to the nature of the accounts receivable from straight-line rents, the collection period of these amounts typically extends beyond one year. Our experience relative to unbilled straight-line rents is that a portion of the amounts otherwise recognizable as revenue is never billed to or collected from tenants due to early lease terminations, lease modifications, bankruptcies and other factors. Accordingly, the extended collection period for straight-line rents along with our evaluation of tenant credit risk may result in the nonrecognition of a portion of straight-line rental income until the collection of such income is reasonably assured. If our evaluation of tenant credit risk changes indicating more straight-line revenue is reasonably collectible than previously estimated and realized, the additional straight-line rental income is recognized as revenue. If our evaluation of tenant credit risk changes indicating a portion of realized straight-line rental income is no longer collectible, a reserve and bad debt expense is recorded. Correspondingly, these estimates of collectability have a direct impact on our net income.

Real Estate

Depreciation and maintenance costs relating to our properties constitute substantial costs for us. Land, buildings and improvements are recorded at cost. Depreciation is computed using the straight-line method. Estimated useful lives range generally from 30 years to a maximum of 40 years on buildings and major improvements. Minor improvements, furniture and equipment are capitalized and depreciated over useful lives ranging from 3 to 15 years. Maintenance and repairs that do not improve or extend the useful lives of the related assets are charged to operations as incurred. Tenant improvements are capitalized and depreciated over the life of the related lease or their estimated useful life, whichever is shorter. If a tenant vacates its space prior to contractual termination of its lease, the undepreciated balance of any tenant improvements are written off if they are replaced or have no future value. Our estimates of useful lives have a direct impact on our net income. If expected useful lives of our real estate assets were shortened, we would depreciate the assets over a shorter time period, resulting in an increase to depreciation expense and a corresponding decrease to net income on an annual basis.

Acquisitions of properties are accounted for in accordance with the authoritative accounting guidance on acquisitions and business combinations. Our methodology of allocating the cost of acquisitions to assets acquired and liabilities assumed is based on estimated fair values, replacement cost and appraised values. When we acquire operating real estate properties, the purchase price is allocated to land and buildings, intangibles such as in-place leases, and to current assets and liabilities acquired, if any. Such valuations include a consideration of the noncancelable terms of the respective leases as well as any applicable renewal period(s). The fair values associated with below market renewal options are determined based on a review of several qualitative and

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quantitative factors on a lease-by-lease basis at acquisition to determine whether it is probable that the tenant would exercise its option to renew the lease agreement. These factors include: (1) the type of tenant in relation to the property it occupies, (2) the quality of the tenant, including the tenant s long term business prospects, and (3) whether the fixed rate renewal option was sufficiently lower than the fair rental of the property at the date the option becomes exercisable such that it would appear to be reasonably assured that the tenant would exercise the option to renew. Each of these estimates requires a great deal of judgment, and some of the estimates involve complex calculations. These allocation assessments have a direct impact on our results of operations because if we were to allocate more value to land, there would be no depreciation with respect to such amount. If we were to allocate more value to the buildings, as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time, since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the remaining terms of the leases.

The value allocated to in-place leases is amortized over the related lease term and reflected as depreciation and amortization in the statement of operations. The value of above and below market leases associated with the original noncancelable lease terms are amortized to rental income over the terms of the respective noncancelable lease periods and are reflected as either an increase (for below market leases) or a decrease (for above market leases) to rental income in the statement of operations. If a tenant vacates its space prior to contractual termination of its lease or the lease is not renewed, the unamortized balance of any in-place lease value is written off to rental income and amortization expense. The value of the leases associated with below market lease renewal options that are likely to be exercised are amortized to rental income over the respective renewal periods. We make assumptions and estimates related to below market lease renewal options, which impact revenue in the period in which the renewal options are exercised and could result in significant increases to revenue if the renewal options are not exercised at which time the related below market lease liabilities would be written off as an increase to revenue.

Capitalized Costs

We capitalize certain costs related to the development and redevelopment of real estate including pre-construction costs, real estate taxes, insurance and construction costs and salaries and related costs of personnel directly involved. Additionally, we capitalize interest costs related to development and significant redevelopment activities. Capitalization of these costs begins when the activities and related expenditures commence and cease when the project is substantially complete and ready for its intended use, at which time the project is placed in service and depreciation commences. Additionally, we make estimates as to the probability of certain development and redevelopment projects being completed. If we determine that the completion of development or redevelopment is no longer probable, we expense all capitalized costs which are not recoverable.

Certain external and internal costs directly related to the development and redevelopment of real estate, including pre-construction costs, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalize costs under development until construction is substantially complete and the property is held available for occupancy. The determination of when a development project is substantially complete and when capitalization must cease involves a degree of judgment. We consider a construction project as substantially complete and held available for occupancy upon the completion of landlord-owned tenant improvements or when the lessee takes possession of the unimproved space for construction of its own improvements, but not later than one year from cessation of major construction activity. We cease capitalization on the portion substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with any remaining portion under construction.

We capitalized external and internal costs related to both development and redevelopment activities combined of $7.9 million and $2.0 million, for the years ended December 31, 2012 and 2011, respectively.

We capitalized external and internal costs related to other property improvements of $27.4 million and none, respectively, for the year ended December 31, 2012 and $8.8 million and none, respectively, for the year ended December 31, 2011.

The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements was $0.1 million for the year ended December 31, 2012. For the year ended December 31, 2011, we did not allocate salaries or related personnel costs to any assets and there was no payroll that was capitalized or deferred because we had no projects under active development, redevelopment, or construction other than ongoing tenant improvements. Additionally, the amount of time devoted by internal personnel to pre-construction activities in 2011 was immaterial.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to both development and redevelopment activities combined of $0.7 million for the year ended December 31, 2012. During 2011 and 2010, our primary capital expenditures related to tenant improvements and capital improvements at our existing operating properties which are currently leased to tenants, and we do not capitalize interest to those properties that are currently in use. We had no properties under active construction or placed into service during 2011 and 2010.

Segment capital expenditures for the years ended December 31, 2012 and 2011 are as follows:

	Year Ended December 31, 2012					
Segment	**Tenant Improvements and Leasing Commissions**	**Maintenance Capital Expenditures**	**Total Tenant Improvements, Leasing Commissions and Maintenance Capital Expenditures**	**Redevelopment and Expansions**	**New Development**	**Total Capital Expenditures**
Retail Portfolio	10,114	1,962	12,076	1,905	230	14,211
Office Portfolio	13,882	3,249	17,131	1,993	3,012	22,136
Multifamily Portfolio		964	964			964
Mixed-Use Portfolio	36	691	727			727
Total	24,032	6,866	30,898	3,898	3,242	38,038

	Year Ended December 31, 2011					
Segment	**Tenant Improvements and Leasing Commissions**	**Maintenance Capital Expenditures**	**Total Tenant Improvements, Leasing Commissions and Maintenance Capital Expenditures**	**Redevelopment and Expansions**	**New Development**	**Total Capital Expenditures**
Retail Portfolio	2,296	1,700	3,996	1,052	62	5,110
Office Portfolio	4,290	806	5,096		908	6,004
Multifamily Portfolio		615	615			615
Mixed-Use Portfolio	49	1,443	1,492			1,492
Total	6,635	4,564	11,199	1,052	970	13,221

The increase in tenant improvements and leasing commissions in our retail portfolio is primarily related to new leases at Carmel Mountain Plaza, Del Monte Center, Waikele Center and Alamo Quarry Market. The increase in tenant improvements and leasing commissions in our office portfolio is primarily related to completion of tenant improvements at The Landmark at One Market and the acquisition of One Beach Street in January 2012 and City Center Bellevue in August 2012.

The increase in maintenance capital expenditures in our office portfolio is primarily related to building remodeling and renovations at Torrey Reserve Campus, Solana Beach Corporate Centre and Lloyd District Portfolio.

Redevelopment and expansion expenditures in our retail portfolio reflect costs incurred in the development of Carmel Mountain Plaza. Redevelopment and expansion expenditures in our office portfolio reflect costs incurred in the development of Torrey Reserve Campus and Lloyd District Portfolio, which both commenced during the second quarter of 2012.

New development costs for the retail and office portfolio reflect costs incurred for environmental studies, architectural design and permits for our held for development properties.

