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Paramount Group, Inc.
Form 10-K
February 22, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 2016

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: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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Maryland 32-0439307
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

1633 Broadway, Suite 1801, New York, NY 10019
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 237-3100

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Title of each class

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 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. 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the 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.

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if 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 Act). YES NO

As of January 27, 2017, there were 230,668,694 shares of the registrant's common stock outstanding.

As of June 30, 2016, the aggregate market value of the 185,936,093 shares of common stock held by non-affiliates of the Registrant was \$2,963,821,000 based on the June 30, 2016 closing share price of our common stock of \$15.94 per share on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Stockholders' Meeting (which is scheduled to be held on May 18, 2017) to be filed within 120 days after the end of the registrant's fiscal year are incorporated by reference in Part III of this Annual Report on Form 10-K.

This Annual Report on Form 10-K includes financial statements required under Rule 3-09 of Regulation S-X, for 712 Fifth Avenue, L.P. and Paramount Group Real Estate Fund VII, LP.

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These items are omitted in whole or in part because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission no later than 120 days after December 31, 2016, portions of which are incorporated by reference herein.

Forward-Looking Statements

We make statements in this Annual Report on Form 10-K that are considered “forward-looking statements” within the meaning of 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, which are usually identified by the use of words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” “will,” and such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- unfavorable market and economic conditions in the United States and globally and in New York City, Washington, D.C. and San Francisco;
- risks associated with our high concentrations of properties in New York City, Washington, D.C. and San Francisco;
- risks associated with ownership of real estate;
- decreased rental rates or increased vacancy rates;
- the risk we may lose a major tenant;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments;
- intense competition in the real estate market that may limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities;
- insufficient amounts of insurance;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- risks associated with actual or threatened terrorist attacks;
- exposure to liability relating to environmental and health and safety matters;
- high costs associated with compliance with the Americans with Disabilities Act;
- failure of acquisitions to yield anticipated results;
- risks associated with real estate activity through our joint ventures and private equity real estate funds;
- general volatility of the capital and credit markets and the market price of our common stock;
- exposure to litigation or other claims;
- loss of key personnel;
- risks associated with security breaches through cyber attacks or cyber intrusions and other significant disruptions of our information technology (IT) networks and related systems;
- risks associated with our substantial indebtedness;
- failure to refinance current or future indebtedness on favorable terms, or at all;
- failure to meet the restrictive covenants and requirements in our existing debt agreements;
 - fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with variable rate debt, derivatives or hedging activity;

risks associated with future sales of our common stock by our continuing investors or the perception that our continuing investors intend to sell substantially all of the shares of our common stock that they hold;
risks associated with the market for our common stock;
failure to qualify as a REIT;
compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
any of the other risks included in this Annual Report on Form 10-K, including those set forth under the heading “Risk Factors.”

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our financial statements and the notes thereto, as well as Item 1A entitled “Risk Factors” in this report.

PART I

ITEM 1. BUSINESS

General

Paramount Group, Inc. (“Paramount”) is a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. We conduct our business through, and substantially all our interests in properties and investments are held by, Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). We are the sole general partner of, and owned approximately 87.0% of, the Operating Partnership as of December 31, 2016. As of December 31, 2016, our portfolio consisted of 13 Class A office properties aggregating approximately 10.8 million square feet that was 93.3% leased and 90.9% occupied. All references to “we,” “us,” “our,” the “Company” and “Paramount” refer to Paramount Group, Inc. and its consolidated subsidiaries, including the Operating Partnership.

We were incorporated in Maryland as a corporation on April 14, 2014 to continue the business of our Predecessor, as defined in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Predecessor, and did not have any meaningful operations until the acquisition of substantially all of the assets of our Predecessor and assets of the real estate funds that it controlled, as well as the interests of unaffiliated third parties in certain properties. Our properties were acquired through a series of Formation Transactions (the “Formation Transactions”) concurrently with our initial public offering of 150,650,000 common shares at a public offering price of \$17.50 per share on November 24, 2014 (the “Offering”).

Our Competitive Strengths

We believe that we distinguish ourselves from other owners and operators of office properties through the following competitive strengths:

Premier Portfolio of High-Quality Office Properties in the Most Desirable Submarkets. We have assembled a premier portfolio of Class A office properties located exclusively in carefully selected submarkets of New York City, Washington, D.C. and San Francisco. Our submarkets are among the strongest commercial real estate submarkets in the United States for office properties due to a combination of their high barriers to entry, constrained supply, strong economic characteristics and a deep pool of prospective tenants in various industries that have demonstrated a strong demand for high-quality office space. Our markets are international business centers, characterized by a broad tenant base with a highly educated workforce, a mature and functional transportation infrastructure and an overall amenity rich environment. These markets are home to a diverse range of large and growing enterprises in a variety of industries, including financial services, media and entertainment, consulting, legal and other professional services,

technology, as well as federal government agencies. As a result of the above factors, the submarkets in which we are invested have generally outperformed the broader markets in which they are located.

Strong Internal Growth Prospects. We have substantial embedded rent growth within our portfolio as a result of the strong historical and projected future rental rate growth within our submarkets, contractual fixed rental rate increases included in our leases and incremental rent from the lease-up of our portfolio. Our portfolio occupancy was 90.9% as of December 31, 2016; we believe this presents us with a meaningful growth opportunity as we lease-up our portfolio given the strong office market fundamentals in the markets in which we operate.

Demonstrated Acquisition and Operational Expertise. Over the past 20 years, we have developed and refined our highly successful real estate investment strategy. We have a proven reputation as a value-enhancing, hands-on operator of Class A office properties. We target opportunities with a value-add component, where we can leverage our operating expertise, deep tenant relationships, and proactive approach to asset and property management. In certain instances, we may acquire properties with existing or expected future vacancy or with significant value embedded in existing below-market leases, which we will be able to mark-to-market over time. Even fully leased properties from time to time present us with value-enhancing opportunities which we have been able to capitalize on in the past.

Deep Relationships with Diverse, High Credit-Quality Tenant Base. We have long-standing relationships with high-quality tenants, including Allianz Global Investors, LP, Barclays Capital, Inc., Clifford Chance LLP, Morgan Stanley, Credit Agricole Corporate & Investment Bank, Chadbourne & Parke, LLP, Showtime Networks Inc., TD Bank, N.A., Warner Music Group, Google Inc. and the U.S. Federal Government.

◆ **Value-Add Renovation and Repositioning and Development Capabilities.** We have expertise in renovating, repositioning and developing office properties. We have historically acquired well-located assets that have either suffered from a need for physical improvement to upgrade the property to Class A space, have been underperforming due to a lack of a coherent leasing and branding strategy or have been under-managed and could be immediately enhanced by our hands-on approach. We are experienced in upgrading, renovating and modernizing building lobbies, corridors, bathrooms, elevator cabs and base building systems and updating antiquated spaces to include new ceilings, lighting and other amenities. We have also successfully aggregated and are continuing to combine smaller spaces to offer larger blocks of space, including multiple floors, which are attractive to larger, high credit-quality tenants. We believe that the post-renovation quality of our buildings and our hands-on asset and property management approach attract high credit-quality tenants and allow us to increase our cash flow.

◆ **Seasoned and Committed Management Team with Proven Track Record.** Our senior management team, led by Albert Behler, our Chairman, Chief Executive Officer and President, has been in the commercial real estate industry for an average of 28 years, and has worked at our company for over 17 years. Our senior management team is highly regarded in the real estate community and has extensive relationships with a broad range of brokers, owners, tenants and lenders. We have developed relationships that enable us to secure high credit-quality tenants on attractive terms and provide us with potential off-market acquisition opportunities. We believe that our proven acquisition and operating expertise enables us to gain advantages over our competitors through superior acquisition sourcing, focused leasing programs, active asset and property management and first-class tenant service.

◆ **Conservative Balance Sheet.** Over the past several decades, we have built strong relationships with numerous lenders, investors and other capital providers. Our financing track record and depth of relationships provide us with significant financial flexibility and capacity to fund future growth in both good and bad economic environments. We have a strong capital structure that supports this flexibility and growth. As of December 31, 2016, our share of net debt to enterprise value was 42.5% and we had \$163.0 million of cash and cash equivalents and a \$1.0 billion revolving credit facility, with \$230.0 million drawn as of December 31, 2016.

◆ **Proven Investment Management Business.** We have a successful investment management business, where we serve as the general partner and property manager of certain private equity real estate funds for institutional investors and high-net-worth individuals. We have also entered into a number of joint ventures with institutional investors, high-net-worth individuals and other sophisticated real estate investors through which we and our funds have invested in real estate properties. We expect our investment management business to be a complementary part of our overall real estate investment business.

Objectives and Strategy

Our primary business objective is to enhance shareholder value by increasing cash flow from operations. The strategies we intend to execute to achieve this objective include:

Leasing vacant and expiring space at market rents;

Maintaining a disciplined acquisition strategy focused on owning and operating Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco;

Redeveloping and repositioning properties to increase returns; and

Proactively managing our portfolio to increase occupancy and rental rates.

Significant Tenants

None of our tenants accounted for more than 10% of total revenues in the years ended December 31, 2016, 2015 and 2014.

Segments

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to be aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker, makes key operating decisions, evaluates financial results and manages our business. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment. See Note 26, Segments Disclosure, to our combined consolidated financial statements in this Annual Report on Form 10-K for further information on our and our Predecessor's reportable segments.

Employees

As of December 31, 2016, we had 334 employees, including 93 corporate employees and 241 on-site building and property management personnel. Certain of our employees are covered by collective bargaining agreements.

Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not

insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

Competition

The leasing of real estate is highly competitive in markets in which we operate. We compete with numerous acquirers, developers, owners and operators of commercial real estate, many of which own or may seek to acquire or develop properties similar to ours in the same markets in which our properties are located. The principal means of competition are rent charged, location, services provided and the nature and condition of the facility to be leased. In addition, we face competition from other real estate companies including other REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships, individual investors and others that may have greater financial resources or access to capital than we do or that are willing to acquire properties in transactions which are more highly leveraged or are less attractive from a financial viewpoint than we are willing to pursue. If our competitors offer space at rental rates below current market rates, below the rental rates we currently charge our tenants, in better locations within our markets or in higher quality facilities, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire.

Environmental and Related Matters

Under various federal, state and/or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste, or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. 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, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract and/or retain tenants, and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also 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 that property may be used or how businesses may be operated on that property.

Some of our properties may be adjacent to or near other properties used for industrial or commercial purposes or that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. Releases from these properties could impact our properties. While certain properties contain or contained uses that could have or have impacted our properties, we are not aware of any liabilities related to environmental contamination that we believe will have a material adverse effect on our operations.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant's ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase 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 a material adverse effect on us. We sometimes require our tenants to comply with environmental and health and safety laws and regulations and to indemnify us for any related liabilities in our leases with them. But in the event of the bankruptcy or inability of any of our tenants to satisfy such obligations, we may be required to satisfy such obligations. We are not presently aware of any instances of material noncompliance with environmental or health and safety laws or regulations at our properties, and we believe that we and/or our tenants have all material permits and approvals necessary under current laws and regulations to operate our properties.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate

in the future contain, may contain, or may have contained, asbestos-containing material (“ACM”). Environmental and health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for noncompliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of releases of ACM into the environment. We are not presently aware of any material liabilities related to building conditions, including any instances of material noncompliance with asbestos requirements or any material liabilities related to asbestos. In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues, which could lead to liability for adverse health effects or property damage or costs for 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 occurs. We are not presently aware of any material adverse indoor air quality issues at our properties.

Americans with Disabilities Act (“ADA”)

Our properties must comply with Title III of the ADA to the extent that such properties are “public accommodations” as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe the existing properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

Executive Office

Our principal executive offices are located at 1633 Broadway, Suite 1801, New York, NY 10019; telephone (212) 237-3100.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge on our website (www.paramount-group.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). You may also obtain our reports by accessing the EDGAR database at the SEC’s website at <http://www.sec.gov> or copies of these documents are also available directly from us, free of charge upon written request to Investor Relations, 1633 Broadway, Suite 1801, New York, NY 10019; telephone (212) 237-3100. Also available on our website are copies of our (i) Nominating and Corporate Governance Committee Charter, (ii) Corporate Governance Guidelines, (iii) Compensation Committee Charter, (iv) Code of Business Conduct and Ethics, (v) Audit Committee Charter and (vi) Stockholder Communication Policy. In the event of any changes to these items, revised copies will be made available on our website.

Supplemental Tax Disclosures – Updates to REIT Rules

The “Protecting Americans from Tax Hikes Act of 2015” (the “PATH Act”) was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation, which are briefly summarized below:

- ✦ For taxable years beginning after December 31, 2015, the PATH Act expanded the exclusion of certain hedging income from the REIT gross income tests to include income from hedges or previously acquired hedges that a REIT entered into to manage risk associated with liabilities or property that have been extinguished or disposed.
- ✦ For taxable years beginning before January 1, 2018, no more than 25% of the value of our assets may consist of stock or securities of one or more taxable REIT subsidiaries. For taxable years beginning after December 31, 2017, the PATH Act reduced this limit to 20%. As of December 31, 2015, the securities we own in our taxable REIT subsidiaries do not, in the aggregate, exceed 20% of the total value of our assets.
- ✦ For taxable years beginning after December 31, 2015, for purposes of the REIT asset tests, the PATH Act provides that debt instruments issued by publicly traded REITs will constitute “real estate assets.” However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of our total assets.
- ✦ For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property will be treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.
- ✦ A 100% excise tax is imposed on “redetermined TRS service income,” which is income of a taxable REIT subsidiary attributable to services provided to, or on behalf of, its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.
- ✦ For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer apply to us.
 - Additional exceptions to the rules under the Foreign Investment in Real Property Tax Act (“FIRPTA”) were introduced for non-U.S. persons that constitute “qualified shareholders” (within the meaning of Section 897(k)(3) of the Code) or “qualified foreign pension funds” (within the meaning of Section 897(l)(2) of the Code).
- ✦ After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests is increased from 10% to 15%.
- ✦ The PATH Act increased from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may have held to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.
- ✦ For assets we acquired from a C corporation in a carry-over basis transaction, the PATH Act, as confirmed by recently-issued Treasury Regulations, permanently reduced the recognition period during which we could be subject to corporate tax on any built-in gains recognized on the sale of such assets from 10 years to 5 years.

ITEM 1A. RISK FACTORS

Set forth below are the risks that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 4.

Risks Related to Real Estate

Unfavorable market and economic conditions in the United States and globally and in the specific markets or submarkets where our properties are located could adversely affect occupancy levels, rental rates, rent collections, operating expenses, and the overall market value of our assets, impair our ability to sell, recapitalize or refinance our assets and have an adverse effect on our results of operations, financial condition and our ability to make distributions to our stockholders.

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions in the United States and globally may significantly affect our occupancy levels, rental rates, rent collections, operating expenses, the market value of our assets and our ability to strategically acquire, dispose, recapitalize or refinance our properties on economically favorable terms or at all. Our ability to lease our properties at favorable rates may be adversely affected by increases in supply of office space in our markets and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and unemployment levels, recession, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We expect that any declines in our occupancy levels, rental revenues and/or the values of our buildings would cause us to have less cash available to pay our indebtedness, fund necessary capital expenditures and to make distributions to our stockholders, which could negatively affect our financial condition and the market value of our securities. Our business may be affected by the volatility and illiquidity in the financial and credit markets, a general global economic recession and other market or economic challenges experienced by the real estate industry or the U.S. economy as a whole. Our business may also be adversely affected by local economic conditions, as all of our revenues are derived from properties located in New York City, Washington, D.C. and San Francisco. Factors that may affect our occupancy levels, our rental revenues, our net operating income, or NOI, our funds from operations and/or the value of our properties include the following, among others:

- downturns in global, national, regional and local economic conditions;
- declines in the financial condition of our tenants, many of which are financial, legal and other professional firms, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or other reasons;

the inability or unwillingness of our tenants to pay rent increases;
significant job losses in the financial and professional services industries, which may decrease demand for our office space, causing market rental rates and property values to be impacted negatively;
an oversupply of, or a reduced demand for, Class A office space;
changes in market rental rates in our markets;
changes in space utilization by our tenants due to technology, economic conditions and business culture; and
economic conditions that could cause an increase in our operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site associates and routine maintenance.

All of our properties are located in New York City, Washington, D.C. and San Francisco, and adverse economic or regulatory developments in these areas could negatively affect our results of operations, financial condition and ability to make distributions to our stockholders.

All of our properties are located in New York City, in particular midtown Manhattan, as well as Washington, D.C. and San Francisco. As a result, our business is dependent on the condition of the economy in those cities, which may expose us to greater economic risks than if we owned a more geographically diverse portfolio. We are susceptible to adverse developments in the New York City, Washington, D.C. and San Francisco economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation). Such adverse developments could materially reduce the value of our real estate portfolio and our rental revenues, and thus adversely affect our ability to service current debt and to pay dividends to stockholders.

We are subject to risks inherent in ownership of real estate.

Real estate cash flows and values are affected by a number of factors, including competition from other available properties and our ability to provide adequate property maintenance and insurance and to control operating costs. Real estate cash flows and values are also affected by such factors as government regulations (including zoning, usage and tax laws), interest rate levels, the availability of financing, property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws.

A significant portion of our revenue is generated from three properties.

As of December 31, 2016, approximately 59% of our total consolidated revenue was generated from three of our properties – 1633 Broadway, 1301 Avenue of the Americas and One Market Plaza. Our results of operations and cash available for distribution to our stockholders would be adversely affected if any of these properties were materially damaged or destroyed. Additionally, our results of operations and cash available for distribution to our stockholders would be adversely affected if a significant number of our tenants at these properties experienced a downturn in their business, which may weaken their financial condition and result in their failure to make timely rental payments, defaulting under their leases or filing for bankruptcy.

We may be unable to renew leases, lease currently vacant space or vacating space on favorable terms or at all as leases expire, which could adversely affect our financial condition, results of operations and cash flow.