Capital expenditures during 2013 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of our development and held for development properties. While the amount of future expenditures will depend on numerous factors, we expect to incur higher amounts in 2013 compared to those incurred in 2012. We anticipate an increase in tenant improvements and leasing commissions noting lease expirations of approximately 8.9% in our total portfolio, assuming tenants do not exercise their options to extend their leases. Additionally, we expect an increase in development costs for Torrey Reserve Campus and Lloyd District Portfolio, associated with the development of each property which began during the second quarter of 2012.

Impairment of Long-Lived Assets

We review for impairment on a property by property basis. Impairment is recognized on properties held for use when the expected undiscounted cash flows for a property are less than its carrying amount at which time the property is written-down to fair value. The calculation of both discounted and undiscounted cash flows requires management to make estimates of future cash flows including revenues, operating expenses, required maintenance and development expenditures, market conditions, demand for space by tenants and rental rates over long periods. Since our properties typically have a long life, the assumptions used to estimate the future recoverability of book value requires significant management judgment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income because recording an impairment charge results in a negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

Properties held for sale are recorded at the lower of the carrying amount or the expected sales price less costs to sell. Although our strategy is to hold our properties over the long-term, if our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized to reduce the property to fair value and such loss could be material.

As of December 31, 2012 and 2011, none of our properties were impaired.

Income Taxes

We elected to be taxed as a REIT under the Code commencing with the taxable year ended December 31, 2011. To maintain our qualification as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we maintain our qualification for taxation as a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. If we fail to maintain our qualification as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Any such corporate tax liability could be substantial and would have a direct impact on our net income.

We, together with one of our subsidiaries, have elected to treat such subsidiary as a taxable REIT subsidiary for federal income tax purposes. A taxable REIT subsidiary is subject to federal and state income taxes.

Property Acquisitions and Dispositions

Acquisitions

2012 Acquisitions

On January 24, 2012, we acquired One Beach Street, consisting of approximately 97,000 square feet in a three-story fully renovated historic office building located along the Embarcadero in San Francisco s North Waterfront District. The purchase price was approximately $36.5 million, excluding closing costs of approximately $0.02 million, which are included in other income (expense), net on the statement of operations.

On August 21, 2012, we acquired City Center Bellevue, a 27-story LEED-EB Gold certified office tower, consisting of approximately 497,000 square feet, located in Bellevue, Washington. The purchase price was approximately $228.8 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. Additionally, we received credits to our purchase price of approximately $6.9 million that primarily relate to outstanding tenant improvement obligations and rent abatements.

On December 19, 2012, we acquired Geary Marketplace, a newly constructed, approximately 35,000 square foot, 100% leased, grocery-anchored shopping center in Walnut Creek, California. The purchase price was approximately $21.0 million, excluding closing costs of approximately $0.02 million, which are included in other income (expense), net on the statement of operations.

2011 Acquisitions

As part of the Formation Transactions, we acquired the controlling interests in the Waikiki Beach Walk entities and the Solana Beach Centre entities in exchange for common units of our Operating Partnership and shares of our common stock with a value of approximately $33.9 million.

On March 11, 2011, we acquired First & Main, an approximately 361,000 square foot, 16-story, LEED Platinum certified office building located at 100 SW Main Street, in Portland, Oregon. The purchase price for First & Main was approximately $128.9 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. The purchase was structured to accommodate a reverse tax deferred exchange in conjunction with the sale of Valencia Corporate Center pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections.

On July 1, 2011, we acquired the Lloyd District Portfolio, consisting of approximately 610,000 rentable square feet on more than 16 acres located in the Lloyd District of Portland, Oregon. The Lloyd District Portfolio is comprised of six office buildings within four contiguous blocks, including (i) a condominium interest in the 20-story Lloyd Tower, (ii) the 16-story Lloyd 700 Building and (iii) four low-rise landmark buildings within Oregon Square. The purchase price was approximately $91.6 million, excluding closing costs of approximately $0.1 million, which are included in other income (expense), net on the statement of operations. We intend to evaluate further developing this property through the addition of retail, office and/or residential mixed-use development. However, we can offer no assurances that we will ultimately further develop this property.

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On September 20, 2011, we acquired the Solana Beach Highway 101 property, consisting of approximately 1.7 acres located in Solana Beach, California. On December 14, 2011, we acquired an additional 0.2 acres adjacent to such location. The aggregate purchase price for this property was approximately $8.1 million, excluding closing costs of approximately $0.2 million, which are included in other income (expense), net on the statement of operations. We intend to evaluate developing this property into a retail, office and/or residential mixed-use site. However, we can offer no assurances that we will ultimately develop this property. The property currently includes approximately 2,800 rentable square feet, which we plan to lease until development begins, if at all.

2010 Acquisitions

On June 30, 2010, our Predecessor acquired the controlling interests in an office building located in San Francisco, California, known as The Landmark at One Market. Prior to acquisition of the controlling interests in Landmark, we owned a 35% noncontrolling interest in the entity owning Landmark, which was accounted for under the equity method of accounting. The aggregate net acquisition cost for this property approximated $23.0 million.

On November 10, 2010, our Predecessor purchased an 80,000 rentable square foot vacant building on 6.77 acres of land located at our Carmel Mountain Plaza property for $13.2 million. The building was vacated by Mervyn s in conjunction with its bankruptcy.

2012 Disposition

On December 4, 2012, we sold 160 King Street located in San Francisco, California for a sales price of $93.8 million. The decision to sell 160 King Street reflects our strategy of taking advantage of market conditions to reallocate capital within our existing and future portfolio. The sale was completed as a reverse tax deferred exchange in conjunction with the acquisition of City Center Bellevue. As a result of the sale, 160 King Street no longer serves as a borrowing base property under our revolving credit facility.

2011 Disposition

On August 30, 2011, we sold Valencia Corporate Center for a sales price of $31.0 million. The property is located in Santa Clarita, California. The decision to sell Valencia Corporate Center was a result of our desire to focus resources on our core, high-barrier-to-entry markets. The sale was completed as a reverse tax deferred exchange in conjunction with the acquisition of First & Main pursuant to the provisions of Section 1031 of the Code and applicable state revenue and taxation code sections. As a result of the sale, Valencia Corporate Center no longer serves as a borrowing base property under our revolving credit facility.

Results of Operations

For our discussion of results of operations, we have provided information on a total portfolio and same-store basis. Information provided on a same-store basis includes the results of properties that we owned and operated for the entirety of both periods being compared, except for properties held for development and properties classified as discontinued operations, which are excluded for both periods.

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

The following summarizes our consolidated results of operations for the year ended December 31, 2012 compared to our consolidated results of operations for the year ended December 31, 2011. As of December 31, 2012, our operating portfolio was comprised of 23 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.8 million rentable square feet of retail and office space (including mixed-use retail space), 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of December 31, 2012, we owned land at five of our properties that we classified as held for development. As of December 31,

2011, our operating portfolio was comprised of 20 properties with an aggregate of approximately 5.2 million

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rentable square feet of retail and office space and 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of December 31, 2011, we owned land at five of our properties that we classified as held for development.

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2012 and 2011 (dollars in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011	Change	%
Revenues				
Rental income	$ 225,249	$ 194,168	$ 31,081	16%
Other property income	10,217	8,617	1,600	19
Total property revenues	235,466	202,785	32,681	16
Expenses				
Rental expenses	64,089	58,133	5,956	10
Real estate taxes	22,025	18,746	3,279	17
Total property expenses	86,114	76,879	9,235	12
Total property income	149,352	125,906	23,446	19
General and administrative	(15,593)	(13,627)	(1,966)	14
Depreciation and amortization	(61,853)	(55,936)	(5,917)	11
Interest expense	(57,328)	(54,580)	(2,748)	5
Early extinguishment of debt		(25,867)	25,867	100
Loan transfer and consent fees		(8,808)	8,808	100
Gain on acquisition		46,371	(46,371)	(100)
Other income (expense), net	(629)	212	(841)	(397)
Total other, net	(135,403)	(112,235)	(23,168)	21
Income from continuing operations	13,949	13,671	278	2
Discontinued operations				
Income from discontinued operations	932	1,672	(740)	(44)
Gain on sale of real estate property	36,720	3,981	32,739	822
Results from discontinued operations	37,652	5,653	31,999	566
Net income	51,601	19,324	32,277	167
Net income attributable to restricted shares	(529)	(482)	(47)	10
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities		2,458	(2,458)	(100)
Net income attributable to Predecessor s controlled owners equity		(16,995)	16,995	100
Net income attributable to unitholders in the Operating Partnership	(16,133)	(1,388)	(14,745)	1,062
Net income attributable to American Assets Trust, Inc. stockholders	$ 34,939	$ 2,917	$ 32,022	1,098%

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Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $32.7 million, or 16%, to $235.5 million for the year ended December 31, 2012 compared to $202.8 million for the year ended December 31, 2011. The percentage leased was as follows for each segment as of December 31, 2012 and 2011:

	Percentage Leased [1] Year Ended December 31,	
	2012	**2011**
Retail	97.0%	95.0%
Office	93.3%[2]	93.9%[2]
Multifamily	94.7%	91.8%
Mixed-Use	95.5%[3]	99.2%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of December 31, 2012 or December 31, 2011, as applicable.
(2) Excludes Valencia Corporate Center, which was sold on August 30, 2011 and 160 King Street, which was sold on December 4, 2012.
(3) Includes the retail portion of the mixed-use property only.

The increase in total property revenue is attributable primarily to the factors discussed below.

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $31.0 million, or 16%, to $225.2 million for the year ended December 31, 2012 compared to $194.2 million for the year ended December 31, 2011. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio Year Ended December 31,				Same-Store Portfolio [1] Year Ended December 31,			
	2012	**2011**	**Change**	**%**	**2012**	**2011**	**Change**	**%**
Retail	$ 90,475	$ 85,143	$ 5,332	6%	$ 81,498	$ 77,667	$ 3,831	5%
Office	75,582	55,902	19,680	35	35,713	35,062	651	2
Multifamily	13,806	13,258	548	4	13,806	13,258	548	4
Mixed-Use	45,386	39,865	5,521	14				
	$ 225,249	$ 194,168	$ 31,081	16%	$ 131,017	$ 125,987	$ 5,030	4%

(1) For this table and tables following, the same-store portfolio excludes: Solana Beach Towne Centre, Solana Beach Corporate Centre and the Waikiki Beach Walk entities acquired on January 19, 2011; First & Main acquired on March 11, 2011; Lloyd District Portfolio acquired on July 1, 2011; One Beach Street acquired on January 24, 2012; City Center Bellevue acquired on August 21, 2012; Geary Marketplace acquired on December 19, 2012; and land held for development. Valencia Corporate Center and 160 King Street are excluded from both the total portfolio and same-store portfolio, as they are classified as discontinued operations for all periods presented.

On a same store basis, retail rental revenue increased $3.8 million for the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was primarily due to the increase in the average percentage leased, which was primarily related to the re-leasing of our three former Borders spaces during 2012 with an average increased cash basis rent of 25.7% per square foot. The remaining increase is also due to additional cost reimbursements, primarily related to supplemental tax billings received during 2012 for Carmel Mountain Plaza, Lomas Santa Fe Plaza, and Solana Beach Towne Center.

The increase in office rental revenue was primarily caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which had rental revenue of $3.9 million and $6.3 million, respectively, from acquisition through December 31, 2012.

Additionally, our 2011 acquisitions of

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Solana Beach Corporate Center, First & Main and Lloyd District Portfolio contributed $8.9 million of the increase in rental revenue during 2012. Same-store office rental revenues increased $0.7 million for the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily due to higher base rents for new tenants and additional cost reimbursements.

The increase in multifamily rental revenue was primarily due to the higher percentage leased for 2012 compared to 2011.

The rental revenue for our mixed-use segment represents rental revenue recognized for minimum base rent, cost reimbursements, percentage rents and other rents charged to retail tenants and rental of hotel rooms. The increase in mixed-use rental revenue was due to increased tourist travel to Hawaii leading to higher hotel revenue, with average occupancy for 2012 of 89% compared to 88% for 2011, and an increase in our average daily rate, which was $264 for 2012 and $239 in 2011. These two increases attributed to the increase in average revenue per available room of $235 and $212 for 2012 and 2011, respectively.

Other property income. Other property income increased $1.6 million, or 19%, to $10.2 million for the year ended December 31, 2012, compared to $8.6 million for the year ended December 31, 2011. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio Year Ended December 31,				Same-Store Portfolio Year Ended December 31,			
	2012	**2011**	**Change**	**%**	**2012**	**2011**	**Change**	**%**
Retail	$ 1,516	$ 1,368	$ 148	11%	$ 1,457	$ 1,367	$ 90	7%
Office	2,519	1,417	1,102	78	287	331	(44)	(13)
Multifamily	1,046	1,063	(17)	(2)	1,046	1,063	(17)	(2)
Mixed-Use	5,136	4,769	367	8				
	$ 10,217	$ 8,617	$ 1,600	19%	$ 2,790	$ 2,761	$ 29	1%

The increase in retail other property income was due to a distribution of bankruptcy claim amounts from the liquidating trustee of our former Borders tenants, a lease amendment fee paid by a tenant at Rancho Carmel Plaza and a lease termination fee paid by a tenant at Solana Beach Towne Center that were received during the fourth quarter of 2012, offset by a lease termination fee paid by a tenant at Del Monte Center during 2011.

The increase in office other property income was caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which had combined other property income of $0.7 million for the year ended December 31, 2012. Additionally, our 2011 acquisitions of First & Main and Lloyd District Portfolio contributed approximately $0.4 million of the increase in office other property income in 2012, of which $0.3 million is attributed to parking income generated from Lloyd District Portfolio.

The other property income for our mixed-use segment represents Hawaii general excise tax reimbursements, parking income related to retail tenants and guests and sales of food and beverages and other services provided to hotel guests. The increase in mixed-use other property income was attributed to the increase in average occupancy at our Embassy Suites™ Hotel in 2012.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $9.2 million, or 12%, to $86.1 million for the year ended December 31, 2012, compared to $76.9 million for the year ended December 31, 2011. This increase in total property expenses is attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased $6.0 million, or 10%, to $64.1 million for the year ended December 31, 2012, compared to $58.1 million for the year ended December 31, 2011. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	$ 13,863	$ 14,825	$ (962)	(6)%	$ 13,057	$ 13,991	$ (934)	(7)%
Office	16,407	12,005	4,402	37	6,958	7,290	(332)	(5)
Multifamily	4,159	4,243	(84)	(2)	4,159	4,243	(84)	(2)
Mixed-Use	29,660	27,060	2,600	10				
	$ 64,089	$ 58,133	$ 5,956	10%	$ 24,174	$ 25,524	$ (1,350)	(5)%

The decrease in retail rental expenses was primarily due to an allowance recorded for an outstanding deferred rent receivable from Kmart at one property during the fourth quarter of 2011, minimally offset by higher premiums on our insurance policies, additional maintenance expenditures and increased operating costs related to the increase in the average percentage leased for 2012.

The increase in office rental expenses was caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which had rental expense of $0.7 million and $1.3 million, respectively, for the year ended December 31, 2012. Our 2011 acquisitions of Solana Beach Corporate Center, First & Main and Lloyd District Portfolio contributed $2.7 million of the increase in rental expenses during 2012. These increases were minimally offset by higher premiums on our insurance policies. The decrease in same-store office rental expenses for the year ended December 31, 2012 was primarily due to a decrease in maintenance performed at various properties.

The increase in mixed-use rental expenses was attributed to the increase in average occupancy at our Embassy Suites™ Hotel in 2012.

Real Estate Taxes. Real estate tax expense increased $3.3 million, or 17%, to $22.0 million for the year ended December 31, 2012, compared to $18.7 million for the year ended December 31, 2011. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	$ 11,092	$ 9,687	$ 1,405	15%	$ 9,793	$ 9,005	$ 788	9%
Office	7,373	6,010	1,363	23	4,124	4,058	66	2
Multifamily	1,755	1,335	420	31	1,755	1,335	420	31
Mixed-Use	1,805	1,714	91	5				
	$ 22,025	$ 18,746	$ 3,279	17%	$ 15,672	$ 14,398	$ 1,274	9%

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The increase in retail real estate taxes was primarily due to additional real estate tax accruals for retail properties based on supplemental tax bills from the California taxing authority received during 2012. These increases were primarily at Carmel Mountain Plaza, Lomas Santa Fe Plaza and Solana Beach Towne Center, each of which received higher property assessments that resulted in increased real estate taxes of $0.4 million, $0.3 million, and $0.5 million, respectively, for the year ended December 31, 2012.