As of December 31, 2016, the vacancy rate of our portfolio was 6.7%. In addition, 5.3% of the square footage of the properties in our portfolio will expire by the end of 2017. We cannot guarantee you that the expiring leases will be renewed or that our properties will be re-leased at rental rates equal to or above current rental rates. If the rental rates of our properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available and soon-to-be-available space, our financial condition, results of operations, cash flow, market value of common stock and our ability to satisfy our principal and interest obligations and to make distributions to our stockholders would be adversely affected.

We are exposed to risks associated with property redevelopment and repositioning that could adversely affect us, including our financial condition and results of operations.

To the extent that we continue to engage in redevelopment and repositioning activities with respect to our properties, we will be subject to certain risks, which could adversely affect us, including our financial condition and results of operations. These risks include, without limitation, (i) the availability and pricing of financing on favorable terms or at all; (ii) the availability and timely receipt of zoning and other regulatory approvals; (iii) the potential for the fluctuation of occupancy rates and rents at redeveloped properties, which may result in our investment not being profitable; (iv) start up, repositioning and redevelopment costs may be higher than anticipated; and (v) cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages). These risks could result in substantial unanticipated delays or expenses and could prevent the initiation or the completion of redevelopment activities, any of which could have an adverse effect on our financial condition, results of operations, cash flow, the market value of our common stock and ability to satisfy our principal and interest obligations and to make distributions to our stockholders.

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, which could adversely affect us, including our financial condition, results of operations and cash flow.

In the event that there are adverse economic conditions in the real estate market and demand for office space decreases, with respect to our current vacant space and upon expiration of leases at our properties, we may be required to increase tenant improvement allowances or concessions to tenants, accommodate increased requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants, all of which could negatively affect our cash flow. In addition, a few of our existing properties are pre-war office properties, which may require frequent and costly maintenance in order to retain existing tenants or attract new tenants in sufficient numbers. If the necessary capital is unavailable, we may be unable to make these significant capital expenditures. This could result in non-renewals by tenants upon expiration of their leases and our vacant space remaining untenanted, which could adversely affect our financial condition, results of operations, cash flow and market value of our common stock.

We depend on significant tenants in our office portfolio, which could cause an adverse effect on us, including our results of operations and cash flow, if any of our significant tenants were adversely affected by a material business downturn or were to become bankrupt or insolvent.

Our rental revenue depends on entering into leases with and collecting rents from tenants. While no single tenant accounts for more than 10% of our rental revenue, our six largest tenants in the aggregate account for approximately 28% of our share of rental revenue. General and regional economic conditions may adversely affect our major tenants and potential tenants in our markets. Our major tenants may experience a material business downturn, which could potentially result in a failure to make timely rental payments and/or a default under their leases. In many cases, through tenant improvement allowances and other concessions, we have made substantial up front investments in the applicable leases that we may not be able to recover. In the event of a tenant default, we may experience delays in enforcing our rights and may also incur substantial costs to protect our investments.

The bankruptcy or insolvency of a major tenant or lease guarantor may adversely affect the income produced by our properties and may delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums altogether. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages that is limited in amount and which may only be paid to the extent that funds are available and in the same percentage as is paid to all other holders of unsecured claims.

If any of our significant tenants were to become bankrupt or insolvent, suffer a downturn in their business, default under their leases, fail to renew their leases or renew on terms less favorable to us than their current terms, our results of operations and cash flow could be adversely affected.

Real estate investments are relatively illiquid and may limit our flexibility.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. Our inability to sell our properties on favorable terms or at all could have an adverse effect on our sources of working capital and our ability to satisfy our debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. The Internal Revenue Code of 1986, as amended the (“Code”), also imposes restrictions on REITs, which are not applicable to other types of real estate companies, on the disposal of properties. Furthermore, we will be subject to U.S. federal income tax at the highest regular corporate rate, which is currently 35%, on certain built-in gains recognized in connection with a taxable disposition of a number of our properties acquired in the Formation Transactions for a period of up to 5 years following the completion of the Formation Transactions, which may make an otherwise attractive disposition opportunity less attractive or even impractical. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the office buildings in our portfolio promptly in response to changes in economic or other conditions.

Competition could limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities, which may adversely affect us, including our profitability and impede our growth.

We compete with numerous commercial developers, real estate companies and other owners of real estate for office buildings for acquisition and pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. Our markets are each generally characterized by high barriers-to-entry to construction and limited land on which to build new office space, which contributes to the competition we face to acquire existing properties and to develop new properties in these markets. This competition could increase prices for properties of the type we may pursue and adversely affect our profitability and impede our growth.

We are subject to losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage.

Our San Francisco properties are located in the general vicinity of active earthquake faults. Our New York City and Washington, D.C. properties are located in areas that could be subject to windstorm losses. Insurance coverage for earthquakes and windstorms can be costly because of limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. In addition, our New York City, Washington, D.C. and other properties may be subject to a heightened risk of terrorist attacks. We carry commercial general liability insurance, property insurance and both domestic and foreign terrorism insurance with respect to our properties with limits and on terms we consider commercially reasonable. We cannot assure you, however, that our insurance coverage will be sufficient or that any uninsured loss or liability will not have an adverse effect on our business and our financial condition and results of operations in the event of a catastrophic loss event. See “Business – Insurance.”

We carry both domestic and foreign terrorism insurance as an inclusion in our property policies for which our carriers may rely, in part for foreign acts of terrorism, on support from the federal government’s Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”). TRIPRA expires on December 31, 2020 and we can provide no assurance that it will be extended further or the impact of modifications or nonrenewal will have on our terrorism insurance coverage and rates.

We are subject to risks from natural disasters such as earthquakes and severe weather.

Natural disasters and severe weather such as earthquakes, tornadoes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe (such as an earthquake, especially in the San Francisco Bay Area) or destructive weather event (such as a hurricane, especially in New York City or Washington, D.C. area) affecting a region may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. Our financial results may be adversely affected by our exposure to losses arising from natural disasters or severe weather. We also are exposed to risks associated with inclement winter weather, particularly in the Northeast states in which many of our properties are located, including increased need for maintenance and repair of our buildings.

Climate change may adversely affect our business.

To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks, including New York City, Washington, D.C. and San Francisco. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially. See also “We are subject to losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage.”

We face risks associated with our tenants being designated “Prohibited Persons” by the Office of Foreign Assets Control and similar requirements.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”) maintains a list of persons designated as terrorists or who are otherwise blocked or banned (“Prohibited Persons”) from conducting business or engaging in transactions in the United States and thereby restricts our doing business with such persons. We are required to comply with OFAC and related requirements and may be required to terminate or otherwise amend our leases, loans and other agreements. If a tenant or other party with whom we conduct business is placed on the OFAC list or is otherwise a party with which we are prohibited from doing business, we may be required to terminate the lease or other agreement. Any such termination could result in a loss of revenue or otherwise negatively affect our financial results and cash flows.

We may become subject to liability relating to environmental and health and safety matters, which could have an adverse effect on us, including our financial condition and results of operations.

Under various federal, state and/or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste, or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property or from adjacent properties used for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract and/or retain tenants and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also 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 that property may be used or how businesses may be operated on that property. See “Business – Environmental and Related Matters.”

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant’s ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained Asbestos-Containing Material (“ACM”). Environmental and health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment.

In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues. Indoor air quality issues also can 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 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 or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders or that such costs, liabilities, or other remedial measures will not have an adverse effect on our financial condition and results of operations.

We may incur significant costs complying with the Americans with Disabilities Act of 1990, (the “ADA”), and similar laws, which could adversely affect us, including our future results of operations and cash flow.

Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. We have not conducted a recent audit or investigation of all of our properties to determine our compliance with the ADA. If one or more of our properties were not in compliance with the ADA, then we could be required to incur additional costs to bring the property into compliance. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. We cannot predict the ultimate amount of the cost of compliance with the ADA or similar laws. Substantial costs incurred to comply with the ADA and any other legislation could adversely affect us, including our future results of operations and cash flow.

We may be unable to identify and successfully complete acquisitions and, even if acquisitions are identified and completed, we may fail to successfully operate acquired properties, which could adversely affect us and impede our growth.

Our ability to identify and acquire properties on favorable terms and successfully operate or redevelop them may be exposed to significant risks. Agreements for the acquisition of properties are subject to customary conditions to closing, including completion of due diligence investigations and other conditions that are not within our control, which may not be satisfied. In this event, we may be unable to complete an acquisition after incurring certain acquisition-related costs. In addition, if mortgage debt is unavailable at reasonable rates, we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all. We may spend more than budgeted to make necessary improvements or renovations to acquired properties and may not be able to obtain adequate insurance coverage for new properties. Further, acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures. We may also be unable to integrate new acquisitions into our existing operations quickly and efficiently, and as a result, our results of operations and financial condition could be adversely affected. Further, 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. Any delay or failure on our part to identify, negotiate, finance and consummate such acquisitions in a timely manner and on favorable terms, or operate acquired properties to meet our financial expectations, could impede our growth and have an adverse effect on us, including our financial condition, results of operations, cash flow and the market value of our securities.

Should we decide at some point in the future to expand into new markets, we may not be successful, which could adversely affect our financial condition, results of operations, cash flow and market value of our securities.

If opportunities arise, we may explore acquisitions of properties in new markets. Each of the risks applicable to our ability to acquire and integrate successfully and operate properties in our current markets is also applicable in new markets. In addition, we will not possess the same level of familiarity with the dynamics and market conditions of the new markets we may enter, which could adversely affect the results of our expansion into those markets, and we may be unable to build a significant market share or achieve our desired return on our investments in new markets. If we are unsuccessful in expanding into new markets, it could adversely affect our financial condition, results of operations, cash flow, the market value of our securities and ability to satisfy our principal and interest obligations and to make distributions to our stockholders.

We are subject to risks involved in real estate activity through joint ventures and private equity real estate funds.

We have in the past, are currently and may in the future acquire and own properties in joint ventures and private equity real estate funds with other persons or entities when we believe circumstances warrant the use of such structures. Joint venture and fund investments involve risks, including: the possibility that our partners might refuse to make capital contributions when due; that we may be responsible to our partners for indemnifiable losses; that our partners might at any time have business or economic goals that are inconsistent with ours; and that our partners may be in a position to take action or withhold consent contrary to our recommendations, instructions or requests. We and our respective joint venture partners may each have the right to trigger a buy-sell or forced sale arrangement, which could cause us to sell our interest, or acquire our partner's interest, or to sell the underlying asset, at a time when we otherwise would not have initiated such a transaction, without our consent or on unfavorable terms. In some instances, joint venture and fund partners may have competing interests in our markets that could create conflicts of interest. These conflicts may include compliance with the REIT requirements, and our REIT status could be jeopardized if any of our joint ventures or funds does not operate in compliance with the REIT requirements. Further, our joint venture and fund partners may fail to meet their obligations to the joint venture or fund as a result of financial distress or otherwise, and we may be forced to make contributions to maintain the value of the property. We will review the qualifications and previous experience of any co-venturers or partners, although we do not expect to obtain financial information from, or to undertake independent investigations with respect to, prospective co-venturers or partners. To the extent our partners do not meet their obligations to us or our joint ventures or funds or they take action inconsistent with the interests of the joint venture or fund, we may be adversely affected.

Our joint venture partners in 712 Fifth Avenue and One Market Plaza have forced sale rights as a result of which we may be forced to sell these assets to third parties at times or prices that may not be favorable to us.

Our partners in the joint ventures that own 712 Fifth Avenue and One Market Plaza have forced sale rights pursuant to which, after a specified period, each may require us either to purchase the property or attempt to sell the property to a third party. With respect to 712 Fifth Avenue, any time on or after November 24, 2020, our joint venture partner may exercise a forced sale right by delivering a written notice to us designating the sales price and other material terms and conditions upon which our joint venture partner desires to cause a sale of the property. Upon receipt of such sales notice, we will have the obligation either to attempt to sell the property to a third party for not less than 95.0% of the designated sales price or to elect to purchase the interest of our joint venture partner for cash at a price equal to the amount our joint venture partner would have received if the property had been sold for the designated sales price (and the joint venture paid any applicable financing breakage costs, transfer taxes, brokerage fees and marketing costs, prepaid all liquidated liabilities of the joint venture and distributed the balance). With respect to One Market Plaza, at any time on or after March 31, 2021, our joint venture partner may exercise a forced sale right. Upon exercise of this right, we and our joint venture partner have 60 days to negotiate a mutually agreeable transaction regarding the property. If we cannot mutually agree upon a transaction, then we will work together in good faith to market the property in a commercially reasonable manner and neither we nor our joint venture partner will be allowed to bid on the property. If our joint venture partner, after consultation with us and a qualified broker, finds a third-party bid for the property acceptable, then the joint venture will cause the property to be sold. As a result of these forced sale rights, our joint venture partners could require us either to purchase their interests at an agreed upon price or to sell the

properties held by our joint ventures to third parties. In the case of One Market Plaza, our joint venture partner could force us to sell this property to a third party on terms it deems acceptable. The exercise of these rights could adversely impact our company by requiring us to sell one or more of these properties to third parties at times or prices that may not be favorable to us.

Contractual commitments with existing private equity real estate funds may limit our ability to acquire properties directly in the near term.

Paramount Group Real Estate Fund VII, L.P. and its parallel fund (“Fund VII”), is our private equity real estate fund and is actively engaged in acquisition activities. In connection with the formation of Fund VII, we agreed that we would make all investments that meet its stated investment objectives through Fund VII (provided that Fund VII is able to participate in the investment and subject to our ability to co-invest), until July 18, 2017, unless we, as the general partner of Fund VII, choose to extend it until July 18, 2018. Because of the exclusivity requirements of Fund VII, we may be required to acquire properties through this fund that we otherwise would have acquired through our operating partnership, which may prevent our operating partnership from acquiring attractive investment opportunities and adversely affect our growth prospects. Alternatively, we may choose to co-invest with Fund VII as a joint venture partner to the extent it is determined that it is in the best interest of Fund VII. In connection with any property that we co-invest in with Fund VII, Fund VII will have the authority, subject to our consent in limited circumstances, to make most of the decisions in connection with such property. Such authority in connection with a co-investment could subject us to the applicable risks described above.

Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”), is one of our private equity real estate funds that completed its final closing in April 2016, with \$775,200,000 in capital commitments. Fund VIII is actively engaged in pursuing a diversified portfolio of real estate and real estate-related assets and companies primarily consisting of acquiring and/or issuing loans to real estate and real estate-related companies or investing in their preferred equity. We expect that, subject to certain prior rights granted to other of our private equity real estate funds, we would make all investments that meet Fund VIII’s stated investment objectives through Fund VIII (provided that Fund VIII is able to participate in the investment and subject to our right to co-invest), until the end of the fund’s investment period, which will end three years after the fund’s final closing or April 28, 2019, unless we, as the general partner of Fund VIII, choose to extend it an additional year. However, we have the option (but not the obligation) of participating in each of Fund VIII’s investments in debt and preferred equity for up to 25% of the total investment and in each of Fund VIII’s equity investments for up to 50% of the total investment, and may, where it is attractive to us and determined to be in the best interest of Fund VIII, acquire greater percentages of a given investment opportunity. Because of the limited exclusivity requirements of Fund VIII, we may be required to acquire assets partially through this fund that we otherwise would have acquired solely through our operating partnership, which may prevent our operating partnership from acquiring attractive investment opportunities and adversely affect our growth prospects. In connection with certain assets that we co-invest in with Fund VIII, specifically those where Fund VIII owns a majority of the joint venture it is expected that Fund VIII will have the authority, subject to our consent in limited circumstances, to make most of the decisions in connection with such asset. Such authority in connection with a co-investment could subject us to the applicable risks described above. As of December 31, 2016, Fund VIII had an aggregate of \$775,200,000 of committed capital, of which \$365,700,000 has been called and substantially invested.

We share control of some of our properties with other investors and may have conflicts of interest with those investors.

While we make all operating decisions for certain of our joint ventures and private equity real estate funds, we are required to make other decisions jointly with other investors who have interests in the relevant property or properties. For example, the approval of certain of the other investors may be required with respect to operating budgets, including leasing decisions and refinancing, encumbering, expanding or selling any of these properties, as well as bankruptcy decisions. We might not have the same interests as the other investors in relation to these decisions or transactions. Accordingly, we might not be able to favorably resolve any of these issues, or we might have to provide financial or other inducements to the other investors to obtain a favorable resolution.

In addition, various restrictive provisions and third-party rights provisions, such as consent rights to certain transactions, apply to sales or transfers of interests in our properties owned in joint ventures. Consequently, decisions to buy or sell interests in properties relating to our joint ventures may be subject to the prior consent of other investors. These restrictive provisions and third-party rights may preclude us from achieving full value of these properties because of our inability to obtain the necessary consents to sell or transfer these interests.

Risks Related to Our Business and Operations

Capital and credit market conditions may adversely affect our access to various sources of capital or financing and/or the cost of capital, which could impact our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use third-party financing to fund acquisitions and to refinance indebtedness as it matures. As of December 31, 2016, including debt of our unconsolidated joint ventures, we had \$3.9 billion of total debt, of which our share is \$3.3 billion, substantially all of which was secured debt, and we have \$770 million of available borrowing capacity under our unsecured revolving credit facility. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our acquisition, development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing) our earnings per share and cash flow could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely impacted.

We may from time to time be subject to litigation, including litigation arising from the Formation Transactions, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others, to which we may be subject from time to time, including claims arising specifically from the Formation Transactions, may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. Should any litigation arise in connection with the Formation Transactions, we would contest it vigorously. In addition, 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 flow, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

We may be subject to unknown or contingent liabilities related to properties or businesses that we acquire for which we may have limited or no recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future may be subject to unknown or contingent liabilities for which we may have limited or no recourse against the sellers. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of customers, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses.