The increase in office real estate taxes was primarily caused by the acquisition of One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which each had real estate taxes of $0.3 million from acquisition through December 31, 2012. Additionally, our 2011 acquisitions of First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011 contributed an additional $0.3 million and $0.5 million, respectively, of real estate taxes for the year ended December 31, 2012. On a same-store basis, office real estate tax increased due to receipt of 2011 supplemental tax bills from the California taxing authority during 2012.

The increase in multifamily real estate taxes was primarily due to additional real estate tax accruals for all multifamily properties based on supplemental tax bills from the California taxing authority received during 2012, which are not reimbursable.

Property Operating Income.

Property operating income increased $23.5 million, or 19%, to $149.4 million for the year ended December 31, 2012, compared to $125.9 million for the year ended December 31, 2011. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2012	2011	Change	%	2012	2011	Change	%
Retail	$ 67,036	$ 61,999	$ 5,037	8%	$ 60,105	$ 56,038	$ 4,067	7%
Office	54,321	39,304	15,017	38	24,918	24,045	873	4
Multifamily	8,938	8,743	195	2	8,938	8,743	195	2
Mixed-Use	19,057	15,860	3,197	20				
	$ 149,352	$ 125,906	$ 23,446	19%	$ 93,961	$ 88,826	$ 5,135	6%

The increase in retail property operating income was primarily due to increased rental revenue related to the increase in the average percentage leased during 2012 and a decrease in rental expenses specifically related to an allowance recorded for an outstanding deferred rent receivable from Kmart during the fourth quarter of 2011.

The increase in office property operating income was primarily caused by the acquisition One Beach Street on January 24, 2012 and City Center Bellevue on August 21, 2012, which each had operating income of $2.9 million and $5.3 million, respectively, from acquisition through December 31, 2012. Additionally, our 2011 acquisitions of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, contributed additional property operating income of $0.7 million, $2.2 million and $3.2 million, respectively, for the year ended December 31, 2012. On a same-store basis, office property operating income increased $0.9 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to higher base rents for new tenants and additional cost reimbursements.

The increase in multifamily property operating income was primarily due to the higher percentage leased for 2012 compared to 2011.

Mixed-use property operating income primarily increased due to increased tourist travel to Hawaii with average occupancy for 2012 of 89% compared to 88% for 2011. Additionally, average revenue per available room was $235 and $212 for 2012 and 2011, respectively.

Other

General and administrative. General and administrative expenses increased $2.0 million, or 14%, to $15.6 million for the year ended December 31, 2012, compared to $13.6 million for the year ended December 31, 2011. This increase was primarily due to higher personnel costs and additional costs for the acquired properties.

Depreciation and amortization. Depreciation and amortization expense increased $5.9 million, or 11%, to $61.9 million for the year ended December 31, 2012, compared to $55.9 million for the year ended December 31, 2011. This increase was primarily due to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased $2.7 million, or 5%, to $57.3 million for the year ended December 31, 2012 compared with $54.6 million for the year ended December 31, 2011. This increase was primarily due to interest expense on the mortgage loans obtained on First & Main on June 1, 2011, One Beach Street on March 29, 2012 and City Center Bellevue on October 10, 2012. Additionally, the year ended December 31, 2012 includes interest expense on the properties acquired at the time of our initial public offering for the entire twelve month period compared to only the period from January 19, 2011 through December 31, 2011. This was offset by a decrease in utilization fees on our revolving line of credit resulting from the amendment to the line of credit in January 2012 and an increase in capitalized interest of $0.7 million, which we began during the second quarter of 2012.

Early extinguishment of debt. Early extinguishment of debt includes $24.3 million in defeasance costs, $0.6 million of unamortized deferred loan fees and $0.9 million of unamortized debt fair value adjustments that were written off related to loans repaid at the time of our initial public offering.

Loan transfer and consent fees. Loan transfer and consent fees relate to fees paid to lenders in order for the lenders to consent to the transfer of the existing loans at certain properties to the Operating Partnership as part of the Formation Transactions.

Gain on acquisition. The gain on acquisition for the year ended December 31, 2011 relates to the gains recognized on the acquisition of the outside ownership interests in the Solana Beach Centre entities and the Waikiki Beach Walk entities.

Other income (expense), net. Other income (expense), net decreased $0.8 million, or 397%, to net expense of $0.6 million for the year ended December 31, 2012, compared to net income of $0.2 million for the year ended December 31, 2011. Other income (expense), net is comprised of interest and investment income, acquisition related expenses, and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property. The decrease was mainly due to a reduction in investment income related to the sale of our GNMA securities.

Discontinued Operations. Discontinued operations relates to our sale of 160 King Street on December 4, 2012 and Valencia Corporate Center on August 30, 2011.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

The following summarizes the historical results of operations for the year ended December 31, 2011 compared to our Predecessor s combined results of operations for the year ended December 31, 2010. As of December 31, 2011, our operating portfolio was comprised of 20 retail, office, multifamily and mixed-used properties with an aggregate of approximately 5.2 million rentable square feet of retail and office space (including mixed-use retail space), 922 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of December 31, 2011, we owned land at five of our properties that we classified as held for development. As of December 31, 2010, our Predecessor s operating portfolio was comprised of 16 properties with an aggregate of approximately 3.9 million rentable square feet of retail and office space and 922 residential units (including 122 RV spaces). At December 31, 2010, our Predecessor also owned land at two of its properties that it classified as held for development. At December 31, 2010, our Predecessor also had noncontrolling investments in four properties, which are accounted for under the equity method of accounting. The Landmark at One Market was acquired on June 30, 2010 by our Predecessor. Prior to June 30, 2010, our Predecessor had a noncontrolling interest in The Landmark at One Market and accounted for its investment under the equity method of accounting.

The following table sets forth selected data from our Predecessor s combined statements of operations for the years ended December 31, 2011 and 2010 (dollars in thousands):

	Year Ended December 31,			
	2011	**2010**	**Change**	**%**
Revenues				
Rental income	$ 194,168	$ 115,165	$ 79,003	69%
Other property income	8,617	2,583	6,034	234
Total property revenues	202,785	117,748	85,037	72
Expenses				
Rental expenses	58,133	20,520	37,613	183
Real estate taxes	18,746	11,688	7,058	60
Total property expenses	76,879	32,208	44,671	139
Total property income	125,906	85,540	40,366	47
General and administrative	(13,627)	(8,699)	(4,928)	57
Depreciation and amortization	(55,936)	(34,419)	(21,517)	63
Interest expense	(54,580)	(43,251)	(11,329)	26
Early extinguishment of debt	(25,867)		(25,867)	(100)
Loan transfer and consent fees	(8,808)		(8,808)	(100)
Gain on acquisition	46,371	4,297	42,074	979
Other income (expense), net	212	(1,846)	2,058	(111)
Total other, net	(112,235)	(83,918)	(28,317)	34
Income from continuing operations	13,671	1,622	12,049	743
Discontinued operations				
Income from discontinued operations	1,672	552	1,120	203
Gain on sale of real estate property	3,981		3,981	100
Results from discontinued operations	5,653	552	5,101	924
Net income	19,324	2,174	17,150	789
Net income attributable to restricted shares	(482)		(482)	(100)
Net loss attributable to Predecessor s noncontrolling interests in consolidated real estate entities	2,458	2,205	253	11
Net income attributable to Predecessor s controlled owners equity	$ (16,995)	$ (4,379)	$ (12,616)	288
Net income attributable to unitholders in the Operating Partnership	$ (1,388)	$	$ (1,388)	(100)
Net income attributable to American Assets Trust, Inc. stockholders	$ 2,917	$	$ 2,917	100%

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Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $85.0 million, or 72%, to $202.8 million for the year ended December 31, 2011 compared to $117.7 million for the year ended December 31, 2010. The percentage leased was as follows for each segment as of December 31, 2011 and 2010:

	Percentage Leased (1) Year Ended December 31,	
	2011	2010
Retail	95.0%	94.2%
Office	93.9%(2)	96.3%(2)
Multifamily	91.8%	87.4%
Mixed-Use	99.2%(3)	

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of December 31, 2011 or December 31, 2010, as applicable.
(2) Excludes Valencia Corporate Center, which was sold on August 30, 2011 and 160 King Street, which was sold on December 4, 2012.
(3) Includes the retail portion of the mixed-use property only.

The increase in total property revenue is attributable primarily to the factors discussed below.

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased $79.0 million, or 69%, to $194.2 million for the year ended December 31, 2011 compared to $115.2 million for the year ended December 31, 2010. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio Year Ended December 31,				Same-Store Portfolio (1) Year Ended December 31,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 85,143	$ 77,013	$ 8,130	11%	$ 77,667	$ 77,013	$ 654	1%
Office	55,902	25,058	30,844	123	14,691	14,811	(120)	(1)
Multifamily	13,258	13,094	164	1	13,258	13,094	164	1
Mixed-Use	39,865		39,865	100				
	$ 194,168	$ 115,165	$ 79,003	69%	$ 105,616	$ 104,918	$ 698	1%

(1) For this table and tables following, the same-store portfolio excludes: Solana Beach Towne Centre, Solana Beach Corporate Centre and the Waikiki Beach Walk entities acquired on January 19, 2011; First & Main acquired on March 11, 2011; Lloyd District Portfolio acquired on July 1, 2011; The Landmark at One Market acquired on June 30, 2010; and land held for development. Valencia Corporate Center and 160 King Street are excluded from both the total portfolio and same-store portfolio, as they are classified as discontinued operations for all periods presented.

The increase in retail rental revenue was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had rental revenue of $7.5 million from acquisition through December 31, 2011. On a same-store basis, retail rental revenue increased $0.7 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. This increase was primarily due to $0.3 million of revenue recognized related to property tax expense reimbursements for the same-store properties, which was passed through to tenants as a result of supplemental billings that we received from the California taxing authority in 2012. The remaining increase was due to an increase in the average percentage leased during the year, offset by the closure of Borders at three of our properties. The reduction of revenue related to Borders closing was $0.4 million and resulted from the decrease in base rent and cost reimbursements, offset by the recognition of certain below market lease intangibles.

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The increase in office rental revenue was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had rental revenue of $5.7 million, $9.0 million and $6.0 million, respectively, from acquisition through December 31, 2011. Additionally, The Landmark at One Market was acquired on June 30, 2010 and contributed $10.3 million of the increase in rental revenue. On a same-store basis, office rental revenue remained flat for the year ended December 31, 2011 compared to the year ended December 31, 2010. This was primarily due to $0.3 million of revenue recognized related to property tax expense reimbursements for the same-store properties, which was passed through to tenants as a result of supplemental billings that we received from the California taxing authority in 2012, offset by a decrease in rental rates on new leases and renewals.

The increase in multifamily rental revenue was primarily due to the higher percentage leased for 2011 compared to 2010.

The increase in mixed-use rental revenue was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Other property income. Other property income increased $6.0 million, or 234%, to $8.6 million for the year ended December 31, 2011, compared to $2.6 million for the year ended December 31, 2010. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 1,368	$ 1,221	$ 147	12%	$ 1,367	$ 1,221	$ 146	12%
Office	1,417	316	1,101	348	240	174	66	38
Multifamily	1,063	1,046	17	2	1,063	1,046	17	2
Mixed-Use	4,769		4,769	100				
	$ 8,617	$ 2,583	$ 6,034	234%	$ 2,670	$ 2,441	$ 229	9%

The increase in office other property income was caused by the acquisition of First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had other property income of $0.2 million and $0.9 million, respectively, from acquisition through December 31, 2011.

The other property income for our mixed-use segment represents Hawaii general excise tax reimbursements, parking income related to retail tenants and guests and sales of food and beverages and other services provided to hotel guests. The increase in mixed-use other property income was due to the acquisition of our mixed-use property, Waikiki Beach Walk, in our Formation Transactions on January 19, 2011.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $44.7 million, or 139%, to $76.9 million for the year ended December 31, 2011, compared to $32.2 million for the year ended December 31, 2010. This increase in total property expenses is attributable primarily to the factors discussed below.

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Rental Expenses. Rental expenses increased $37.6 million, or 183%, to $58.1 million for the year ended December 31, 2011, compared to $20.5 million for the year ended December 31, 2010. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 14,825	$ 11,704	$ 3,121	27%	$ 13,991	$ 11,704	$ 2,287	20%
Office	12,005	4,798	7,207	150	2,271	2,246	25	1
Multifamily	4,243	4,018	225	6	4,243	4,018	225	6
Mixed-Use	27,060		27,060	100				
	$ 58,133	$ 20,520	$ 37,613	183%	$ 20,505	$ 17,968	$ 2,537	14%

The increase in retail rental expenses was caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had rental expenses of $0.8 million from acquisition through December 31, 2011. Same-store retail rental expenses increased $2.3 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. This increase was primarily due to an allowance recorded for an outstanding deferred rent receivable from Kmart at one property, along with additional maintenance performed, additional marketing costs and increased operating costs related to the increase in the average percentage leased for 2011.

The increase in office rental expenses was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had rental expenses of $0.9 million, $1.4 million and $2.4 million, respectively, from acquisition through December 31, 2011. Additionally, The Landmark at One Market was acquired on June 30, 2010 and contributed $2.5 million of the increase in rental expenses.

The increase in multifamily rental expenses was primarily due to increased operating costs resulting from the increase in the percentage leased for 2011.

Mixed-use rental expenses increased as a result of the acquisition of our mixed-use property, Waikiki Beach Walk, on January 19, 2011.

Real Estate Taxes. Real estate tax expense increased $7.1 million, or 60%, to $18.7 million for the year ended December 31, 2011, compared to $11.7 million for the year ended December 31, 2010. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Year Ended December 31,				Year Ended December 31,			
	2011	2010	Change	%	2011	2010	Change	%
Retail	$ 9,687	$ 8,481	$ 1,206	14%	$ 9,005	$ 8,481	$ 524	6%
Office	6,010	2,502	3,508	140	1,627	1,232	395	32
Multifamily	1,335	705	630	89	1,335	705	630	89
Mixed-Use	1,714		1,714	100				
	$ 18,746	$ 11,688	$ 7,058	60%	$ 11,967	$ 10,418	$ 1,549	15%

The increase in retail real estate tax expense was primarily caused by additional real estate tax accruals of $0.7 million for expected supplemental billings following the reassessment of our properties in California by the taxing authority, of which $0.4 million related to our same-store portfolio and $0.3 million related to Solana Beach Towne Centre. Additionally, the acquisition of Solana Beach Towne Centre on January 19, 2011 increased real estate taxes $0.4 million, excluding the accruals previously discussed, from acquisition through December 31, 2011.

The increase in office real estate taxes was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011, and Lloyd District Portfolio on July 1, 2011, which had real estate taxes of $0.4 million, $0.7 million and $0.6 million, respectively, from acquisition through December 31, 2011. The Landmark at One Market was acquired on June 30, 2010 and contributed $1.2 million of the increase in real estate taxes. Additionally, we recorded real estate tax accruals of $0.6 million for expected supplemental billings following the reassessment of our properties in California by the taxing authority, of which $0.4 million related to our same-store portfolio.

The increase in multifamily real estate taxes was caused by additional real estate tax accruals of $0.6 million for supplemental billings that we received from the California taxing authority in 2012.