As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our business, financial condition and results of operations. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us. While the sellers are generally contractually obligated to pay all losses and other expenses relating to such retained liabilities, there can be no guarantee that such arrangements will not require us to incur losses or other expenses as well.

We depend on key personnel, including Albert Behler, our Chairman, Chief Executive Officer and President, and 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.

There is substantial competition for qualified personnel in the real estate industry and the loss of our key personnel could have an adverse effect on us. Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Albert Behler, our Chairman, Chief Executive Officer and President, who has extensive market knowledge and relationships and exercises substantial influence over our acquisition, redevelopment, financing, operational and disposition activity. Among the reasons that Albert Behler is important to our success is that he has a national, regional and local industry reputation that attracts business and investment opportunities and assists us in negotiations with financing sources and industry personnel. If we lose his services, our business and investment opportunities and our relationships with such financing sources and industry personnel could diminish.

Many of our other senior executives also have extensive experience and strong reputations in the real estate industry, which aid us in identifying or attracting investment opportunities and negotiating with sellers of properties. 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 and industry participants, which could negatively affect our financial condition, results of operations and cash flow.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the loss, theft or misappropriation of our property;
 - result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or which could expose us to damage claims by third-parties for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements;
- or
- damage our reputation among our tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants.

Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. Changes include, but are not limited to, changes in lease accounting and the proposed adoption of accounting standards likely to require the increased use of “fair-value” measures.

These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants’ reported financial condition or results of operations or could affect our tenants’ preferences regarding leasing real estate.

Extensive regulation of our investment management businesses affects our activities and creates the potential for significant liabilities and penalties, and increased regulatory focus could result in additional burdens on this business.

Our investment management business is subject to extensive regulation, including periodic examinations and investigations, by governmental agencies in the jurisdictions in which we operate or raise capital. These authorities have regulatory powers dealing with many aspects of our investment management business, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. These regulations are extensive, complex and require substantial management time and attention. In particular, two of our subsidiaries, Paramount Group Real Estate Advisor LLC and Paramount Group Real Estate Advisor II, LP, are registered with the U.S. Securities and Exchange Commission (“SEC”) as investment advisers under the U.S. Investment Advisers Act of 1940 (the “Advisers Act”), and may in the future be registered as managers of alternative investment funds under the Alternative Investment Fund Managers Directive, 2011/61/EU, and various local European laws implementing this directive (collectively, the “AIFMD”). Such registration results in certain aspects of our investment management business being supervised by the SEC and, in the future, subject to notification of sales activities for one or more of our managed funds in Germany or other countries, the Bundesanstalt fuer Finanzdienstleistungsaufsicht, Germany’s Federal Financial Supervisory Authority (“BaFin”), or other foreign regulators. The Advisers Act, in particular, requires registered investment advisers to comply with numerous obligations, including compliance, record-keeping, operating and marketing requirements, disclosure obligations and limitations on certain activities. Investment advisers also owe fiduciary duties to their clients. These regulatory and fiduciary obligations may result in increased costs or administrative burdens or otherwise adversely impact our business, including by preventing us from recommending investment opportunities that otherwise meet the respective investment criteria of us or our funds.

Many of these regulators, including U.S. and foreign government agencies, as well as state securities commissions, are also empowered to conduct investigations and administrative proceedings that can result in fines, compensatory payments, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of an investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the SEC has specifically focused on private equity fund managers. In that regard, the SEC's list of examination priorities includes, among other things, collection of fees and allocation of expenses, marketing and valuation practices, allocation of investment opportunities, and appropriate management of other conflicts of interest such as related party sales, loans or coinvestments, by these fund managers. We may, from time to time, be subject to requests for information or informal or formal investigations by the SEC and other regulatory authorities, and, in the current environment, even historical practices that have been previously examined are being revisited. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator is small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new investors.

Risks Related to Our Organization and Structure

The ability of stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

There are provisions in our charter and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

Our charter authorizes our board of directors, without stockholder approval, to amend our charter to increase or decrease the aggregate number of authorized shares of stock, to authorize us to issue additional shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to authorize us to issue such classified or reclassified shares of stock. We believe these charter provisions provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional authorized shares of our common stock, are available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities are listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or that our common stockholders otherwise believe to be in their best interests.

In order to qualify as a REIT, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of any taxable year. In order to help us qualify as a REIT, our charter generally prohibits any person or entity from actually owning or being deemed to own by virtue of the applicable constructive ownership provisions, (i) more than 6.50% (in value or in number of shares, whichever is more restrictive) of the outstanding shares of our common stock or (ii) more than 6.50% in value of the aggregate of the outstanding shares of all classes and series of our stock, in each case, excluding any shares of our stock not treated as outstanding for U.S. federal income tax purposes. We refer to these restrictions as the “ownership limits.” These ownership limits may prevent or delay a change in control and, as a result, could adversely affect our stockholders’ ability to realize a premium for their shares of our common stock. In connection with the Formation Transactions and the concurrent private placement to certain members of the Otto family and their affiliates, our board of directors granted waivers to the lineal descendants of Professor Dr. h.c. Werner Otto, their spouses and controlled entities to own up to 22.0% of our outstanding common stock in the aggregate (which can be automatically increased to an amount greater than 22.0% to the extent that their aggregate ownership exceeds such percentage solely as a result of a repurchase by the company of its common stock). The term the “Otto family” refers to the lineal descendants and the surviving former spouse of the late Professor Dr. h.c. Werner Otto.

In addition, certain provisions of the Maryland General Corporation Law (“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 the Maryland business combination and control share provisions.

As permitted by the MGCL, our board of directors adopted a resolution exempting any business combinations between us and any other person or entity from the business combination provisions of the MGCL. Our bylaws provide that this resolution or any other resolution of our board of directors exempting any business combination from the business combination provisions of the MGCL may only be revoked, altered or amended, and our board of directors may only adopt any resolution inconsistent with any such resolution (including an amendment to that bylaw provision), which we refer to as an opt in to the business combination provisions, with the affirmative vote of a majority of the votes cast on the matter by holders of outstanding shares of our common stock. In addition, as permitted by the MGCL, our bylaws contain a provision exempting from the control share acquisition provisions of the MGCL any and all acquisitions by any person of shares of our stock. This bylaw provision may be amended, which we refer to as an opt in to the control share acquisition provisions, only with the affirmative vote of a majority of the votes cast on such an amendment by holders of outstanding shares of our common stock.

Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board or increasing the vote required to remove a director. Such takeover defenses may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then current market price.

In addition, the provisions of our charter on the removal of directors and the advance notice provisions of our bylaws, among others, could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Each item discussed above may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then-current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

Our board of directors may change our policies without stockholder approval.

Our policies, including any policies with respect to investments, leverage, financing, growth, debt and capitalization, are determined by our board of directors or those committees or officers to whom our board of directors may delegate such authority. Our board of directors also establishes the amount of any dividends or other distributions that we pay to our stockholders. Our board of directors or the committees or officers to which such decisions are delegated have the ability to amend or revise these and our other policies at any time without stockholder vote. Accordingly, our stockholders are not entitled to approve changes in our policies, and, while not intending to do so, we may adopt policies that may have an adverse effect on our financial condition and results of operations.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of common units, 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 of its partners, 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 have duties and obligations to our operating partnership and its limited partners under Delaware law as modified by the partnership agreement of our operating partnership in connection with the management of our operating partnership as the sole general partner. The limited partners of our operating partnership expressly acknowledge that the general partner of our operating partnership acts for the benefit of our operating partnership, the limited partners and our stockholders collectively. When deciding whether to cause our operating partnership to take or decline to take any actions, the general partner will be under no obligation to give priority to the separate interests of (i) the limited partners of our operating partnership (including, without limitation, the tax interests of our limited partners, except as provided in a separate written agreement) or (ii) our stockholders. Nevertheless, the duties and obligations of the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company and our stockholders.

If there are deficiencies in our disclosure controls and procedures or internal control over financial reporting, we may be unable to accurately present our financial statements, which could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

As a publicly-traded company, we are required to report our financial statements on a consolidated basis. Effective internal controls are necessary for us to accurately report our financial results. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting and have our independent registered public accounting firm issue an opinion with respect to the effectiveness of our internal control over financial reporting. There can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Furthermore, as we grow our business, our internal controls will become more complex, and we may require significantly more resources to ensure our internal controls remain effective. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations that could require a restatement, failing to meet our public company reporting obligations and causing investors to lose confidence in our reported financial information. These events could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

We may have assumed unknown liabilities in connection with the Formation Transactions, which, if significant, could adversely affect our business.

As part of the Formation Transactions, we (through corporate acquisitions and contributions to our operating partnership) acquired the properties and assets of our Predecessor and certain other assets, subject to existing liabilities, some of which may be unknown. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with such entities prior to the Offering (that had not been asserted or threatened prior to the Offering), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. Any unknown or unquantifiable liabilities that we assumed in connection with the Formation Transactions for which we have no or limited recourse could adversely affect us. See “We may become subject to liability relating to environmental and health and safety matters, which could have an adverse effect on us, including our financial condition and results of operations” as to the possibility of undisclosed environmental conditions potentially affecting the value of the properties in our portfolio.

Risks Related to Our Indebtedness and Financing

We have a substantial amount of indebtedness that may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.

We have a substantial amount of indebtedness. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions, discussed below in “We may be subject to a 100% penalty tax on any prohibited transactions that we enter into, or may be required to forego certain otherwise beneficial opportunities in order to avoid the penalty tax on prohibited transactions” or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;

- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and 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 Code.

We may not have sufficient cash flow to meet the required payments of principal and interest on our debt or to pay distributions on our shares at expected levels.

In the future, our cash flow could be insufficient to meet required payments of principal and interest or to pay distributions on our shares at expected levels. In this regard, we note that in order for us to continue to qualify as a REIT, we are required to make annual distributions generally equal to at least 90% of our taxable income, computed without regard to the dividends paid deduction and excluding net capital gain. In addition, as a REIT, we are subject to U.S. federal income tax to the extent that we distribute less than 100% of our taxable income (including capital gains) and are subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified by the Code. These requirements and considerations may limit the amount of our cash flow available to meet required principal and interest payments.

If we are unable to make required payments on indebtedness that is secured by a mortgage on our property, the asset may be transferred to the lender with a consequent loss of income and value to us, including adverse tax consequences related to such a transfer.

Our debt agreements include restrictive covenants, requirements to maintain financial ratios and default provisions which could limit our flexibility, our ability to make distributions and require us to repay the indebtedness prior to its maturity.

The mortgages on our properties contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. Additionally, our debt agreements contain customary covenants that, among other things, restrict our ability to incur additional indebtedness and, in certain instances, restrict our ability to engage in material asset sales, mergers, consolidations and acquisitions, and restrict our ability to make capital expenditures. These debt agreements, in some cases, also subject us to guarantor and liquidity covenants and our revolving credit facility will, and other future debt may, require us to maintain various financial ratios. Some of our debt agreements contain certain cash flow sweep requirements and mandatory escrows, and our property mortgages generally require certain mandatory prepayments upon disposition of underlying collateral. Early repayment of certain mortgages may be subject to prepayment penalties.

Variable rate debt is subject to interest rate risk that could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.

As of December 31, 2016, \$606.0 million of our outstanding consolidated debt was subject to instruments which bear interest at variable rates, and we may also borrow additional money at variable interest rates in the future. Unless we have made arrangements that hedge against the risk of rising interest rates, increases in interest rates would increase our interest expense under these instruments, increase the cost of refinancing these instruments or issuing new debt, and adversely affect cash flow and our ability to service our indebtedness and make distributions to our stockholders, which could adversely affect the market price of our common stock.

We may, in a manner consistent with our qualification as a REIT, seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Moreover, there can be no assurance that our hedging arrangements will qualify for hedge accounting or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash and other collateral requirements involved to fulfill our obligation under the hedging agreement. Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

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 of 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 distribution requirements applicable to REITs under the Code.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile.

The trading price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our funds from operations, NOI or income estimates;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this Form 10-K;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets, generally;
- changes in tax laws;
- future equity issuances;
- failure to meet income estimates;
- failure to meet and maintain REIT qualifications; and
- general market and economic conditions.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

The market value of our common stock may decline due to the large number of our shares eligible for future sale.

The market value of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or upon exchange of common units, or the perception that such sales could occur. These sales, or

the possibility that these sales may occur, also might make it more difficult for us to sell shares of our common stock in the future at a time and at a price that we deem appropriate.

As of December 31, 2016, a significant number of our outstanding shares of our common stock are held by our continuing investors and their affiliates who acquired shares in the Formation Transactions and the concurrent private placements. These shares of common stock are “restricted securities” within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemptions contained in Rule 144. All of these shares of our common stock are eligible for future sale and certain of such shares held by our continuing investors have registration rights pursuant to registration rights agreements that we have entered into with those investors. In addition, limited partners of our operating partnership, other than us, have the right to require our operating partnership to redeem part or all of their 28,869,955 common units for cash, based upon the value of an equivalent number of shares of our common stock at the time of the election to redeem, or, at our election, shares of our common stock on a one-for-one basis. The related shares of common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock will be available for sale or resale, as the case may be, and such sales or resales, or the perception of such sales or resales, could depress the market price for our common stock.

Pursuant to the registration rights agreement we entered into with members of the Otto family and certain affiliated entities receiving shares of our common stock in the Formation Transactions and concurrent private placements, the parties to this agreement have the right to demand that we register the resale and/or facilitate an underwritten offering of their shares; provided that the demand relates to shares having a market value of at least \$40.0 million and that such parties may not make more than two such demands in any consecutive 12-month period.

In addition, upon the request of one or more such parties owning at least 1.0% of our total outstanding common stock, we have agreed to file a shelf registration statement registering the offering and sale of such parties’ registrable securities on a delayed or continuous basis, or a resale shelf registration statement, and maintain the effectiveness of the resale shelf registration statement for as long as the securities registered thereunder continue to qualify as registrable securities.

In connection with the registration rights agreement we entered into with the continuing investors who received common units in the Formation Transactions, on December 14, 2015, we filed a shelf registration statement with the SEC to register the primary issuance of the shares of our common stock that they may receive in exchange for their common units. We are required to maintain the effectiveness of this shelf registration statement for as long as the securities registered thereunder continue to qualify as registrable securities.

Future issuances of debt securities and equity securities may negatively affect the market price of shares of our common stock and, in the case of equity securities, may be dilutive to existing stockholders.

Our charter provides that we may issue up to 900,000,000 shares of our common stock, \$0.01 par value per share, and up to 100,000,000 shares of preferred stock, \$0.01 par value per share. Moreover, under Maryland law and our

charter, our board of directors has the power 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 without stockholder approval. Similarly, the partnership agreement of our operating partnership authorizes us to issue an unlimited number of additional common units, which may be exchangeable for shares of our common stock. In addition, share equivalents are available for future issuance under the 2014 Equity Incentive Plan (with full value awards counting as one share equivalent and options counting as one-half of a share equivalent).

In the future, we may issue debt or equity securities or incur other financial obligations, including stock dividends and shares that may be issued in exchange for common units and equity plan shares/units. Upon liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. We are not required to offer any such additional debt or equity securities to existing stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities (including common units and convertible preferred units), warrants or options, will dilute the holdings of our existing common stockholders and such issuances or the perception of such issuances may reduce the market price of shares of our common stock. Any convertible preferred units would have, and any series or class of our preferred stock would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders.

Risks Related to Our Status as a REIT

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

We elected to be treated as a REIT commencing with our taxable year ended December 31, 2014. The Code generally requires that a REIT distribute at least 90% of its taxable income (without regard to the dividends paid deduction and excluding net capital gains) to stockholders annually, and a REIT must pay tax at regular corporate rates to the extent that it distributes less than 100% of its taxable income (including capital gains) in a given year. In addition, a REIT is required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. To avoid entity-level U.S. federal income and excise taxes, we anticipate distributing at least 100% of our taxable income annually.

We believe that we have been and are organized, and have operated and will continue to operate, in a manner that will allow us to qualify as a REIT commencing with our taxable year ended December 31, 2014. However, we cannot assure you that we have been and are organized and have operated or will continue to operate as such. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there may only be limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. We have not requested and do not intend to request a ruling from the Internal Revenue Service, or the IRS, that we qualify as a REIT. The complexity of the Code provisions and of the applicable Treasury Regulations is greater in the case of a REIT that, like us, acquired assets from taxable C corporations in tax-deferred transactions and holds its assets through one or more partnerships. Moreover, in order to qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding stock, the absence of inherited retained earnings from non-REIT periods and the amount of our distributions. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT gross income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our gross income and assets on an ongoing basis. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification. Accordingly, it is possible that we may not meet the requirements for qualification as a REIT.

If, with respect to any taxable year, we fail to maintain our qualification as a REIT, we would not be allowed to deduct distributions to stockholders in computing our taxable income. If we were not entitled to relief under the relevant statutory provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years. If we fail to qualify as a REIT, we would be subject to entity-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate tax rates. As a result, the amount available for distribution to

holders of our common stock would be reduced for the year or years involved, and we would no longer be required to make distributions to our stockholders. In addition, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and adversely affect the value of our common stock.

We may owe certain taxes notwithstanding our qualification as a REIT.

Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, on taxable income that we do not distribute to our stockholders, on net income from certain “prohibited transactions,” and on income from certain activities conducted as a result of foreclosure. We may, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, we expect to provide certain services that are not customarily provided by a landlord, hold properties for sale and engage in other activities (such as a portion of our management business) through one or more taxable REIT subsidiaries (“TRSs”), and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates. Furthermore, to the extent that we conduct operations outside of the United States, our operations would subject us to applicable non-U.S. taxes, regardless of our status as a REIT for U.S. tax purposes.