Mixed-use rental expenses increased as a result of our acquisition of our mixed-user property on January 19, 2011

Property Operating Income

Property operating income increased $40.4 million, or 47%, to $125.9 million for the year ended December 31, 2011, compared to $85.5 million for the year ended December 31, 2010. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				**Same-Store Portfolio**			
	Year Ended December 31,				**Year Ended December 31,**			
	2011	**2010**	**Change**	**%**	**2011**	**2010**	**Change**	**%**
Retail	$ 61,999	$ 58,049	$ 3,950	7%	$ 56,038	$ 58,049	$ (2,011)	(3)%
Office	39,304	18,074	21,230	117	11,033	11,507	(474)	(4)
Multifamily	8,743	9,417	(674)	(7)	8,743	9,417	(674)	(7)
Mixed-Use	15,860		15,860	100				
	$ 125,906	$ 85,540	$ 40,366	47%	$ 75,814	$ 78,973	$ (3,159)	(4)%

The increase in retail property operating income was primarily caused by the acquisition of Solana Beach Towne Centre on January 19, 2011, which had property operating income of $6.0 million from acquisition through December 31, 2011. On a same-store basis, the retail property operating income decreased $2.0 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. The decrease was due to an increase in rental expenses, specifically related to an allowance recorded for an outstanding deferred rent receivable from Kmart at one property, and additional repairs, maintenance and marketing expenses. Additionally, we recorded same-store real estate tax accruals of $0.1 million (net of cost reimbursement revenue for amounts billed to tenants) for supplemental billings that we received from the California taxing authority in 2012. The increased expenses more than offset the increase in rental revenue related to increases in the average percentage leased.

The increase in office property operating income was primarily caused by the acquisition of Solana Beach Corporate Centre on January 19, 2011, First & Main on March 11, 2011 and Lloyd District Portfolio on July 1, 2011, which had property operating income of $4.2 million, $7.1 million and $3.9 million, respectively, from acquisition through December 31, 2011. Additionally, The Landmark at One Market was acquired on June 30, 2010 and contributed $6.6 million of the increase in property operating income. On a same-store basis, office property operating income decreased $0.5 million, for the year ended December 31, 2011 compared to the year ended December 31, 2010. This decrease was primarily due to the decrease in rental rates on new leases and renewals, increased operating expenses and real estate tax accruals of $0.1 million (net of cost reimbursement revenue for amounts billed to tenants) for supplemental billings that we received from the California taxing authority in 2012.

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The decrease in multifamily property operating income was due to additional real estate tax accruals of $0.6 million for supplemental billings that we received from the California taxing authority in 2012 which decreased the property operating income for the year ended December 31, 2012.

The mixed-use property operating income increased as the result of our acquisition of the Waikiki Beach Walk mixed-use site on January 19, 2011.

Other

General and administrative. General and administrative expenses increased $4.9 million, or 57%, to $13.6 million for the year ended December 31, 2011, compared to $8.7 million for the year ended December 31, 2010. This increase was primarily due to higher personnel costs in preparation of the initial public offering.

Depreciation and amortization. Depreciation and amortization expense increased $21.5 million, or 63%, to $55.9 million for the year ended December 31, 2011, compared to $34.4 million for the year ended December 31, 2010. This increase was primarily due to depreciation and amortization attributable to the acquired properties.

Interest expense. Interest expense increased $11.3 million, or 26%, to $54.6 million for the year ended year ended December 31, 2011 compared with $43.3 million for the year ended December 31, 2010. This increase was primarily due to interest expense on the assumed debt for the acquired properties and interest expense on the new mortgage loan obtained on First & Main on June 1, 2011 plus commitment fees on the revolving line of credit, offset by repayment of $316.8 million of outstanding debt at the time of our initial public offering.

Loan transfer and consent fees. Loan transfer and consent fees relate to fees paid to lenders in order for the lenders to consent to the transfer of the existing loans at certain properties to the Operating Partnership as part of the Formation Transactions.

Gain on acquisition. The gain on acquisition for the year ended December 31, 2011 related to the gains recognized on the acquisition of the outside ownership interests in the Solana Beach Centre entities and the Waikiki Beach Walk entities. The gain on acquisition for the year ended December 31, 2010 related to the gain recognized on the acquisition of the outside ownership interests in The Landmark at One Market.

Other income (expense), net. Other income (expense), net increased $2.1 million, or 111%, to net income of $0.2 million for the year ended December 31, 2011, compared to net expense of $1.8 million for the year ended December 31, 2010. Other income (expense), net is comprised of interest and investment income, acquisition related expenses, and income tax expense related to our taxable REIT subsidiary, which operates the hotel portion of our mixed-use property. Fee income from real estate joint ventures is also included, which decreased related to our acquisition of the Solana Beach Centre entities on January 19, 2011 and The Landmark at One Market on June 30, 2010, and as a result of not providing management services and recognizing the related fees to the Fireman s Fund Headquarters after our initial public offering. Finally, income from real estate joint ventures is included, and as the real estate joint ventures were acquired on January 19, 2011, we only recorded our share of the real estate joint ventures losses through January 18, 2011. Subsequently, the operations for these entities were included in consolidated revenues and expenses.

Discontinued Operations. Discontinued operations relates to Valencia Corporate Center, which was sold on August 30, 2011 and 160 King Street, which was sold on December 4, 2012.

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Liquidity and Capital Resources

Analysis of Liquidity and Capital Resources

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to our stockholders and Operating Partnership unitholders. As of December 31, 2012, we held $42.5 million in cash and cash equivalents.

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures associated with our properties, regular debt service requirements, dividend payments to our stockholders required to maintain our REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash and, if necessary, borrowings available under the credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for the repayment of debt at maturity, property acquisitions, tenant improvements and capital improvements. We expect to meet our long-term liquidity requirements to pay scheduled debt maturities and to fund property acquisitions and capital improvements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and capital improvements using our credit facility pending permanent financing. We believe that we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, we cannot be assured that this will be the case. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

Our overall capital requirements during 2013 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of Torrey Reserve Campus and Lloyd District Portfolio. While the amount of future expenditures will depend on numerous factors, we expect to incur higher amounts in 2013 compared to those incurred in 2012 related to capital investments for development, redevelopment and existing properties as we progress with our development pipeline. These amounts will be funded on a short-term basis with cash flow from operations, cash on hand and our revolving credit facility. If necessary, we may access the debt or equity capital markets to finance significant acquisitions. Given our past ability to access the capital markets, we expect debt or equity to be available to us. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of certain development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures or re-evaluate our dividend policy.

In February 2012, we filed a universal shelf registration statement on Form S-3 with the SEC, which was declared effective in February 2012. The universal shelf registration statement may permit us, from time to time, to offer and sell up to an additional approximately $500.0 million of equity securities. However, there can be no assurance that we will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

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Contractual Obligations

The following table outlines the timing of required payments related to our commitments as of December 31, 2012 (dollars in thousands):

		Payments by Period					
Contractual Obligations	**Total**	**Within 1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**More than 5 Years**
Principal payments on long-term indebtedness	$ 1,057,680	$ 3,704	$ 233,993	$ 235,980	$ 113,974	$ 190,139	$ 279,890
Interest payments	362	56	51	171	28	20	36
Operating lease [1]	13,113	2,502	2,569	2,636	1,709	736	2,961
Tenant-related commitments	2,645	2,280	365				
Construction-related commitments	26,540	14,724	11,816				
Total	$ 1,100,340	$ 23,266	$ 248,794	$ 238,787	$ 115,711	$ 190,895	$ 282,887

(1) Lease payments on the Waikiki Beach Walk lease will be equal to fair rental value from March 2017 through the end of the lease term. In the table, we have shown the lease payments for this period at the stated rate for February 2017 of $61,690.

Indebtedness Outstanding

The following table sets forth information as of December 31, 2012, with respect to our indebtedness (dollars in thousands):

Debt	**Principal Balance at December 31, 2012**	**Interest Rate**	**Annual Debt Service**	**Maturity Date**	**Balance at Maturity**
Alamo Quarry Market [1][2]	$ 93,942	5.67%	$ 7,567	January 8, 2014	$ 91,717
Waikele Center [4]	140,700	5.15	7,360	November 1, 2014	140,700
The Shops at Kalakaua [4]	19,000	5.45	1,053	May 1, 2015	19,000
The Landmark at One Market [2][4]	133,000	5.61	7,558	July 5, 2015	133,000
Del Monte Center [4]	82,300	4.93	4,121	July 8, 2015	82,300
First & Main [4]	84,500	3.97	3,397	July 1, 2016	84,500
Imperial Beach Gardens [4]	20,000	6.16	1,250	September 1, 2016	20,000
Mariner s Point[4]	7,700	6.09	476	September 1, 2016	7,700
South Bay Marketplace [4]	23,000	5.48	1,281	February 10, 2017	23,000
Waikiki Beach Walk Retail[4]	130,310	5.39	7,020	July 1, 2017	130,310
Solana Beach Corporate Centre III-IV [5]	37,204	6.39	2,798	August 1, 2017	35,136
Loma Palisades [4]	73,744	6.09	4,553	July 1, 2018	73,744
One Beach Street [4]	21,900	3.94	875	April 1, 2019	21,900
Torrey Reserve North Court[1]	21,659	7.22	1,836	June 1, 2019	19,443
Torrey Reserve VC1, VC2, VC3[1]	7,294	6.36	560	June 1, 2020	6,439
Solana Beach Corporate Centre I-II [1]	11,637	5.91	855	June 1, 2020	10,169
Solana Beach Towne Centre [1]	38,790	5.91	2,849	June 1, 2020	33,898
City Center Bellevue [4]	111,000	3.98	4,479	November 1, 2022	111,000
Total/Weighted Average	**$ 1,057,680**	**5.26%**	**$ 59,888**		**$ 1,043,956**

Unamortized fair value adjustment		(12,998)
Debt Balance	**$**	**1,044,682**

(1) Principal payments based on a 30-year amortization schedule.
(2) Maturity date is the earlier of the loan maturity date under the loan agreement, or the Anticipated Repayment Date as specifically defined in the loan agreement, which is the date after which substantial economic penalties apply if the loan has not been paid off.

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(3) Not used.
(4) Interest only.
(5) Loan is interest only through August 2012. Beginning in September 2012, principal payments are based on a 30-year amortization schedule.

Certain loans require us to comply with various financial covenants, including the maintenance of minimum debt coverage ratios. As of December 31, 2012, we were in compliance with all loan covenants.

Description of Certain Debt

The following is a summary of the material provisions of the loan agreements evidencing our material debt outstanding as of December 31, 2012.

Mortgage Loan Secured by Alamo Quarry Market

Our Alamo Quarry Market property is subject to senior mortgage debt with an original principal amount of $109 million, which is securitized debt that is currently held by Bank of America, N.A, as successor by merger to LaSalle Bank, N.A., as Trustee for Bear Stearns Commercial Mortgage Securities Inc., Commercial Mortgage Pass-Through Certificates Series 2003-PWR2.

Maturity and Interest. The loan has a maturity date of January 8, 2014 and bears interest at a fixed rate per annum of 5.67%. This loan requires regular payments of principal and interest.

Security. The loan was made to two borrower subsidiaries, and is secured by a first-priority deed of trust on the Alamo Quarry Market property, a security interest in all personal property used in connection with the Alamo Quarry Market property and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily defeased in whole or in part, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to January 8, 2014, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events.

Mortgage Loan Secured by Waikele Center

The Waikele Center is subject to senior mortgage debt with an original principal amount of $140.7 million, which is securitized debt that is currently held by Bank of America, N.A., as successor by merger to LaSalle Bank, N.A., as Trustee for Morgan Stanley Capital I, Inc., Commercial Mortgage Pass-Through Certificates, Series 2005-TOP17.

Maturity and Interest. The loan has a maturity date of November 1, 2014 and bears interest at a fixed rate per annum of 5.15%. This is an interest only loan.

Security. The loan was made to two borrower subsidiaries, and is secured by a first-priority deed of trust on the Waikele Center, a security interest in all personal property used in connection with the Waikele Center and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily defeased in whole or in part, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to November 1, 2014, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events.

Mortgage Loan Secured by The Landmark at One Market

The Landmark at One Market is subject to senior mortgage debt with an original principal amount of $133.0 million, which is securitized debt that is currently held by Bank of America, N.A., as successor by merger to LaSalle Bank, N.A., as Trustee for the Morgan Stanley Capital I, Inc. Commercial Mortgage Pass-Through Certificates; Series 2005-HQ6.

Maturity and Interest. The loan has a maturity date of July 5, 2015 and bears interest at a fixed rate per annum of 5.61%. This is an interest only loan.

Security. The loan was made to two borrower subsidiaries, and is secured by a first-priority deed of trust on The Landmark at One Market, a security interest in all personal property used in connection with The Landmark at One Market and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily defeased in whole or in part, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to July 5, 2015, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events.

Mortgage Loan Secured by Del Monte Center

Del Monte Center is subject to senior mortgage debt with an original principal amount of $82.3 million, which is securitized debt that is currently held by Wells Fargo Bank, N.A., as Trustee for the registered Holders of Credit Suisse First Boston Mortgage Securities Corp., Commercial Mortgage Pass-Through Certificates, Series 2005-C5 under that certain Pooling and Servicing Agreement, dated as of November 1, 2005.

Maturity and Interest. The loan has a maturity date of July 8, 2015 and bears interest at a fixed rate per annum of 4.93%. This is an interest only loan.

Security. The loan was made to four borrower subsidiaries, and is secured by a first-priority deed of trust on the Del Monte Center property, a security interest in all personal property used in connection with the Del Monte Center property and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily defeased in whole or in part, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to July 8, 2015, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events.

Mortgage Loan Secured by First & Main

First & Main is subject to senior mortgage debt with an original principal amount of $84.5 million from PNC Bank, National Association.

Maturity and Interest. The loan has a maturity date of July 1, 2016 and bears interest at a fixed rate per annum of 3.97%. This is an interest only loan.

Security. The loan was made to a single borrower subsidiary, and is secured by a first-priority deed of trust on First & Main, a security interest in all personal property used in connection with First & Main and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily prepaid in whole or in part commencing on or after July 1, 2012, subject to satisfaction of customary yield maintenance requirements in effect for a prepayment prior to March 1, 2016. On or after March 1, 2016, the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events.

Mortgage Loan Secured by Waikiki Beach Walk-Retail

The retail portion of Waikiki Beach Walk is subject to senior mortgage debt with an original principal amount of $130.3 million, which is securitized debt that is currently held by KeyCorp Real Estate Capital Markets, Inc. d/b/a Key Bank Real Estate Capital as Master Servicer in trust for Wells Fargo Bank, N.A., as trustee for the registered Holders of Credit Suisse First Boston Mortgage Securities Corp., Commercial Mortgage Pass-Through Certificates, Series 2008-C1.

Maturity and Interest. The loan has a maturity date of July 1, 2017 and bears interest at a fixed rate per annum of 5.39%. This is an interest only loan.

Security. The loan was made to a single borrower subsidiary, and is secured by a first-priority deed of trust on the retail portion of Waikiki Beach Walk, a security interest in all personal property used in connection with therewith and an assignment of all leases, rents and security deposits relating to the retail portion of the property.

Prepayment. The loan may be voluntarily defeased in whole or in part, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to July 1, 2017, after which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events.

Mortgage Loan Secured by Loma Palisades

Loma Palisades is subject to senior mortgage debt with an original principal amount of $73.7 million, which is securitized debt under the Federal Home Loan Mortgage Corporation program, or Freddie Mac, that is currently held by Wells Fargo Bank, N.A.

Maturity and Interest. The loan has a maturity date of July 1, 2018 and bears interest at a rate per annum of 6.09%. This is an interest only loan.

Security. The loan was made to a single borrower subsidiary, and is secured by a first-priority deed of trust lien on Loma Palisades, a security interest in all personal property used in connection with Loma Palisades and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily prepaid in whole or in part, subject to satisfaction of customary yield maintenance requirements in effect for a prepayment prior to April 1, 2018, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events.

Mortgage Loan Secured by City Center Bellevue

City Center Bellevue is subject to senior mortgage debt with an original principal amount of $111.0 million from PNC Bank, National Association.

Maturity and Interest. The loan has a maturity date of November 1, 2022 and bears interest at a fixed rate per annum of 3.98%. This is an interest only loan.

Security. The loan was made to a single borrower subsidiary, and is secured by a first-priority deed of trust on City Center Bellevue, a security interest in all personal property used in connection with City Center Bellevue and an assignment of all leases, rents and security deposits relating to the property.

Prepayment. The loan may be voluntarily prepaid in whole or in part commencing on or after November 1, 2015, subject to satisfaction of customary yield maintenance requirements in effect for a prepayment prior to May 1, 2022. On or after May 1, 2022, the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events.