In the case of assets we acquired on a tax-deferred basis from certain corporations controlled by the Otto family and Wilhelm von Finck (which we collectively refer to as the “family corporations”) as part of the Formation Transactions, we are subject to U.S. federal income tax, sometimes called the “sting tax,” at the highest regular corporate tax rate, which is currently 35%, on all or a portion of the gain recognized from a taxable disposition of any such assets occurring within the 5-year period following the acquisition date, to the extent of the asset’s built-in gain based on the fair market value of the asset on the acquisition date in excess of our initial tax basis in the asset. Additionally, depending upon the location of the asset acquired on a tax deferred basis there may be additional “sting tax” imposed on a state and local level. Gain from a sale of such an asset occurring after the 5-year period ends will not be subject to this sting tax. We currently do not expect to dispose of any asset if the disposition would result in the imposition of a material sting tax liability under the above rules. We cannot, however, assure you that we will not change our plans in this regard.

As part of the Formation Transactions, we also acquired assets of the family corporations through mergers, stock acquisition and similar transactions. As a result of those acquisitions, we inherited any liability for the unpaid taxes of the family corporations for periods prior to the acquisitions. In each case, our acquisition of assets was intended to qualify as a tax-deferred acquisition for the family corporation so that none of the corporations recognized gain or loss for U.S. federal income tax purposes in the Formation Transactions. If for any reason our acquisition of a family corporation’s assets failed to qualify for tax-deferred treatment, the corporation generally would recognize gain for U.S. federal income tax purposes to the extent that the fair market value of our stock (and any cash) issued in exchange for the stock of the family corporation or the corporation’s assets, plus debt assumed, exceeded the corporation’s adjusted tax basis in its assets. We would inherit the resulting tax liability of the family corporation. In several of the Formation Transactions, the acquired family corporation would have recognized gain for U.S. federal income tax purposes unless the acquisition qualified as a tax-deferred “reorganization” within the meaning of Section 368(a) of the Code. The requirements of tax-deferred reorganizations are complex, and it is possible that the IRS could interpret the applicable law differently and assert that one or more of the acquisitions failed to qualify as a reorganization under Section 368(a) of the Code. Moreover, under the “investment company” rules under Section 368 of the Code, certain of the acquisitions could be taxable if the acquired corporation was an “investment company” under such rules. If any such acquisition failed to qualify for tax-free reorganization treatment we would incur significant U.S. federal income tax liability.

Our Operating Partnership has, and various Predecessor partnerships whose assets were acquired in the Formation Transactions, have, limited partners that are non-U.S. persons. Such non-U.S. persons are subject to a variety of U.S. withholding taxes, including with respect to certain aspects of the Formation Transactions, withholding taxes that the relevant partnership must remit to the U.S. Treasury. A partnership that fails to remit the full amount of withholding taxes is liable for the amount of the under withholding, as well as interest and potential penalties. As a successor to certain of the private equity real estate funds controlled by our Predecessor, our operating partnership could be responsible if the private equity real estate funds failed to properly withhold for prior periods. Although we believe that we and our Predecessor partnerships have complied and will comply with the applicable withholding requirements, the determination of the amounts to be withheld is a complex legal determination, depends on provisions of the Code and the applicable Treasury Regulations that have little guidance and the treatment of certain aspects of the Formation Transactions under the withholding rules may be uncertain. Accordingly, we may interpret the applicable law differently from the IRS and the IRS may seek to recover additional withholding taxes from us.

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

Even if we qualify as a REIT for U.S. federal income tax purposes, we are required to pay state and local property taxes on our properties. The property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past and such increases may not be covered by tenants pursuant to our lease agreements. If the property taxes we pay increase, our financial condition, results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our principal and interest obligations and to make distributions to our stockholders could be adversely affected.

If our operating partnership is treated as a corporation for U.S. federal income tax purposes, we will cease to qualify as a REIT.

We believe our operating partnership qualifies and will continue to qualify as a partnership for U.S. federal income tax purposes. Assuming that it qualifies as a partnership for U.S. federal income tax purposes, our operating partnership will not be subject to U.S. federal income tax on its income. Instead, its partners, including us, generally are required to pay tax on their respective allocable share of our operating partnership's income. No assurance can be provided, however, that the IRS will not challenge our operating partnership's status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. For example, our operating partnership would be treated as a corporation for U.S. federal income tax purposes if it were deemed to be a "publicly traded partnership" and less than 90% of its income consisted of "qualified income" under the Code. If the IRS were successful in treating our operating partnership as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, therefore, cease to qualify as a REIT, and our operating partnership would become subject to U.S. federal, state and local income tax. The payment by our operating partnership of income tax would reduce significantly the amount of cash available to our operating partnership to satisfy obligations to make principal and interest payments on its debt and to make distribution to its partners, including us.

There are uncertainties relating to our distribution of non-REIT earnings and profits.

To qualify as a REIT, we must not have any non-REIT accumulated earnings and profits, as measured for U.S. federal income tax purposes, at the end of any REIT taxable year. Such non-REIT earnings and profits generally would have included any accumulated earnings and profits of the corporations acquired by us (or whose assets we acquired) in the Formation Transactions. We believe that we have operated, and intend to continue to operate, so that we have not had and will not have any earnings and profits accumulated in a non-REIT year at the end of any taxable year. However, the determination of the amounts of any such non-REIT earnings and profits is a complex factual and legal determination, especially in the case of corporations, such as the corporations acquired in the Formation Transactions that have been in operation for many years. In addition, certain aspects of the computational rules are not completely clear. Thus, we cannot guarantee that the IRS will not assert that we had accumulated non-REIT earnings as of the end of 2014 or a subsequent taxable year. If it is subsequently determined that we had any accumulated non-REIT earnings and profits as of the end of our first taxable year as a REIT or at the end of any subsequent taxable year, we could fail to qualify as a REIT beginning with the applicable taxable year. Pursuant to Treasury Regulations, however, so long as our failure to comply with the prohibition on non-REIT earnings and profits was not due to fraud with intent to evade tax, we could cure such failure by paying an interest charge on 50% of the amount of accumulated non-REIT earnings and profits and by making a special distribution of accumulated non-REIT earnings and profits. We intend to utilize such cure provisions if ever required to do so. The amount of any such interest charge could be substantial.

Dividends payable by REITs generally do not qualify for reduced tax rates applicable to non-corporate taxpayers.

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. stockholders that are individuals, trusts and estates generally is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates and therefore may be subject to a 39.6% maximum U.S. federal income tax rate on ordinary income when paid to such stockholders. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates or are otherwise sensitive to these lower rates to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities or liquidate certain of our investments.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may, for instance, hinder our ability to make certain otherwise attractive investments or undertake other activities that might otherwise be beneficial to us and our stockholders, or may require us to borrow or liquidate investments in unfavorable market conditions and, therefore, may hinder our investment performance.

As a REIT, at the end of each calendar quarter, at least 75% of the value of our assets must consist of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) can consist of the securities of any one issuer, no more than 25% (for taxable years beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets can be represented by securities of one or more TRSs. Further, even though for taxable years beginning after December 31, 2015, debt instruments issued by a publicly traded REIT that are not secured by a mortgage on real property are qualifying real estate assets, no more than 25% of the value of our total assets can be represented by such assets. After meeting these requirements at the close of a calendar quarter, if we fail to comply with these requirements at the end of any subsequent calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain other statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may be subject to a 100% penalty tax on any prohibited transactions that we enter into, or may be required to forego certain otherwise beneficial opportunities in order to avoid the penalty tax on prohibited transactions.

If we are found to have held, acquired or developed property primarily for sale to customers in the ordinary course of business, we may be subject to a 100% “prohibited transactions” tax under U.S. federal tax laws on the gain from disposition of the property unless the disposition qualifies for one or more safe harbor exceptions for properties that have been held by us for at least two years and satisfy certain additional requirements (or the disposition is made through a TRS and, therefore, is subject to corporate U.S. federal income tax).

Under existing law, whether property is held primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances. We intend to hold, and, to the extent within our control, to have any joint venture to which our operating partnership is a partner hold, properties for investment with a view to long-term appreciation, to engage in the business of acquiring, owning, operating and developing the properties, and to make sales of our properties and other properties acquired subsequent to the date hereof as are consistent with our investment objectives (and to hold investments that do not meet these criteria through a TRS). Based upon our investment objectives, we believe that overall, our properties (other than certain interests we intend to hold through a TRS) should not be considered property held primarily for sale to customers in the ordinary course of business. However, it may not always be practical for us to comply with one of the safe harbors, and, therefore, we may be subject to the 100% penalty tax on the gain from dispositions of property if we otherwise are deemed to have held the property primarily for sale to customers in the ordinary course of business.

The potential application of the prohibited transactions tax could cause us to forego potential dispositions of property or to forego other opportunities that might otherwise be attractive to us, or to hold investments or undertake such dispositions or other opportunities through a TRS, which would generally result in corporate income taxes being incurred.

REIT distribution requirements could adversely affect our liquidity and adversely affect our ability to execute our business plan.

In order to maintain our qualification as a REIT and to meet the REIT distribution requirements, we may need to modify our business plans. Our cash flow from operations may be insufficient to fund required distributions, for example, as a result of differences in timing between our cash flow, the receipt of income for accounting principles generally accepted in the United States of America (“GAAP”) purposes and the recognition of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves, payment of required debt service or amortization payments, or the need to make additional investments in qualifying real estate assets. The insufficiency of our cash flow to cover our distribution requirements could require us to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions or capital expenditures or used for the repayment of debt, (iv) pay dividends in the form of “taxable stock dividends” or (v) use cash reserves, in order to comply with the REIT distribution requirements. As a result, compliance with the REIT distribution requirements could adversely affect the market value of our common stock. The inability of our cash flow to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities. In addition, if we are compelled to liquidate our assets to repay obligations to our lenders or make distributions to our stockholders, we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as property held primarily for sale to customers in the ordinary course of business, and, in the case of some of our properties, we may be subject to an entity-level sting tax.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on our total return to our stockholders.

Our ability to provide certain services to our tenants may be limited by the REIT rules, or may have to be provided through a TRS.

As a REIT, we generally cannot provide services to our tenants other than those that are customarily provided by landlords, nor can we derive income from a third party that provides such services. If we forego providing such services to our tenants, we may be at a disadvantage to competitors who are not subject to the same restrictions. However, we can provide such non-customary services to tenants or share in the revenue from such services if we do so through a TRS, though income earned through the TRS will be subject to corporate income taxes.

Although our use of TRSs may partially mitigate the impact of meeting certain requirements necessary to maintain our qualification as a REIT, there are limits on our ability to own and enter into transactions with TRSs, and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (for taxable periods beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of a REIT's assets may consist of securities of one or more TRSs. In addition, rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are treated as not being conducted on an arm's-length basis.

Any company treated as our TRS under the Code for U.S. federal income tax purposes and any other TRSs that we form will pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification. Although we will monitor the aggregate value of the securities of such TRSs and intend to conduct our affairs so that such securities will represent less than 25% (for taxable periods beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets, there can be no assurance that we will be able to comply with the TRS limitation in all market conditions.

Legislation enacted in 2015 may alter who bears the liability in the event any subsidiary partnership (such as our operating partnership) is audited and an adjustment is assessed.

In 2015 Congress revised the rules applicable to federal income tax audits of partnerships (such as our operating partnership) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017. Under the new rules, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. Many questions remain as to how the new rules will apply, especially with respect to partners that are REITs, and it is not clear at this time what effect this legislation will have on us. However, these changes could increase the federal income tax, interest, and/or penalties otherwise borne by us in the event of a federal income tax audit of a subsidiary partnership (such as our operating partnership).

Possible legislative, regulatory or other actions could adversely affect our stockholders and us.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders', tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income and/or be subject to additional restrictions. These increased tax costs could, among other things, adversely affect our financial condition, the results of operations and the amount of cash available for the payment of dividends. Stockholders are urged to consult with their own tax advisors with respect to the impact that recent legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our shares.

In addition, according to publicly released statements, a top legislative priority of the Trump administration and the current Congress may be significant reform of the Code, including significant changes to taxation of business entities and the deductibility of interest expense. There is a substantial lack of clarity around the likelihood, timing and details of any such tax reform and the impact of any potential tax reform on our business and the price of our common stock.

ITEM 1B.UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the staff of the Securities and Exchange Commission as of the date of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Our Portfolio Summary

As of December 31, 2016, our portfolio consisted of 13 Class A office properties aggregating approximately 10.8 million square feet that was 93.3% leased and 90.9% occupied. The following table presents an overview of our portfolio as of December 31, 2016.

Property	Submarket	Paramount Square Ownership Feet		%		Annualized Rent ⁽³⁾											
				Leased ⁽¹⁾	Occupied ⁽²⁾	Amount	Per Square Foot ⁽⁴⁾										
New York:																	
1633 Broadway	West Side	100.0	%	2,523,429	86.3	%	85.7	%	\$ 148,415,000	\$ 71.71							
1301 Avenue of the Americas	Sixth Avenue/Rock Center	100.0	%	1,780,472	93.7	%	86.5	%	115,091,000	75.53							
1325 Avenue of the Americas	Sixth Avenue/Rock Center	100.0	%	805,258	96.5	%	96.5	%	50,660,000	65.69							
31 West 52nd Street	Sixth Avenue/Rock Center	100.0	%	761,787	84.5	%	84.5	%	53,738,000	80.69							
900 Third Avenue	East Side	100.0	%	597,402	98.0	%	96.8	%	42,021,000	73.28							
712 Fifth Avenue	Madison/Fifth Avenue	50.0	%	543,386	97.1	%	94.1	%	56,787,000	111.62							
Subtotal / Weighted Average																	
New York				7,011,734	91.0	%	88.6	%	466,712,000	76.43							
Paramount's Ownership Interest				6,740,041	90.7	%	88.4	%	438,319,000	74.86							
Washington, D.C.:																	
Waterview ⁽⁵⁾	Rosslyn, VA	100.0	%	636,768	98.7	%	98.7	%	34,600,000	52.46							
425 Eye Street	East End	100.0	%	372,555	97.7	%	97.7	%	16,398,000	45.18							
2099 Pennsylvania Avenue CBD									100.0	%	210,792	82.3	%	62.3	%	10,147,000	77.82
1899 Pennsylvania Avenue CBD									100.0	%	190,955	100.0	%	98.0	%	14,769,000	78.97
Liberty Place	East End	100.0	%	174,449	89.9	%	89.9	%	12,031,000	75.95							
Subtotal / Weighted				1,585,519	95.5	%	92.6	%	87,945,000	58.72							

Average

Washington,
D.C.

Paramount's Ownership Interest				1,585,519	95.5 %	92.6 %	87,945,000	58.72
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San Francisco:

One Market Plaza	South Financial District	49.0 %		1,580,078	98.7 %	95.9 %	104,513,000	68.08
One Front Street	South Financial District	100.0 %		643,745	99.4 %	99.4 %	36,707,000	56.73

Subtotal /
Weighted
Average

San Francisco				2,223,823	98.9 %	96.9 %	141,220,000	64.76
Paramount's Ownership Interest				1,417,983	99.0 %	97.5 %	87,918,000	62.89

Total Portfolio /
Weighted

Average				10,821,076	93.3 %	90.9 %	\$695,877,000	\$71.14
Paramount's Ownership Interest				9,743,543	92.7 %	90.4 %	\$614,182,000	\$70.20

(1) Represents the percentage of square feet that is leased, including signed leases not yet commenced.

(2) Represents the percentage of space for which we have commenced rental revenue in accordance with GAAP.

(3) Represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

(4) Represents office and retail space only.

(5) On January 12, 2017, we entered into an agreement to sell Waterview for \$460,000,000. The sale, which is subject to customary closing conditions, is expected to close in the second quarter of 2017.

Tenant Diversification

As of December 31, 2016, our properties were leased to a diverse base of tenants. Our tenants represent a broad array of industries, including financial services, media and entertainment, consulting, legal and other professional services, technology and federal government agencies. The following table sets forth information regarding the ten largest tenants in our portfolio based on annualized rent as of December 31, 2016.

Tenant	Lease Expiration	Total Square Feet Occupied	Our Share of Total Square Feet Occupied	% of Total Square Feet	Annualized Rent (1) Per Square Foot	% of Annualized Rent	
Barclays Capital, Inc. The Corporate Executive Board Company	Dec-2020 (2)	538,518 (2)	538,518 (2)	5.5 %	\$35,471,000	\$65.87	5.8 %
Allianz Global Investors, LP	Jan-2031	326,457	323,629	3.3 %	28,121,000	86.89	4.6 %
Clifford Chance LLP	Jun-2024	328,992	328,992	3.4 %	26,029,000	79.12	4.2 %
Credit Agricole Corporate & Investment Bank	Feb-2023	311,291	311,291	3.2 %	25,051,000	80.47	4.1 %
Morgan Stanley & Company	Mar-2032 (3)	312,885 (3)	312,885 (3)	3.2 %	22,122,000	70.70	3.6 %
WMG Acquisition Corporation (Warner Music Group)	Jul-2029	293,487	293,487	3.0 %	16,753,000	57.08	2.7 %
Chadbourne & Parke, LLP	Sep-2024	203,863	203,863	2.1 %	16,129,000	79.12	2.6 %
Showtime Networks, Inc.	Jan-2026	238,880	238,880	2.5 %	14,179,000	59.36	2.3 %
U.S. General Services Administration	Jun-2021	310,450	310,450	3.2 %	14,152,000	45.59	2.3 %

(1) Represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

(2) 41,100 of the square feet leased expired on December 31, 2016.

(3) 52,056 of the square feet leased expires on June 30, 2017.

Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our portfolio based on annualized rent as of December 31, 2016.

Industry	Our Share of		Annualized Rent ⁽¹⁾	% of	
	Square Feet Occupied	% of Occupied Square Feet		Annualized Rent	% of Annualized Rent
Legal Services	1,878,029	21.5	% \$ 141,281,000	23.0	%
Financial Services - Commercial and Investment					
Banking	1,861,907	21.3	% 130,231,000	21.2	%
Technology and Media	1,365,164	15.6	% 87,760,000	14.3	%
Financial Services, all others	942,767	10.8	% 78,539,000	12.8	%
Insurance	392,507	4.5	% 32,010,000	5.2	%
Retail	266,644	3.1	% 21,975,000	3.6	%
Government	345,278	4.0	% 16,550,000	2.7	%
Consumer Products	174,082	2.0	% 12,970,000	2.1	%
Real Estate	171,521	2.0	% 11,459,000	1.9	%
Other	1,339,474	15.3	% 81,407,000	13.2	%

⁽¹⁾Represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

Lease Expirations

The following table sets forth a summary schedule of lease expirations for leases in place as of December 31, 2016 for each of the ten calendar years beginning with the year ending December 31, 2016, at the properties in our portfolio. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

Year of Lease Expiration (2) Month to Month	Total Square Feet of Expiring Leases	Our Share of Square Feet of Expiring Leases	Annualized Rent (1) Amount	Per Square Foot (3)	% of Annualized Rent
	6,148	4,373	\$ 269,000	\$ -	0.0%
1Q 2017	275,974	261,279	16,801,000	64.59	2.4%
2Q 2017	74,487	65,001	3,781,000	57.96	0.6%
3Q 2017	108,889	107,105	7,430,000	69.37	1.1%
4Q 2017	109,983	101,008	6,650,000	66.70	1.0%
Total 2017	569,333	534,393	34,662,000	65.14	5.1%
2018	404,058	329,894	23,858,000	81.78	3.5%
2019	693,561	569,612	41,098,000	71.14	6.0%
2020	562,320	473,610	34,130,000	72.09	5.0%
2021	1,562,513	1,340,696	82,661,000	62.52	12.0%
2022	565,436	421,593	28,581,000	78.46	4.2%
2023	730,488	690,945	52,895,000	77.04	7.7%
2024	673,679	649,006	49,868,000	77.04	7.3%
2025	512,137	314,491	23,812,000	75.81	3.5%
2026	730,413	652,769	47,533,000	69.70	6.9%
Thereafter	3,812,562	3,748,095	266,903,000	77.34	38.8%

(1) Represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

(2) Leases that expire on the last day of any given period are treated as occupied and are reflected as expiring space in the following period.

(3) Represents office and retail space only.

Our portfolio contains a number of large buildings in select central business district submarkets, which often involve large users occupying multiple floors for relatively long terms. Accordingly, the renewal of one or more large leases may have a material positive or negative impact on average base rent, tenant improvement and leasing commission costs in a given period. Tenant improvement costs include expenditures for general improvements related to installing a tenant. Leasing commission costs are similarly subject to significant fluctuations depending upon the anticipated revenue to be received under the leases and the length of leases being signed. Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual properties.

As of December 31, 2016, the vacancy rate of our portfolio was 6.7%. In addition, 575,481 square feet (including month-to-month tenants), or 5.3% of the square footage of our portfolio is scheduled to expire during the year ending December 31, 2017, which represents approximately 5.1% of our annualized rent.

Real Estate Fund Investments

We have an investment management business, where we serve as the general partner of real estate funds for institutional investors and high net-worth individuals. Real estate fund investments are comprised of Property Funds and the Alternative Investment Fund. The following is a summary of our ownership in these funds and the funds' ownership in the underlying investments.

Property Funds

We manage four Property Funds comprised of (i) Paramount Group Real Estate Fund II, L.P. ("Fund II"), (ii) Paramount Group Real Estate Fund III, L.P. ("Fund III"), (iii) Paramount Group Real Estate Fund VII, L.P. ("Fund VII") and (iv) Paramount Group Real Estate Fund VII-H, L.P. ("Fund VII-H"). The purpose of the Property Funds is to invest in office buildings and related facilities primarily in New York City and San Francisco. The following is a summary of the Property Funds, our ownership interests in these funds and the funds' ownership interest in the underlying properties, as of December 31, 2016.

	As of December 31, 2016				
	Paramount Ownership	60 Wall Street ⁽¹⁾	One Market Plaza	50 Beale Street	0 Bond Street ⁽²⁾
Fund II	10.0%	46.3%	-	-	-
Fund III	3.1%	16.0%	2.0%	-	-
Fund VII/VII-H	7.2%	-	-	42.8%	100.0%
Total Property Funds		62.3%	2.0%	42.8%	100.0%
Other Investors		37.7%	98.0%	⁽³⁾ 57.2%	-
Total		100.0%	100.0%	100.0%	100.0%

⁽¹⁾On January 24, 2017, Fund II, Fund III and the other investors sold their interests in 60 Wall Street to a newly formed joint venture in which we have a 5.2% ownership interest.

⁽²⁾Formerly called 670 Broadway.

⁽³⁾Includes a 49.0% direct ownership interest held by us.

Alternative Investment Fund

We manage Paramount Group Real Estate Fund VIII L.P. ("Fund VIII"), our Alternative Investment Fund. The purpose of the Alternative Investment Fund is to invest primarily in real estate related debt and preferred equity investments.

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The following is a summary of our ownership interest in the Alternative Investment Fund and the fund's underlying investments, as of December 31, 2016.

Investments	Investment Type	Paramount Interest			As of December 31, 2016 Face Amount		Fair Value	
		Ownership	Rate	Maturity	Total	Our Share	Total	Our Share
	Mezzanine				\$	\$	\$	\$
26 Broadway	Loan	1.3%	8.25%	Jan-2022	50,000,000	645,000	50,379,000	650,000
1440 Broadway	Mezzanine Loan	1.3%	6.65%	Oct-2019	40,000,000	516,000	40,480,000	522,000
700 Eighth Avenue	Mortgage/ Mezzanine Loan	1.3%	6.65%	Jan-2019	80,000,000	1,032,000	80,000,000	1,032,000
1285 Avenue of the Americas	Mezzanine Loan	1.3%	6.75%	Jun-2023	55,000,000	710,000	55,834,000	720,000
	Mezzanine Loan/ Preferred Equity			Oct-2018 to 7.00%- 9.61%				
Other		1.3%		Nov-2026	134,237,000	1,732,000	135,589,000	1,749,000
					\$359,237,000	\$4,635,000	\$362,282,000	\$4,673,000

Residential Development Fund

We also serve as the general partner of the Residential Development Fund ("Residential Fund"), the purpose of which is to construct a multifamily residential project in San Francisco. As of December 31, 2016, the Residential Fund had an aggregate of \$135,600,000 of committed capital, of which \$78,100,000 has been called and substantially invested.

Preferred Equity Investments

As of December 31, 2016, we own a 24.4% interest in PGRESS Equity Holdings L.P., a consolidated entity that owns certain preferred equity investments. The following is a summary of the preferred equity investments.

(Amounts in thousands, except square feet)	Paramount	Dividend		As of December 31,		
		Ownership	Rate	Initial Maturity	2016	2015
Preferred Equity Investment						
470 Vanderbilt Avenue ⁽¹⁾	24.4%	10.3%	Feb-2019	\$35,613	\$35,305	
2 Herald Square ⁽²⁾	24.4%	10.3%	Apr-2017	19,438	18,636	
Total preferred equity investments				\$55,051	\$53,941	

⁽¹⁾Represents a \$33,750 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 650,000 square foot office building located in Brooklyn, New York. The preferred equity has a dividend rate of 10.3%, of which 8.0% was paid in cash through February 2016 and the unpaid portion accreted to the balance of the investment. Subsequent to February 2016, the entire 10.3% dividend is being paid in cash.

⁽²⁾Represents a \$17,500 preferred equity investment in a partnership that owns 2 Herald Square, a 369,000 square foot office and retail property in Manhattan. The preferred equity has a dividend rate of 10.3%, of which 7.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment has two one-year extension options.

Other

Oder-Center, Germany

We own a 9.5% interest in a joint venture that owns Oder-Center, a shopping center located in Brandenburg, Germany.

745 Fifth Avenue

We own a 1.0% interest in 745 Fifth Avenue, a 35 Story art deco style building located on the corner of 5th Avenue and 58th Street, in New York.

60 Wall Street - Option Agreement

In connection with the Formation Transactions, we entered into an option agreement with each of Fund II and Fund III (collectively, the “Funds”) pursuant to which we had the right to acquire their joint venture interests (aggregating 62.3%) in 60 Wall Street, a 47-story, 1.6 million square foot office building, located in the heart of New York’s financial district, at any time before November 24, 2016. The remaining 37.7% interest in the property was held by a third party joint venture partner who had a “tag-along” right in the event we exercised the option to acquire the property. On November 9, 2016, we received the consent from the Funds’ investor advisory committees to amend the option agreement to extend the option exercise date to February 28, 2017 pursuant to which we had the right to acquire the Funds’ interests at a purchase price equal to \$1.04 billion. On January 17, 2017, the third party joint venture partner agreed to “tag-along” at the agreed upon purchase price, if we were to exercise the option. On January 24, 2017, we assigned the option agreement to a subsidiary of a newly formed joint venture in which we have a 5.2% ownership interest, and exercised the option.

718 Fifth Avenue - Put Right

We manage 718 Fifth Avenue, a five-story building containing 19,050 square feet of prime retail space that is located on the southwest corner of 56th Street and Fifth Avenue in New York. Prior to the Formation Transactions, an affiliate of our Predecessor owned a 25.0% interest in 718 Fifth Avenue (based on its 50.0% interest in a joint venture that held a 50.0% tenancy-in-common interest in the property). Prior to the completion of the Formation Transactions, this interest was sold to its partner in the 718 Fifth Avenue joint venture, who is also our partner in the joint venture that owns 712 Fifth Avenue, New York, New York. In connection with this sale, we granted our joint venture partner a put right, pursuant to which the 712 Fifth Avenue joint venture would be required to purchase the entire direct or indirect interests held by our joint venture partner or its affiliates in 718 Fifth Avenue at a purchase price equal to the fair market value of such interests. The put right may be exercised at any time after September 10, 2018 with 12 months written notice and the actual purchase occurring no earlier than September 10, 2019. If the put right is exercised and the 712 Fifth Avenue joint venture acquires the 50.0% tenancy-in-common interest in the property that will be held by our joint venture partner following the sale of its interest to our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol PGRE. The table below sets forth the high and low sales prices of our common stock and dividends for the years ended December 31, 2016 and 2015:

Quarter Ended	2016			2015		
	High	Low	Dividends	High	Low	Dividends
March 31	\$17.97	\$14.23	\$ 0.095	\$20.21	\$17.66	\$ 0.134 ⁽¹⁾
June 30	17.40	15.26	0.095	19.73	16.97	0.095
September 30	18.28	15.36	0.095	18.35	15.65	0.095
December 31	16.74	14.58	0.095	18.56	16.50	0.095

⁽¹⁾ Includes the \$0.039 cash dividend for the 38 day period following the completion of our initial public offering and the related Formation Transactions and ending on December 31, 2014.

As of December 31, 2016, there were approximately 320 registered holders of record of our common stock. This figure does not reflect the beneficial ownership of shares of our common stock held in nominee or "street" name.

Dividends

In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to shareholders. We intend to pay dividends on a quarterly basis to holders of our common stock. Any dividend distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors; including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available and will

be dependent upon a number of factors, including restrictions under applicable law, the capital requirements of our company and the distribution requirements necessary to maintain our qualification as a REIT. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of this Annual Report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect our ability to make distributions to our shareholders.

On December 15, 2016, we declared a regular quarterly cash dividend of \$0.095 per share of common stock for the fourth quarter ended December 31, 2016, which was paid on January 13, 2017 to stockholders of record as of the close of business on December 30, 2016.

Performance Graph

The following graph is a comparison of the cumulative return of our common stock, the Standard & Poor's 500 Index (the "S&P 500 Index"), the SNL Financials ("SNL") Office REIT Index (the "SNL Office REIT Index") and the National Association of Real Estate Investment Trusts ("NAREIT") All Equity Index (the "All Equity Index"). The graph assumes that \$100 was invested on November 19, 2014 (the first trading day of our common stock) in our common stock, the S&P 500 Index, the SNL Office REIT Index and the All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our stock will continue in line with the same or similar trends depicted in the graph below.

	November 19, 2014	December 31, 2014	December 31, 2015	December 31, 2016
Paramount	\$ 100.00	\$ 102.26	\$ 101.95	\$ 92.23
S&P 500 Index	100.00	100.72	102.12	114.33
SNL Office REIT Index	100.00	104.09	105.01	117.18
All Equity Index	100.00	104.09	107.03	116.26

Recent Sales of Unregistered Securities

For the three months ended December 31, 2016, we issued an aggregate of 10,405,614 shares of common stock in exchange for 10,405,614 common units of our Operating Partnership held by certain limited partners. Of these shares, 77,214 shares were issued in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. We relied on the exemption under Section 4(a)(2) based upon factual representations received from the limited partners who received the shares of common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes certain information about our equity compensation plans as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining
			available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table) ⁽²⁾
Equity compensation plans approved by stockholders	9,710,107	(1) \$ 17.34	12,228,883
Equity compensation plans not approved by stockholders	-	-	-
Total	9,710,107	\$ 17.34	12,228,883

(1)

Includes an aggregate of 1,844,121 options, 1,661,330 long-term incentive plan units in our Operating Partnership ("LTIP units") and 2,224,727 Performance Units that were granted pursuant to our 2014 Equity Incentive Plan (the "Plan") and 3,979,929 units that were granted as one-time Founders Grants that were granted outside of the Plan.

The LTIP units, Performance Units and the Founders Grant Units do not have an exercise price.

⁽²⁾Based on awards being granted as "Full Value Awards," as defined in the Plan, including awards such as restricted stock, LTIP units or performance units that do not require the payment of an exercise price. If we were to grant "Not Full Value Awards," as defined in the Plan, including stock options or stock appreciation rights, the number of securities remaining available for future issuance would be 24,457,766.

Recent Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and the assets of the real estate funds that it controlled. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control. However, as a result of our acquisition of these assets from the real estate funds in the Formation Transactions, we account for these assets following the Formation Transactions using historical cost accounting whereas, prior to the Formation Transactions, the Predecessor had accounted for these assets using the specialized accounting applicable to investment companies because, prior to the Formation Transactions, they had been held by the real estate funds, which qualified for investment company accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor. The following table sets forth selected financial and operating data for the years ended December 31, 2016 and 2015 and for the period from November 24, 2014 to December 31, 2014 and as of the end of such years and period. This data should be read in conjunction with the combined consolidated financial statements and notes thereto included in “Item 8. Financial Statements and Supplementary Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. This data may not be comparable to, or indicative of, future operating results.

(Amounts in thousands, except per share amounts)	The Company		Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31, 2016	2015	
REVENUES:			
Rental income	\$590,161	\$586,530	\$ 57,465
Tenant reimbursement income	44,943	50,885	5,865
Fee and other income	48,237	24,993	2,805
Total revenues	683,341	662,408	66,135
EXPENSES:			
Operating	250,040	244,754	26,011
Depreciation and amortization	269,450	294,624	34,481
General and administrative	53,510	42,056	2,207
Transaction related costs	2,404	10,355	-
Total expenses	575,404	591,789	62,699
Operating income	107,937	70,619	3,436
Income from real estate fund investments	-	37,975	1,412
Loss from unconsolidated real estate funds	(498)	-	-
Income from unconsolidated joint ventures	7,413	6,850	938
Interest and other income (loss), net	6,934	871	(179)
Interest and debt expense	(157,746)	(168,366)	(43,743)
Unrealized gain on interest rate swaps	39,814	75,760	15,084
Formation related costs	-	-	(143,437)
Gain on consolidation of an unconsolidated joint venture	-	-	239,716
Net income before income taxes	3,854	23,709	73,227

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Income tax expense	(1,785)	(2,566)	(505)
Net income	2,069	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:			
Consolidated real estate funds	1,316	(21,173)	(135)
Consolidated joint ventures	(15,423)	(5,459)	(1,353)
Operating Partnership	2,104	1,070	(13,926)
Net (loss) income attributable to common			
stockholders	\$(9,934)	\$(4,419)	\$ 57,308

Per Share Data:

(Loss) income per common share - basic	\$(0.05)	\$(0.02)	\$ 0.27
(Loss) income per common share - diluted	\$(0.05)	\$(0.02)	\$ 0.27
Dividends per common share	\$0.380	\$0.419	(1)\$ -

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(Amounts in thousands)	The Company		Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31,		
Balance Sheet Data (as of end of period):	2016	2015	
Total assets	\$8,867,168	\$8,775,229	\$ 9,021,605
Rental property, at cost	7,849,093	7,652,117	7,530,239
Accumulated depreciation and amortization	(318,161)	(243,089)	(81,050)
Debt, net	3,594,898	2,942,610	2,843,451
Total equity	4,885,947	5,310,550	5,554,953
Other Data:			
Funds from operations attributable to common			
stockholders ("FFO") ⁽²⁾	\$195,140	\$209,349	\$ 82,425
Core funds from operations attributable to common			
stockholders ("Core FFO") ⁽²⁾	183,116	172,796	16,100

⁽¹⁾Includes the \$0.039 cash dividend for the 38 day period following the completion of our initial public offering and the related Formation Transactions and ending on December 31, 2014.

⁽²⁾For a reconciliation of net income to FFO and CORE FFO and why we view these measures to be useful supplemental performance measures, see page 79.

The following table sets forth selected financial and operating data of our Predecessor for the period from January 1, 2014 to November 23, 2014 and for the years ended December 31, 2013 and 2012 and as of the end of such period and years.