Credit Facility

On January 19, 2011, upon completion of the our initial public offering, we entered into a revolving credit facility, or the credit facility. A group of lenders for which an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated acts as administrative agent and joint arranger, and an affiliate of Wells Fargo Securities, LLC acts as syndication agent and joint arranger, have provided commitments for a revolving credit facility allowing borrowings of up to $250 million. At December 31, 2012, our maximum allowable borrowing amount was $226.3 million. The credit facility also has an accordion feature that may allow us to increase the availability thereunder up to a maximum of $400.0 million, subject to meeting specified requirements and obtaining additional commitments from lenders. We expect to use the credit facility in the future for general corporate purposes, including working capital, the payment of capital expenses, acquisitions and development and redevelopment of properties in our portfolio. The credit facility bears interest at the rate of either LIBOR or a base rate, plus a margin that will vary depending on our leverage ratio. The amount available for us to borrow under the credit facility is subject to the net operating income of our properties that form the borrowing base of the credit facility and a minimum implied debt yield of such properties.

On March 7, 2011, the credit facility was amended to allow us or our Operating Partnership to purchase GNMA securities with maturities of up to 30 years.

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On January 10, 2012, the credit facility was amended to, among other things, (1) extend the maturity date to January 10, 2016 (with a one-year extension option subject to payment of a 0.15% fee), (2) decrease the applicable interest rates and (3) modify certain financial covenants. The second amendment provides for an interest rate based on, at our option, either (1) one-, two-, three or six-month LIBOR, plus, in each case, a spread (ranging from 1.60%-2.20%) based on our consolidated leverage ratio, or (2) a base rate equal to the highest of the (a) prime rate, (b) federal funds rate plus 0.50% or (c) Eurodollar rate plus 1.00%. Such rates are more favorable than previously contained in the revolving credit facility. In addition, the amendment reduces our secured debt ratio covenant under the credit facility to 50%.

On September 7, 2012, the credit facility was amended a third time to allow our consolidated total secured indebtedness to be up to 55% of our secured total asset value for the period commencing upon the date that a material acquisition (generally, greater than $100 million) is consummated through and including the last day of the third fiscal quarter that follows such date.

The amended credit facility includes a number of customary financial covenants, including:

- a maximum leverage ratio (defined as total indebtedness net of certain unrestricted cash and cash equivalents to total asset value) of 60.0%,
- a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,
- a maximum secured leverage ratio (defined as total secured indebtedness to secured total asset value) of 55.0%,
- a minimum tangible net worth equal to at least 75.0% of our tangible net worth at January, 19, 2011, the closing date of our initial public offering, plus 85.0% of the net proceeds of any additional equity issuances (other than additional equity issuances in connection with any dividend reinvestment program), and
- a $35.0 million limit on the maximum principal amount of recourse indebtedness we may have outstanding at any time, other than under credit facility.

The credit facility provides that our annual distributions may not exceed the greater of (1) 95.0% of our funds from operations, or FFO, or (2) the amount required for us to (a) qualify and maintain our REIT status and (b) avoid the payment of federal or state income or excise tax. If certain events of default exist or would result from a distribution, we may be precluded from making distributions other than those necessary to qualify and maintain our status as a REIT.

We and certain of our subsidiaries guarantee the obligations under the credit facility, and certain of our subsidiaries pledged specified equity interests in our subsidiaries as collateral for our obligations under the credit facility.

As of December 31, 2012, we were in compliance with all credit facility covenants.

Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Cash Flows

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

Cash and cash equivalents were $42.5 million and $112.7 million, at December 31, 2012 and 2011, respectively.

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Net cash provided by operating activities increased $10.5 million to $75.9 million for the year ended December 31, 2012, compared to $65.4 million for the year ended December 31, 2011. The increase is primarily due to the acquisitions of the Solana Beach Centre entities, the Waikiki Beach Walk entities, First & Main, Lloyd District Portfolio, One Beach Street, and City Center Bellevue.

Net cash used in investing activities decreased $37.4 million to $194.3 million for the year ended December 31, 2012, compared to $231.7 million for the year ended December 31, 2011. The decrease was primarily due to the sale of our marketable securities during the third quarter of 2012, to help finance our acquisition of City Center Bellevue, and the sale of 160 King Street during the fourth quarter of 2012. The proceeds from the sale were offset by the acquisition of One Beach Street on January 24, 2012, City Center Bellevue on August 21, 2012, and Geary Marketplace on December 19, 2012 and an increase in capital expenditures related to construction activity for our development properties.

Net cash provided by financing activities decreased $189.0 million to $48.1 million for the year ended December 31, 2012, compared to net cash used of $237.1 million million for the year ended December 31, 2011. The decrease was primarily due to the proceeds from the issuance of shares of our common stock in connection with our initial public offering in 2011, which was partially offset by the repayment of certain indebtedness in connection with the Formation Transactions. During the year ended December 31, 2012, we drew down on our line of credit during the third quarter of 2012 to finance our acquisition of City Center Bellevue. We subsequently repaid the outstanding line of credit balance during the fourth quarter of 2012 in connection with our sale of 160 King Street. During the year ended December 31, 2012, financing activities also included $132.9 million of loan proceeds related to the mortgage loans on One Beach Street and City Center Bellevue .

Comparison of the year ended December 31, 2011 to the year ended December 31, 2010

Cash and cash equivalents were $112.7 million and $42.0 million, at December 31, 2011 and 2010, respectively.

Net cash provided by operating activities increased $17.1 million to $65.4 million for the year ended December 31, 2011, compared to $48.3 million for the year ended December 31, 2010. The increase was primarily due to the acquisitions of The Landmark at One Market, the Solana Beach Centre entities, the Waikiki Beach Walk entities, First & Main and Lloyd District Portfolio.

Net cash used in investing activities increased $202.2 million to $231.7 million for the year ended December 31, 2011, compared to $29.5 million for the year ended December 31, 2010. The increase was primarily due to the acquisition of First & Main, Lloyd District Portfolio and Solana Beach Highway 101, and the purchase of marketable securities during 2011, along with distributions of capital from real estate joint ventures for the year ended December 31, 2010 that did not occur in 2011. The increases were offset by cash received from the sale of Valencia Corporate Center; cash acquired through the acquisition of the controlling interest in the Solana Beach Centre entities and the Waikiki Beach Walk entities; and the acquisitions of The Landmark at One Market on June 30, 2010 and a vacant building at Carmel Mountain Plaza in November 2010.

Net cash provided by financing activities increased $238.2 million to $237.1 million for the year ended December 31, 2011, compared to net cash used of $1.1 million for the year ended December 31, 2010. The increase was primarily due to the proceeds from the issuance of shares of our common stock in connection with our initial public offering and proceeds from an $84.5 million loan, which was partially offset by the repayment of certain indebtedness in connection with the Formation Transactions and payment of dividends. Additionally, we had proceeds of $5.4 million from a private placement of common units that closed on February 14, 2011.

Net Operating Income

Net Operating Income, or NOI, is a non-GAAP financial measure of performance. We define NOI as operating revenues (rental income, tenant reimbursements, lease termination fees, ground lease rental income and other property income) less property and related expenses (property expenses, ground lease expense, property

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marketing costs, real estate taxes and insurance). NOI excludes general and administrative expenses, interest expense, depreciation and amortization, acquisition-related expense, other non-property income and losses, gains and losses from property dispositions, extraordinary items, tenant improvements and leasing commissions. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs.

NOI is used by investors and our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP, or (3) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our retail, office, multifamily or mixed-use properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in Management s Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

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The following is a reconciliation of our NOI to net income for the years ended December 31, 2012, 2011 and 2010 computed in accordance with GAAP (in thousands):

	Year Ended December 31,		
	2012	**2011**	**2010**
Net operating income	$ 149,352	$ 125,906	$ 85,540
General and administrative	(15,593)	(13,627)	(8,699)
Depreciation and amortization	(61,853)	(55,936)	(34,419)
Interest expense	(57,328)	(54,580)	(43,251)
Early extinguishment of debt		(25,867)	
Loan transfer and consent fees		(8,808)	
Gain on acquisition		46,371	4,297
Other income (expense), net	(629)	212	(1,846)
Income from continuing operations	13,949	13,671	1,622
Discontinued operations:			
Income from discontinued operations	932	1,672	552
Gain on sale of real estate property	36,720	3,981	