(Amounts in thousands)	The Predecessor Period from		
	January 1, 2014 to November 23, 2014	December 31, 2013	December 31, 2012
REVENUES:			
Rental income	\$30,208	\$30,406	\$29,773
Tenant reimbursement income	1,646	1,821	1,543
Distributions from real estate fund investments	17,083	29,184	31,326
Realized and unrealized gains, net	129,354	332,053	161,199
Fee and other income	49,098	26,426	22,974
Total revenues	227,389	419,890	246,815
EXPENSES:			
Operating	15,862	16,195	15,402
Depreciation and amortization	10,203	10,582	10,104
General and administrative	30,912	33,504	28,374
Profit sharing compensation	12,041	23,385	17,554
Other	7,974	4,633	6,569
Total expenses	76,992	88,299	78,003
Operating income	150,397	331,591	168,812
Income from unconsolidated joint ventures	4,241	1,062	3,852
Unrealized (loss) gain on interest rate swaps	(673)	1,615	6,969
Interest and other income, net	2,479	9,407	4,431
Interest and debt expense	(28,585)	(29,807)	(37,342)
Net income before income taxes	127,859	313,868	146,722
Income tax expense	(18,461)	(11,029)	(6,984)
Net income	109,398	302,839	139,738
Net income attributable to noncontrolling interests	(87,888)	(286,325)	(137,443)
Net income attributable to the Predecessor	\$21,510	\$16,514	\$2,295

(Amounts in thousands)	The Predecessor As of	
	December 31, 2013	December 31, 2012
Balance Sheet Data:		
Total assets	\$2,990,814	\$2,610,016
Rental property, at cost	414,998	414,855
Accumulated depreciation and amortization	(57,689)	(48,425)
Debt, net	497,982	515,783
Total equity	2,025,444	1,738,226

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the combined consolidated financial statements of our Predecessor, including the related notes included therein.

Overview

We are a fully-integrated real estate investment trust ("REIT") focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. We conduct our business through, and substantially all of our interests are held by, Paramount Group Operating Partnership LP, a Delaware limited partnership (the "Operating Partnership"). We are the sole general partner of, and owned approximately 87.0% of the Operating Partnership as of December 31, 2016.

We were incorporated in Maryland as a corporation on April 14, 2014 to continue the business of our Predecessor, as defined, and did not have any meaningful operations until the acquisition of substantially all of the assets of our Predecessor and assets of the real estate funds that it controlled, as well as the interests of unaffiliated third parties in certain properties. Our properties were acquired through a series of Formation Transactions (the "Formation Transactions") concurrently with our initial public offering of 150,650,000 common shares at a public offering price of \$17.50 per share on November 24, 2014 (the "Offering").

Our Predecessor

Our Predecessor was not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto Family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia and (iii) three partially owned properties in New York.

Objectives and Strategy

Our primary business objective is to enhance stockholder value by increasing cash flow from operations. The strategies we intend to execute to achieve this objective include:

- Leasing vacant and expiring space at market rents;
- Maintaining a disciplined acquisition strategy focused on owning and operating Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco;
- Redeveloping and repositioning properties to increase returns; and
- Proactively managing our portfolio to increase occupancy and rental rates.

Acquisitions

On December 1, 2016, we completed the acquisition of One Front Street, a 643,745 square foot Class A office building, in San Francisco, California for \$521,000,000.

On January 24, 2017, a joint venture in which we have a 5.2% interest acquired 60 Wall Street, a 1.6 million square foot Class A office building in New York, for \$1.04 billion. In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property.

Dispositions

On January 12, 2017, we entered into an agreement to sell Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia, for \$460,000,000. The sale, which is subject to customary closing conditions, is expected to close in the second quarter of 2017 and will result in a financial statement gain of approximately \$110,000,000.

Financings

On May 3, 2016, we completed a \$500,000,000 refinancing of 31 West 52nd Street, a 786,647 square foot Class A office building in New York. The new 10-year loan is interest-only at a fixed rate of 3.80%. We realized net proceeds of \$64,538,000 after the repayment of the existing loan, including swap breakage and closing costs.

On October 6, 2016, we completed an \$850,000,000 financing of 1301 Avenue of the Americas, a 1.8 million square foot Class A office building in New York. The five-year interest-only loan matures in October 2021, has two one-year extension options and has an initial weighted average interest rate of 2.77%, based on a \$500,000,000 tranche at a fixed rate of 3.05% and a \$350,000,000 tranche at a floating rate of LIBOR plus 180 basis points (2.36% at closing). We retained net proceeds of \$330,387,000 after closing costs and the repayment of the existing debt at 900 Third Avenue and the defeasance of the existing debt at Waterview, including swap breakage and defeasance costs. The remaining proceeds were used to fund a portion of the acquisition of One Front Street.

On January 19, 2017, we completed a \$975,000,000 refinancing of One Market Plaza, a 1.6 million square foot Class A office and retail property in San Francisco, California. The new seven-year interest-only loan matures in January 2024 and has a fixed rate of 4.03%. We retained \$23,470,000 for our 49.0% share of net proceeds, after the repayment of the existing loan, closing costs and required reserves.

Leasing Activity

Year Ended December 31, 2016

In the year ended December 31, 2016, we leased 734,238 square feet at a weighted average initial rent of \$74.12 per square foot. The current year's leasing activity, offset by lease expirations during the year, decreased portfolio wide leased occupancy by 210 basis points to 92.7% at December 31, 2016 from 94.8% at December 31, 2015. The decrease in leased occupancy was driven by lease expirations in our New York portfolio, partially offset by an increase in leased occupancy in our Washington, D.C. and San Francisco portfolios. Of the 734,238 square feet leased during the year, 485,809 square feet represents second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 10.3% on a GAAP basis and 3.6% on a cash basis. The weighted average lease term for leases signed during the year was 8.0 years and weighted average tenant improvements and leasing commissions on these leases were \$7.93 per square foot per annum, or 10.7% of initial rent. The rental rate increases for the year ended December 31, 2016 were impacted by two above-market leases in our New York portfolio aggregating 89,135 square feet that were terminated and subsequently released at market rates. Excluding the impact of these leases, we achieved rental rate increases of 10.4% and 10.3% on a GAAP basis and cash basis, respectively.

New York:

In the year ended December 31, 2016, we leased 566,854 square feet in our New York portfolio at a weighted average initial rent of \$73.66 per square foot. The current year's leasing activity, offset by lease expirations during the year, decreased leased occupancy by 480 basis points to 90.7% at December 31, 2016 from 95.5% at December 31, 2015. Of the 566,854 square feet leased during the year, 446,766 square feet represents second generation space for which we achieved rental rate increases of 8.6% on a GAAP basis and 1.1% on a cash basis. The weighted average lease term for leases signed during the year was 8.0 years and weighted average tenant improvements and leasing commissions on these leases were \$7.25 per square foot per annum, or 9.8% of initial rent. The rental rate increases for the year ended December 31, 2016 were impacted by the aforementioned above-market leases aggregating 89,135 square feet that were terminated and subsequently released at market rates. Excluding the impact of these leases, we achieved rental rate increases of 8.2% and 7.5% on a GAAP basis and cash basis, respectively.

Washington, D.C.:

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In the year ended December 31, 2016, we leased 90,183 square feet in our Washington, D.C. portfolio, at a weighted average initial rent of \$69.81 per square foot. The current year's leasing activity increased leased occupancy by 530 basis points to 95.5% at December 31, 2016 from 90.2% at December 31, 2015. The weighted average lease term for leases signed during the year was 8.7 years and weighted average tenant improvements and leasing commissions on these leases were \$12.17 per square foot per annum, or 17.4% of initial rent.

San Francisco:

In the year ended December 31, 2016, we leased 77,201 square feet in our San Francisco portfolio at a weighted average initial rent of \$92.50 per square foot. Our San Francisco portfolio continues to remain very strongly leased at 99.0% as of December 31, 2016, an increase of 70 basis points from 98.3% at December 31, 2015. The leased occupancy for December 31, 2016 includes One Front Street, which was acquired on December 1, 2016 and is 99.4% leased. Of the 77,201 square feet leased during the year, 35,110 square feet represents second generation space for which we achieved rental rate increases of 31.8% on a GAAP basis and 40.7% on a cash basis. The weighted average lease term for leases signed during the year was 5.6 years and weighted average tenant improvements and leasing commissions on these leases were \$5.27 per square foot per annum, or 5.7% of initial rent.

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The following table presents additional details on the leases signed during year ended December 31, 2016 and is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Year Ended December 31, 2016	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	734,238	566,854	90,183	77,201
Pro rata share of square feet leased:	662,935	534,924	90,183	37,828
Initial rent ⁽¹⁾	\$74.12	\$73.66	\$ 69.81	\$ 92.50
Weighted average lease term (in years)	8.0	8.0	8.7	5.6
Tenant improvements and leasing commissions:				
Per square foot	\$63.05	\$57.86	\$ 105.79	\$ 29.31
Per square foot per annum	\$7.93	\$7.25	\$ 12.17	\$ 5.27
Percentage of initial rent	10.7 %	9.8 %	17.4 %	5.7 %
Rent concessions:				
Average free rent period (in months)	6.5	7.0	6.1	0.9
Average free rent period per annum (in months)	0.8	0.9	0.7	0.2
Second generation space ⁽²⁾ :				
Square feet	485,809	446,766	3,933	35,110
GAAP basis:				
Straight-line rent	\$72.98	\$71.27	\$ 80.13	\$ 93.97
Prior straight-line rent	\$66.15	\$65.62	\$ 80.10	\$ 71.28
Percentage increase	10.3 % ⁽³⁾	8.6 % ⁽³⁾	0.0 %	31.8 %
Cash basis:				
Initial rent ⁽¹⁾	\$76.05	⁽⁴⁾ \$74.73	⁽⁴⁾ \$ 79.82	\$ 92.50
Prior escalated rent ⁽⁵⁾	\$73.38	\$73.92	\$ 78.95	\$ 65.72
Percentage increase	3.6 % ⁽³⁾	1.1 % ⁽³⁾	1.1 %	40.7 %

⁽¹⁾Represents the weighted average cash basis starting rent per square foot and does not include free rent or periodic step-ups in rent.

⁽²⁾Represents space leased that has been vacant for less than twelve months.

⁽³⁾Includes the effect of two above market leases aggregating 89,135 square feet that were terminated and subsequently released at market rates. Excluding the impact of these leases, the percentage increase in GAAP basis and Cash basis rents was 8.2% and 7.5%, respectively, for our New York portfolio and 10.4% and 10.3%, respectively, for the total portfolio.

⁽⁴⁾Includes the effect of a lease for the parking garage at 1633 Broadway. Excluding the effect of this lease, the initial rent for our second generation space was \$80.72 for our New York portfolio and \$79.70 for the total portfolio.

⁽⁵⁾Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

Financial Results

For the Year Ended December 31, 2016

Net loss attributable to common stockholders was \$9,934,000, or \$0.05 per diluted share, for the year ended December 31, 2016, compared to \$4,419,000, or \$0.02 per diluted share, for the year ended December 31, 2015. Funds from Operations (“FFO”) attributable to common stockholders was \$195,140,000, or \$0.89 per diluted share, for the year ended December 31, 2016, compared to \$209,349,000, or \$0.99 per diluted share, for the year ended December 31, 2015. FFO attributable to common stockholders for the years ended December 31, 2016 and 2015 includes the impact of non-core items, which are listed in the table on page 79. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the years ended December 31, 2016 and 2015 by \$12,024,000 and \$36,553,000, or \$0.05 and \$0.18 per diluted share, respectively. Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of the non-core items listed on page 79, was \$183,116,000, or \$0.84 per diluted share, for the year ended December 31, 2016, compared to \$172,796,000, or \$0.81 per diluted share, for the year ended December 31, 2015.

See page 79 “Non-GAAP Financial Measures – Funds from Operations (“FFO”) and Core Funds From Operations (“Core FFO”)” for a reconciliation of net income to FFO attributable to common stockholders and Core FFO attributable to common stockholders and the reasons why we believe these non-GAAP measures are useful.

Critical Accounting Policies

Rental Property

Rental property is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. We

assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. We amortize acquired above-market and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of “depreciation and amortization”.

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property’s carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Rental property and related intangibles are classified as held for sale when all the necessary criteria are met. The criteria include (i) management, having the authority to approve action, commits to a plan to sell the property in its present condition, (ii) the sale of the property is at a price reasonable in relation to its current fair value and (iii) the sale is probable and expected to be completed within one year. Rental property and the related intangibles held for sale are carried at the lower of carrying amounts or estimated fair value less disposal costs. Depreciation and amortization is not recognized on rental property classified as assets held for sale.

Variable Interest Entities and Investments in Unconsolidated Joint Ventures and Funds

We consolidate variable interest entities (“VIEs”) in which we are considered to be the primary beneficiary. The primary beneficiary is defined by the entity having both of the following characteristics: (i) the power to direct the activities that, when taken together, most significantly impact the VIE’s performance, and (ii) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. For joint ventures that are not VIEs, we consolidate entities for which we have significant decision making control over the joint ventures’ operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity’s governance, the size of our investment, estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the joint venture, if applicable.

We account for investments under the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. Investments accounted for under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

Investments that do not qualify for consolidation or equity method accounting are accounted for under the cost method.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for deferred rent receivable. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

Income Taxes

We operate and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If, with respect to any taxable year, we fail to maintain our qualification as a REIT, and we are not entitled to relief under the relevant statutory provisions, we would be subject to income tax at regular tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income tax may be due on our undistributed taxable income.

Derivative Instruments and Hedging Activities

We manage our market risk on variable rate debt by entering into interest rate swaps to fix the rate on all or a portion of the debt for varying periods through maturity. These interest rate swaps are accounted for as derivative instruments and, pursuant to Accounting Standards Codification (“ASC”) Topic 815, are recorded on our consolidated balance sheets at fair value. Changes in the fair value of interest rate swaps are accounted for based on the hedging relationship and their designation and qualification. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in “other comprehensive income (loss)” (outside of earnings).

Revenue Recognition

Rental Income

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to “deferred rent receivable.” Rental income also includes the amortization of acquired above and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the property. This revenue is accrued in the same period as the expenses are incurred.

Fee and Other Income

Fee and other income includes management fees earned pursuant to contractual agreements. This revenue is recognized as the related services are performed. Fee and other income also includes lease termination fees and income from tenant requested services, including overtime heating and cooling.

Segment Reporting

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to be aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker, makes key operating decisions, evaluates financial results and manages our business. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York,

Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment.

Recently Issued Accounting Literature

A summary of recently issued accounting literature and their potential impact on our consolidated financial statements, if any, are included in Note 2, Basis of Presentation and Significant Accounting Policies, to our consolidated financial statements in this Annual Report on Form 10-K.

Results of Operations

The following pages summarize our consolidated results of operations for the years ended December 31, 2016 and 2015, and for the period from November 24, 2014 to December 31, 2014 and the combined consolidated historical results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014.

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and the assets of the real estate funds that it controlled. These transactions were accounted for as transactions among entities under common control. However, as a result of our acquisition of these assets from the real estate funds in the Formation Transactions, we account for these assets following the Formation Transactions using historical cost accounting whereas, prior to the Formation Transactions, the Predecessor had accounted for these assets using the specialized accounting applicable to investment companies because, prior to the Formation Transactions, they had been held by the real estate funds, which qualified for investment company accounting.

Results of Operations – The Company – Year Ended December 31, 2016 Compared to December 31, 2015

(Amounts in thousands)	The Company For the Year Ended December 31,		
	2016	2015	Change
REVENUES:			
Rental income	\$590,161	\$586,530	\$3,631
Tenant reimbursement income	44,943	50,885	(5,942)
Fee and other income	48,237	24,993	23,244
Total revenues	683,341	662,408	20,933
EXPENSES:			
Operating	250,040	244,754	5,286
Depreciation and amortization	269,450	294,624	(25,174)
General and administrative	53,510	42,056	11,454
Transaction related costs	2,404	10,355	(7,951)
Total expenses	575,404	591,789	(16,385)
Operating income	107,937	70,619	37,318
Income from real estate fund investments	-	37,975	(37,975)
Loss from unconsolidated real estate funds	(498)	-	(498)
Income from unconsolidated joint ventures	7,413	6,850	563
Interest and other income (loss), net	6,934	871	6,063
Interest and debt expense	(157,746)	(168,366)	10,620
Unrealized gain on interest rate swaps	39,814	75,760	(35,946)
Net income before income taxes	3,854	23,709	(19,855)

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Income tax expense	(1,785)	(2,566)	781
Net income	2,069	21,143	(19,074)
Less net (income) loss attributable to noncontrolling interests:			
Consolidated real estate funds	1,316	(21,173)	22,489
Consolidated joint ventures	(15,423)	(5,459)	(9,964)
Operating Partnership	2,104	1,070	1,034
Net loss attributable to common stockholders	\$(9,934)	\$(4,419)	\$(5,515)

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$683,341,000 for the year ended December 31, 2016, compared to \$662,408,000 for the year ended December 31, 2015, an increase of \$20,933,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	The Company				
	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$3,347	\$-	\$ -	\$ 3,347	\$-
Same store operations	8,198	(2,537)	3,348	7,452	(2) (65)
Other, net	(7,914)	(7,807)	(22)	(85)	-
Increase (decrease) in rental income	3,631	(10,344)	3,326	10,714	(65)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	373	-	-	373	-
Same store operations	(6,315)	(8,489)	885	1,289	-
(Decrease) increase in tenant reimbursement income	(5,942)	(8,489)	885	1,662	-
Fee and other income					
Property management	185	-	-	-	185
Asset management	7,754	-	-	-	7,754
Acquisition and leasing	(1,690)	-	-	-	(1,690)
Other	434	-	-	-	434
Increase in fee income	6,683	-	-	-	6,683
Lease termination income	16,139	15,770	(6)	369	-
Other income	422	15	(188)	596	(1)

Increase (decrease) in other						
income	16,561	15,785	(188)	965	(1)	
Increase (decrease) in fee and other income	23,244	15,785	(188)	965	6,682	
Total increase (decrease) in revenues	\$20,933	\$(3,048)	\$ 4,023	\$ 13,341	\$6,617	

(1) Represents One Front Street, which was acquired in December 2016.

(2) Primarily due to an increase in weighted average occupancy.

(3) Includes \$12,406 of non-cash write-offs in the year ended December 31, 2016, primarily related to the termination of a tenant's above-market lease at 1633 Broadway, partially offset by \$6,400 of higher non-cash income in the year ended December 31, 2016 from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

(4) Primarily due to leases with tenants that have new base years as well as a decrease in occupancy.

(5) Represents asset management fees earned from our unconsolidated real estate funds for the year ended December 31, 2016. The asset management fees for the year ended December 31, 2015 were included as a reduction of noncontrolling interests due to our real estate funds being consolidated in the prior period.

(6) Includes \$10,861 of income in the year ended December 31, 2016, in connection with a tenant's lease termination at 1633 Broadway.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$575,404,000 for the year ended December 31, 2016, compared to \$591,789,000 for the year ended December 31, 2015, a decrease of \$16,385,000. Below are the details of the (decrease) increase by segment.

(Amounts in thousands)	The Company				
	Total	New York	Washington, D.C.	San Francisco	Other
Operating					
Acquisitions ⁽¹⁾	\$ 1,220	\$-	\$ -	\$ 1,220	\$-
Same store operations	3,839	1,831	235	510	1,263
Bad debt expense	227	341	4	(118)	-
Increase in operating	5,286	2,172	239	1,612	1,263
Depreciation and amortization					
Acquisitions ⁽¹⁾	2,331	-	-	2,331	-
Operations	(40,751)	(39,335) ⁽²⁾	980	(3,162)	766
Other, net	13,246	12,054 ⁽³⁾	-	1,192	-
(Decrease) increase in depreciation and amortization	(25,174)	(27,281)	980	361	766
General and administrative					
Operations	11,648	-	-	-	11,648 ⁽⁴⁾
Mark-to-market of investments in our deferred compensation plan	247	-	-	-	247
Severance costs	(441)	-	-	-	(441) ⁽⁵⁾
Increase in general and administrative	11,454	-	-	-	11,454

Decrease in transaction related costs	(7,951)	-	-	-	(7,951)	(6)
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Total (decrease) increase in expenses	\$(16,385)	\$(25,109)	\$ 1,219	\$ 1,973	\$5,532	
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- (1) Represents One Front Street, which was acquired in December 2016.
- (2) Decrease primarily due to lower amortization of in-place lease assets due to the expiration of such leases.
- (3) Represents acceleration in the amortization of tenant improvements and in-place lease assets in connection with a tenant's lease modification and other lease terminations.
- (4) Increase primarily due to non-cash stock-based compensation expense and higher professional fees.
- (5) Represents the change in mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in "interest and other income (loss), net".
- (6) Decrease primarily due to \$5,872 of transfer taxes incurred in connection with the sale of shares by a former joint venture partner in the year ended December 31, 2015 and lower transaction related costs in the year ended December 31, 2016.

Income from Real Estate Fund Investments

Prior to January 1, 2016, our real estate funds were consolidated into our consolidated financial statements and accordingly 100% of the income or loss from our real estate funds was reported as “income from real estate fund investments” and the noncontrolling share of such income or loss was reflected as “net (income) loss attributable to noncontrolling interests in consolidated real estate funds”. On January 1, 2016, we adopted ASU 2015-02 using the modified retrospective method, which required us to deconsolidate all of our real estate funds that were previously accounted for at fair value, except for our Residential Fund, which is accounted for at historical cost and will continue to be consolidated into our consolidated financial statements. The following table sets forth the details of income from these funds, including our share thereof.

	The Company For the Year Ended December 31, 2015
(Amounts in thousands)	
Net investment income	\$ 12,274
Net realized gains	13,884
Previously recorded unrealized gains on exited investments	(6,584)
Net unrealized gains	18,401
Income from real estate fund investments ⁽¹⁾	37,975
Less: noncontrolling interests in consolidated	
real estate funds ⁽²⁾	(24,896)
Income from real estate fund investments attributable	
to Paramount Group, Inc.	\$ 13,079

⁽¹⁾Represents income from our real estate funds that were consolidated during 2015, including Fund II, Fund III, Fund VII, Fund VII-H, Fund VIII, Paramount Group Real Estate Special Situations Fund L.P. (“PGRESS”) and Paramount Group Real Estate Special Situations Fund-H L.P. (“PGRESS-H”).

⁽²⁾Includes \$5,481 of asset management fee income that was reflected as a reduction of the amounts attributable to noncontrolling interests for the year ended December 31, 2015.

Loss from Unconsolidated Real Estate Funds

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The following table sets forth the details of (loss) income from unconsolidated real estate funds.

(Amounts in thousands)	The Company For the Year Ended December 31, 2016		
	Total	Property Funds	Alternative Investment Fund
Our Share of Net (Loss) Income:			
Net investment (loss) income	\$(324)	\$(460)	\$ 136
Net unrealized (loss) income	(1,706)	(1,710)	4
Carried interest	1,532	1,532	-
(Loss) income from unconsolidated real estate funds ⁽¹⁾	\$(498)	\$(638)	\$ 140

⁽¹⁾Excludes asset management and other fee income from real estate funds, which is included as a component of “fee and other income” in our consolidated statements of income for the year ended December 31, 2016.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$7,413,000 for the year ended December 31, 2016, compared to \$6,850,000 for the year ended December 31, 2015, an increase of \$563,000. This increase resulted from:

(Amounts in thousands)	The Company	
712 Fifth Avenue (\$7,335 in 2016, compared to \$6,734 in 2015)	\$ 601	(1)
Oder-Center, Germany (\$78 in 2016, compared to \$116 in 2015)	(38)	(2)
Total increase	\$ 563	

(1) Primarily due to lower interest expense resulting from the expiration of interest rate swaps on \$90,000 of debt in March 2015 and higher income from tenant requested work.

(2) Primarily due to a decrease in operating income of the property.

Interest and Other Income (Loss), net

Interest and other income was \$6,934,000 for the year ended December 31, 2016, compared to \$871,000 for the year ended December 31, 2015, an increase of \$6,063,000. This increase resulted from:

(Amounts in thousands)	The Company
Preferred equity investment income in 2016 (1)	\$ 5,716
Increase in interest income	100
Increase in the value of investments in our deferred compensation plan	247

(which is offset by
an increase in "general
and administrative")
Total increase \$ 6,063

⁽¹⁾Represents 100% of the income from our preferred equity investments in PGRESS Equity Holdings L.P., which was acquired in December 2015, of which our 24.4% share is \$1,393.

Interest and Debt Expense

Interest and debt expense was \$157,746,000 for the year ended December 31, 2016, compared to \$168,366,000 for the year ended December 31, 2015, a decrease of \$10,620,000. This decrease resulted from:

(Amounts in thousands)	The Company
\$1.5 billion of refinancings (1633 Broadway in December 2015 and 31 West 52nd Street in May 2016)	\$ (15,104)
\$850 million financing of 1301 Avenue of the Americas in October 2016	5,480
\$484 million of repayment and defeasance (900 Third Avenue and Waterview in October 2016)	(7,784)
Defeasance costs in connection with the repayment of the Waterview debt	4,608
Amortization of deferred financing costs	4,239
Other, net (primarily related to the deconsolidation of our real estate fund investments)	(2,059)
Total decrease	\$ (10,620)

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps represents the change in the fair value of the interest rate swap derivative instruments that are not designated as hedges. Unrealized gain on interest rate swaps was \$39,814,000 for the year ended December 31, 2016, compared to \$75,760,000 for the year ended December 31, 2015, a decrease of \$35,946,000. The decrease was primarily due to (i) \$26,450,000 of unrealized gains in 2015 relating to swaps aggregating \$772,100,000 that were terminated in connection with the refinancing of 1633 Broadway in December 2015 (ii) \$9,468,000 of lower unrealized gains relating to swaps aggregating \$237,600,000 that were terminated in connection with the refinancing of 31 West 52nd Street in May 2016 and (iii) \$3,512,000 of lower unrealized gains relating to swaps aggregating \$162,000,000 that were terminated in connection with the repayment of our debt on 900 Third Avenue, partially offset by (iv) \$3,484,000 of higher unrealized gains in 2016 relating to swaps aggregating \$840,000,000 on One Market Plaza due to increase in LIBOR rates.

Income Tax Expense

Income tax expense was \$1,785,000 for the year ended December 31, 2016, compared to \$2,566,000 for the year ended December 31, 2015, a decrease of \$781,000. This decrease is primarily due to a benefit recognized for the year ended December 31, 2016 as result of a change in position for filing the unincorporated business tax returns for our Washington, D.C. properties and lower taxable income attributable to our taxable REIT subsidiaries.

Net Loss (Income) Attributable to Noncontrolling Interests in Consolidated Real Estate Funds

Net loss attributable to noncontrolling interests in consolidated real estate funds was \$1,316,000 for the year ended December 31, 2016, compared to income attributable to noncontrolling interests of \$21,173,000 for the year ended December 31, 2015, a decrease in income attributable to the noncontrolling interests of \$22,489,000. This decrease resulted primarily from the deconsolidation of our real estate funds that were accounted for at fair value pursuant to our adoption of ASU 2015-02 on January 1, 2016 using the modified retrospective method. Below are the components of this decrease:

(Amounts in thousands)

The
Company

Decrease in net loss attributable to the Residential Fund (\$1,316 in 2016, compared to \$3,723 in 2015)	\$ 2,407
Income attributable to consolidated real estate funds in 2015	(24,896)
Total decrease	\$ (22,489)

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interests in consolidated joint ventures was \$15,423,000 of income for the year ended December 31, 2016, compared to \$5,459,000 for the year ended December 31, 2015, an increase of \$9,964,000. This increase resulted from:

(Amounts in thousands)	The Company
One Market Plaza (\$11,100 in 2016, compared to \$4,131 in 2015)	\$ 6,969
Preferred equity investment income in 2016	4,323
31 West 52nd Street in 2015	(1,328)
Total increase	\$ 9,964

Net Loss Attributable to Noncontrolling Interests in Operating Partnership

Net loss attributable to noncontrolling interests in Operating Partnership was \$2,104,000 for the year ended December 31, 2016, compared to \$1,070,000 for the year ended December 31, 2015, an increase of \$1,034,000. This increase resulted from greater losses subject to allocation to the unitholders of the Operating Partnership.

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Results of Operations – The Company – Year Ended December 31, 2015 Compared to the Period from November 24, 2014 to December 31, 2014

(Amounts in thousands)	The Company		Change
	For the Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014	
REVENUES:			
Rental income	\$586,530	\$ 57,465	\$529,065
Tenant reimbursement income	50,885	5,865	45,020
Fee and other income	24,993	2,805	22,188
Total revenues	662,408	66,135	596,273
EXPENSES:			
Operating	244,754	26,011	218,743
Depreciation and amortization	294,624	34,481	260,143
General and administrative	42,056	2,207	39,849
Transaction related costs	10,355	-	10,355
Total expenses	591,789	62,699	529,090
Operating income	70,619	3,436	67,183
Income from real estate fund investments	37,975	1,412	36,563
Income from unconsolidated joint ventures	6,850	938	5,912
Interest and other income (loss), net	871	(179)	1,050
Interest and debt expense	(168,366)	(43,743)	(124,623)
Unrealized gain on interest rate swaps	75,760	15,084	60,676
Formation related costs	-	(143,437)	143,437
Gain on consolidation of an unconsolidated joint venture	-	239,716	(239,716)
Net income before income taxes	23,709	73,227	(49,518)
Income tax expense	(2,566)	(505)	(2,061)
Net income	21,143	72,722	(51,579)
Less net (income) loss attributable to noncontrolling interests:			
Consolidated real estate funds	(21,173)	(135)	(21,038)
Consolidated joint ventures	(5,459)	(1,353)	(4,106)
Operating Partnership	1,070	(13,926)	14,996
Net (loss) income attributable to common stockholders	\$(4,419)	\$ 57,308	\$(61,727)

Rental Income

Rental income for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represents rental income from the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Rental income was \$586,530,000 for the year ended December 31, 2015, compared to \$57,465,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$529,065,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Tenant Reimbursement Income

Tenant reimbursement income represents reimbursement income from tenants at the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Tenant reimbursement income was \$50,885,000 for the year ended December 31, 2015, compared to \$5,865,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$45,020,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Fee and Other Income

Fee and other income was \$24,993,000 for the year ended December 31, 2015 and \$2,805,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$22,188,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of fee and other income.

	The Company	
	For the Year Ended 31, 2015	Period from November 24, 2014 to December 31, 2014
(Amounts in thousands)		
Fee income		
Property management	\$5,763	\$ 587
Acquisition, leasing and disposition	3,916	510
Other	569	79
Total fee income	10,248	1,176

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Lease termination income	871	465
Other income ⁽¹⁾	13,874	1,164
Total fee and other income	\$24,993	\$ 2,805

⁽¹⁾Primarily comprised of income from tenant requested services, including overtime heating and cooling.

Operating Expenses

Operating expenses for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represent the operating expenses of the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Operating expenses were \$244,754,000 for the year ended December 31, 2015, compared to \$26,011,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$218,743,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represents depreciation and amortization on the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Depreciation and amortization was \$294,624,000 for the year ended December 31, 2015, compared to \$34,481,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$260,143,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014 and the timing of the amortization of certain in-place leases.

General and Administrative Expenses

General and administrative expenses were \$42,056,000 for the year ended December 31, 2015, compared to \$2,207,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$39,849,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of general and administrative expenses.

(Amounts in thousands)	The Company For the Period Year Ended November 24, 2014 December to 31, December 2015 31, 2014	
General and administrative expenses	\$41,859	(1) \$ 2,528
Mark-to-market of investments in our deferred compensation plan (2)	197	(321)
Total general and administrative expenses	\$42,056	\$ 2,207

(1)Includes \$7,000 of amortization of stock-based compensation expense and \$3,315 of severance costs.

(2)Represents the mark-to-market of investments in our deferred compensation plan liabilities, which is entirely offset by the mark-to-market of deferred compensation plan assets, which is included in "interest and other income, net".

Transaction Related Costs

Transaction related costs were \$10,355,000 for the year ended December 31, 2015 and are primarily comprised of legal and professional fees related to transactions, including dead deal costs and capital raising costs in connection with real estate fund investments. Transaction related costs for the year ended December 31, 2015 also includes \$5,872,000 of transfer taxes incurred in connection with the sale of shares by a former joint venture partner.

Income from Real Estate Fund Investments

Income from real estate fund investments for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, represents income from the remaining private equity real estate funds that we consolidate. Income from real estate fund investments was \$37,975,000 for the year ended December 31, 2015, compared to \$1,412,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$36,563,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. In addition, the year ended December 31, 2015 includes \$13,884,000 of realized gains from the sale of certain fund investments and \$18,401,000 of unrealized gains from the appreciation in value of certain fund investments. The following table sets forth the details of income from real estate fund investments.

(Amounts in thousands)	The Company	
	For the Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Net investment income	\$12,274	\$ 2,769
Net realized gains	13,884	50
Previously recorded unrealized gains on exited investments	(6,584)	-
Net unrealized gains (losses)	18,401	(1,407)
Income from real estate fund investments ⁽¹⁾	37,975	1,412
Less: interest expense	-	(325)
Less: noncontrolling interests in consolidated real estate funds ⁽²⁾	(24,896)	(485)
Income from real estate fund investments attributable to Paramount Group, Inc.	\$13,079	\$ 602

⁽¹⁾Represents income from our real estate funds that were consolidated during 2015, including Fund II, Fund III, Fund VII, Fund VII-H, Fund VIII, PGRESS and PGRESS-H

⁽²⁾Includes \$5,481 and \$521 of asset management fee income that was reflected as a reduction of the amounts attributable to noncontrolling interests for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, respectively.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$6,850,000 for the year ended December 31, 2015, compared to \$938,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$5,912,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of income from unconsolidated joint ventures.

(Amounts in thousands)	Paramount Ownership at December 31, 2015	The Company For the Period from Year Ended November 24, 2014 December 31, 2015 to December 31, 2014	
Our share of Net Income:			
712 Fifth Avenue	50.0	% \$6,734	\$ 938
Oder-Center, Germany ⁽¹⁾	9.5	% 116	-
Total income from unconsolidated joint ventures		\$6,850	\$ 938

⁽¹⁾We account for our interest in Oder-Center, Germany on a one-quarter lag basis.

Interest and Other Income (Loss), net

Interest and other income (loss), net was income of \$871,000 for the year ended December 31, 2015, compared to a loss of \$179,000 for the period from November 24, 2014 to December 31, 2014, an increase in income of \$1,050,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of interest and other income.

The Company
For Period
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(Amounts in thousands)	Year Ended December 31, 2015	November 24, 2014 December 31, 2014
Mark-to-market of investments in		
our deferred compensation plan ⁽¹⁾	\$ 197	\$ (321)
Interest and other income	674	142
Total interest and other income (loss)	\$ 871	\$ (179)

⁽¹⁾Represents the mark-to-market of investments in our deferred compensation plan, which is entirely offset by the mark-to-market of deferred compensation plan liabilities, which is included in “general and administrative” expenses.

Interest and Debt Expense

Interest and debt expense for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, represents interest cost on the properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Interest and debt expense was \$168,366,000 for the year ended December 31, 2015, compared to \$43,743,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$124,623,000. This increase was primarily due to a full year’s results of operations in 2015, compared to a partial year in 2014. Interest and debt expense also includes \$2,565,000 and \$240,000 of amortization of deferred financing costs for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, respectively. In addition, the period from November 24, 2014 to December 31, 2014 includes \$25,717,000 of defeasance and debt breakage costs related to the Formation Transactions.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$75,760,000 for the year ended December 31, 2015, compared to \$15,084,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$60,676,000, and represents the change in fair value of the interest rate swap derivative instruments.

Formation Related Costs

Formation related costs were \$143,437,000 for the period from November 24, 2014 to December 31, 2014 and includes (i) \$71,000,000 of stock-based compensation expense in connection with the one-time founders' grants to executive officers and certain other employees, (ii) \$51,306,000 of transfer taxes and (iii) \$21,131,000 of accounting, legal and other professional fees incurred in connection with the Formation Transactions.

Gain on Consolidation of an Unconsolidated Joint Venture

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a 50.0% interest in a joint venture that owned 1325 Avenue of the Americas, which was accounted for under the equity method. The remaining 50.0% interest was held by a third-party joint venture partner. As part of the Formation Transactions, we acquired the 50.0% interest held by our joint venture partner for \$130,381,000 payable in shares of our common stock. The purchase price took into account certain tax benefits to our joint venture partner. The transaction was accounted for as a step acquisition in which we were required to re-measure our existing 50.0% ownership interest at fair value. As a result of the acquisition, we own 100.0% of the property and began consolidating the accounts of the property into our consolidated financial statements from the date of acquisition. In connection therewith, we recognized a \$239,716,000 gain in the period from November 24, 2014 to December 31, 2014, comprised of (i) \$175,917,000 representing the excess of the fair value of the property over the carrying amount of our investment in the property and (ii) \$63,799,000 representing a purchase gain.

Income Tax Expense

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Income tax expense was \$2,566,000 for the year ended December 31, 2015, compared to \$505,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$2,061,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Net Income Attributable to Noncontrolling Interests in Consolidated Real Estate Funds

Net income attributable to noncontrolling interest in consolidated real estate funds was \$21,173,000 for the year ended December 31, 2015 compared to \$135,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$21,038,000. This increase is primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$5,459,000 for the year ended December 31, 2015 compared to \$1,353,000 for the period from November 24, 2014 to December 31, 2014, an increase of \$4,106,000. This increase is primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Net (Income) Loss Attributable to Noncontrolling Interests in Operating Partnership

Net (income) loss attributable to noncontrolling interest in Operating Partnership represents net (income) or loss attributable to the unitholders of the Operating Partnership. For the year ended December 31, 2015, we allocated a loss of \$1,070,000 and for the period from November 24, 2014 to December 31, 2014, we allocated income of \$13,926,000 to the unitholders of the Operating Partnership.

Results of Operations – The Predecessor - Period from January 1, 2014 to November 23, 2014

The following table summarizes the combined consolidated results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014.

(Amounts in thousands)	The Predecessor Period from January 1, 2014 to November 23, 2014
REVENUES:	
Rental income	\$ 30,208
Tenant reimbursement income	1,646
Distributions from real estate fund investments	17,083
Realized and unrealized gains, net	129,354
Fee and other income	49,098
Total revenues	227,389
EXPENSES:	
Operating	15,862
Depreciation and amortization	10,203
General and administrative	30,912
Profit sharing compensation	12,041
Other	7,974
Total expenses	76,992
Operating income	150,397
Income from unconsolidated joint ventures	4,241
Unrealized loss on interest rate swaps	(673)
Interest and other income, net	2,479
Interest and debt expense	(28,585)
Net income before income taxes	127,859
Income tax expense	(18,461)
Net income	109,398
Net income attributable to noncontrolling interests	(87,888)
Net income attributable to the Predecessor	\$ 21,510

Rental Income

Rental income was \$30,208,000 for the period from January 1, 2014 to November 23, 2014 and represented rental income from Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor.

Tenant Reimbursement Income

Tenant reimbursement income was \$1,646,000 for the period from January 1, 2014 to November 23, 2014 and represented reimbursement income from tenants at Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor.

Distributions from Real Estate Fund Investments

Distributions from real estate fund investments were \$17,083,000 for the period from January 1, 2014 to November 23, 2014 and represented distributions received by our private equity real estate funds from its underlying investments.

Realized and Unrealized Gains, Net

Realized and unrealized gains, net were \$129,354,000 for the period from January 1, 2014 to November 23, 2014 and were comprised of \$92,468,000 of unrealized gains, primarily due to an increase in the value of our real estate fund investments, and \$36,886,000 of realized gains from the sale of fund investments.

Fee and Other Income

Fee and other income was \$49,098,000 for the period from January 1, 2014 to November 23, 2014. The following table sets forth the details of fee and other income.

	The Predecessor Period from
	January 1, 2014 to November 23, 2014
(Amounts in thousands)	
Fee and other income	
Property management	\$ 15,599
Acquisition, leasing and disposition	27,038
Other	6,461
Total fee and other income	\$ 49,098

Operating Expenses

Operating expenses were \$15,862,000 for the period from January 1, 2014 to November 23, 2014 and represented the operating expenses of Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor, and the cost of operating and managing the portfolio of properties owned by our Predecessor as well as the private real estate funds that it controlled.

Depreciation and Amortization

Depreciation and amortization was \$10,203,000 for the period from January 1, 2014 to November 23, 2014 and represented depreciation and amortization on Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor.

General and Administrative

General and administrative expenses were \$30,912,000 for the period from January 1, 2014 to November 23, 2014. The following table sets forth the details of general and administrative expenses.

(Amounts in thousands)	The Predecessor Period from January 1, 2014 to November 23, 2014
General and administrative expenses	\$ 29,206
Mark-to-market of investments in our deferred compensation plans ⁽¹⁾	 1,706
Total general and administrative expenses	\$ 30,912

⁽¹⁾Represented the mark-to-market of investments in our deferred compensation plan liabilities, which was entirely offset by the mark-to-market of deferred compensation plan assets, which was included in “interest and other income, net”.

Profit Sharing Compensation

Profit sharing compensation was \$12,041,000 for the period from January 1, 2014 to November 23, 2014 and represented a portion of fee income and real estate appreciation attributable to our Predecessor's private equity real estate fund business, which was payable to certain management employees through profit sharing arrangements. These arrangements ceased upon completion of the Offering and the Formation Transactions.

Other Expenses

Other expenses were \$7,974,000 for the period from January 1, 2014 to November 23, 2014 and represented capital raising and formation costs for our Predecessor's private equity real estate fund business.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$4,241,000 for the period from January 1, 2014 to November 23, 2014. The following table sets forth the details of income from unconsolidated joint ventures.

(Amounts in thousands)	Paramount Ownership at November 23, 2014	The Predecessor Period from January 1, 2014 to November 23, 2014
Our share of Net Income:		
712 Fifth Avenue	50.0 %	\$ 4,141
1325 Avenue of the Americas ⁽¹⁾	50.0 %	100
900 Third Avenue ⁽¹⁾	11.8 %	-
Total income from unconsolidated joint ventures		\$ 4,241

⁽¹⁾As part of the Formation Transactions we acquired 100% ownership of these properties.

Unrealized Loss on Interest Rate Swaps

Unrealized loss on interest rate swaps was \$673,000 for the period from January 1, 2014 to November 23, 2014. These interest rate swaps related to the debt of certain private equity real estate funds that were controlled by our Predecessor.

Interest and Other Income, net

Interest and other income, net was \$2,479,000 for the period from January 1, 2014 to November 23, 2014. The following table sets forth the details of interest and other income, net.

(Amounts in thousands)	The Predecessor Period from January 1, 2014 to November 23, 2014
Mark-to-market of investments in our deferred compensation plans ⁽¹⁾	\$ 1,706
Interest and other income	773
Total interest and other income	\$ 2,479

⁽¹⁾Represented the mark-to-market of investments in our deferred compensation plan, which was entirely offset by the mark-to-market of deferred compensation plan liabilities, which was included in “general and administrative” expenses.

Interest and Debt Expense

Interest expense was \$28,585,000 for the period from January 1, 2014 to November 23, 2014 and related to interest incurred on the Waterview mortgage loan, the fund-level debt of the private equity real estate funds and preferred equity in the joint venture holding 1633 Broadway.

Income Tax Expense

Income tax expense was \$18,461,000 for the period from January 1, 2014 to November 23, 2014 and represented federal, state and local corporate income tax of our Predecessor for their share of income from the funds' underlying investments.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was \$87,888,000 for the period from January 1, 2014 to November 23, 2014 and represented net income attributable to the noncontrolling interest of the private equity real estate funds.

Liquidity and Capital Resources

Our primary sources of liquidity include existing cash balances, cash flow from operations and borrowings available under our revolving credit facility. We expect that these sources will provide adequate liquidity over the next 12 months for all anticipated needs, including scheduled principal and interest payments on our outstanding indebtedness, existing and anticipated capital improvements, the cost of securing new and renewal leases, dividends to stockholders and distributions to unitholders, and all other capital needs related to the operations of our business. We anticipate that our long-term needs including debt maturities and the acquisition of additional properties will be funded by operating cash flow, mortgage financings and/or re-financings, and the issuance of long-term debt or equity.

Although we may be able to anticipate and plan for certain of our liquidity needs, unexpected increases in uses of cash that are beyond our control and which affect our financial condition and results of operations may arise, or our sources of liquidity may be fewer than, and the funds available from such sources may be less than, anticipated or required.

Liquidity

As of December 31, 2016, we had \$162,965,000 of cash and cash equivalents, \$29,374,000 of restricted cash and \$570,000,000 of borrowing capacity under our revolving credit facility. As of December 31, 2016, our outstanding consolidated debt (including amounts outstanding under our revolving credit facility) aggregated \$3.638 billion. None of our debt matures in 2017 and \$314,000,000 of our debt matures in 2018.

On January 19, 2017, we completed a \$975,000,000 refinancing of One Market Plaza, a 1.6 million square foot Class A office and retail property in San Francisco, California. The new seven-year interest-only loan matures in January 2024 and has a fixed rate of 4.03%. The proceeds from the refinancing were used to repay the existing \$872,960,000 loan that had an interest rate of 6.12% and was scheduled to mature in December 2019. We retained \$23,470,000 for our 49.0% share of net proceeds, after the repayment of the existing loan, closing costs and required reserves.

On January 12, 2017, we entered into an agreement to sell Waterview, a 636,768 square foot Class A office building, in Rosslyn, Virginia for \$460,000,000. The sale, which is subject to customary closing conditions, is expected to close in the second quarter of 2017. We expect to retain net proceeds of approximately \$457,000,000 from the sale, which is expected to be used to repay the amounts outstanding under our revolving credit facility and the indebtedness on 1899 Pennsylvania Avenue and Liberty Place.

We may refinance the remainder of our maturing debt when it comes due or refinance or repay it early depending on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

Dividend Policy

On December 15, 2016, we declared a regular quarterly cash dividend of \$0.095 per share of common stock for the fourth quarter ending December 31, 2016, which was paid on January 13, 2017 to stockholders of record as of the close of business on December 30, 2016. During 2016, we paid an aggregate of \$100,517,000 in dividends and distributions to our common stockholders and common unitholders. These dividends were paid utilizing the cash flow from operations. If we were to continue our current dividend policy for all of 2017, we would have to pay out approximately \$101,000,000 to common stockholders and unitholders during 2017.

Contractual Obligations

Below is a summary of our contractual obligations and commitments as of December 31, 2016.

(Amounts in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Notes and mortgages payable:					
Interest expense ⁽¹⁾	\$607,976	\$125,379	\$207,166	\$158,697	\$116,734
Principal repayment	3,408,179	1,513	960,216	⁽²⁾ 932,906	1,513,544
Revolving credit facility (including interest expense) ⁽¹⁾	238,216	4,327	233,889	-	-
Due to affiliates (including interest expense) ⁽¹⁾	27,404	27,404	-	-	-
Tenant obligations	76,628	75,596	-	787	245
Leasing commissions	6,626	5,361	1,265	-	-
Our share of debt relating to unconsolidated joint ventures (including interest expense)	130,029	5,423	124,606	-	-
Total ⁽³⁾	\$4,495,058	\$245,003	\$1,527,142	\$1,092,390	\$1,630,523

(1) Interest expense is calculated using contractual rates for fixed rate debt and the rates in effect as of December 31, 2016 for variable rate debt.

(2) Includes the \$872,960 mortgage loan on One Market Plaza, which was refinanced in January 2017 with a new \$975,000 mortgage loan that matures in January 2024.

(3) The total above does not include various standing or renewal service contracts with vendors in connection with the operations of our property.

Off Balance Sheet Arrangements

As of December 31, 2016, our unconsolidated joint ventures had \$269,573,000 of outstanding indebtedness, of which our share was \$125,442,000. We do not guarantee the indebtedness of unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carve outs relating to specified covenants and representations; however, we may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans in order to enable the joint venture to repay this indebtedness upon maturity.

Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

Other Commitments and Contingencies

We are a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others, to which we may be subject from time to time, including claims arising specifically from the Formation Transactions in connection with our initial public offering, may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. Should any litigation arise in connection with the Formation Transactions, we would contest it vigorously. In addition, 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 flow, expose us to increased risks that would be uninsured and/or adversely impact our ability to attract officers and directors.

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and requires compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2016, we believe we are in compliance with all of our covenants.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe inflationary increases in expenses may be at least partially offset by the contractual rent increases and expense escalations described above. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Cash Flows

The Company

Cash and cash equivalents were \$162,965,000, \$143,884,000, and \$438,599,000, as of December 31, 2016, 2015 and 2014, respectively. Our December 31, 2015 cash and cash equivalents included \$7,987,000 relating to our real estate funds, which were deconsolidated as of January 1, 2016. Excluding the impact of deconsolidation of these real estate funds, cash and cash equivalents increased by \$27,068,000 for the year ended December 31, 2016. Cash and cash equivalents decreased by \$294,715,000 for the year ended December 31, 2015 and increased by \$386,513,000 for the period from November 24, 2014 to December 31, 2014. The following table sets forth the changes in cash flow.

(Amount in thousands)	For the Year Ended December 31,		Period from November 24, 2014 to December 31, 2014
	2016	2015	
Net cash provided by (used in):			
Operating activities	\$ 145,040	\$(16,969)	\$(80,572)
Investing activities	(636,966)	(95,416)	204,913
Financing activities	518,994	(182,330)	262,172

Operating Activities

Year Ended December 31, 2016 – We generated \$145,040,000 of cash from operating activities for the year ended December 31, 2016, primarily from (i) \$157,510,000 of net income (after \$155,441,000 of noncash adjustments) and (ii) \$8,270,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$20,740,000 of net changes in operating assets and liabilities. Noncash adjustments of \$155,441,000 were primarily comprised of depreciation and amortization, straight-lining of rental income and unrealized gain on interest rate swaps. The changes in operating assets and liabilities were primarily due to additions to deferred charges of \$15,701,000.

Year Ended December 31, 2015 – We used \$16,969,000 of cash for operating activities for the year ended December 31, 2015, primarily due to (i) \$170,269,000 of net changes in operating assets and liabilities, partially offset by (ii) \$148,334,000 of net income (after \$127,191,000 of noncash adjustments) and (iii) \$4,966,000 of distributions from unconsolidated joint ventures. Noncash adjustments of \$127,191,000 were primarily comprised of depreciation and amortization, unrealized gain on interest rate swaps, straight-lining of rental income and realized and net unrealized gains on real estate fund investments. The changes in operating assets and liabilities were primarily due to net acquisition of real estate fund investments of \$127,743,000 and additions to deferred charges of \$40,510,000.

Period from November 24, 2014 to December 31, 2014 – We used \$80,572,000 of cash for operating activities for the period from November 24, 2014 to December 31, 2014, primarily due to (i) \$51,362,000 of net acquisitions of real estate fund investments and (ii) \$13,181,000 of deferred leasing costs.

Investing Activities

Year Ended December 31, 2016 – We used \$636,966,000 of cash for investing activities for the year ended December 31, 2016, primarily due to (i) \$517,823,000 for the acquisition of One Front Street, (ii) \$132,686,000 of additions to rental properties, which was comprised of spending for tenant improvements and other building improvements, partially offset by (iii) \$15,080,000 decrease in restricted cash.

Year Ended December 31, 2015 – We used \$95,416,000 of cash for investing activities for the year ended December 31, 2015, primarily due to (i) \$107,859,000 of additions to rental properties, which was comprised of spending for tenant improvements and other building improvements, partially offset by (ii) \$12,424,000 decrease in restricted cash.

Period from November 24, 2014 to December 31, 2014 – We generated \$204,913,000 of cash from investing activities for the period from November 24, 2014 to December 31, 2014, primarily from cash received from properties in connection with the Formation Transactions.

Financing Activities

Year Ended December 31, 2016 – We generated \$518,994,000 of cash from financing activities for the year ended December 31, 2016, primarily from (i) \$1,362,414,000 of proceeds from notes and mortgages payable, primarily from the refinancings of 1301 Avenue of the Americas and 31 West 52nd Street, (ii) \$340,000,000 of borrowings under the revolving credit facility and (iii) \$7,651,000 of contributions from noncontrolling interests, partially offset by (iv) \$689,269,000 of repayments of notes and mortgages payable, primarily for the repayments of the 31 West 52nd Street and 900 Third Avenue, (v) \$214,608,000 for the purchase of marketable securities in connections with the defeasance of Waterview's mortgage loan, (vi) \$130,000,000 of repayments of the amounts borrowed under the revolving credit facility, (vii) \$100,517,000 of dividends and distributions paid to common stockholders and unitholders, (viii) \$29,387,000 for the payment of debt issuance costs, (ix) \$23,654,000 for the settlement of swap liabilities and (x) \$3,636,000 for distributions to noncontrolling interests.

Year Ended December 31, 2015 – We used \$182,330,000 of cash for financing activities for the year ended December 31, 2015, primarily due to (i) \$927,633,000 of repayments of notes and mortgages payable, primarily for the repayment of 1633 Broadway loan, (ii) \$261,464,000 for the acquisition of noncontrolling interest in consolidated joint ventures, (iii) \$85,458,000 of dividends and distributions paid to common stockholders and unitholders, (iv) \$56,636,000 for distributions to noncontrolling interests, (v) \$33,741,000 for the settlement of interest rate swap liabilities and (vi) \$18,871,000 for the payment of debt issuance costs, partially offset by (vii) \$1,013,544,000 of proceeds from notes and mortgages payable, primarily from the refinancing of 1633 Broadway, (viii) \$167,929,000 of contributions from noncontrolling interests and (ix) \$20,000,000 of borrowing under the revolving credit facility.

Period from November 24, 2014 to December 31, 2014 – We generated \$262,172,000 of cash from financing activities for the period from November 24, 2014 to December 31, 2014. Cash generated from financing activities during the period was primarily due to the issuance and sale of common stock in connection with the Offering, substantially all of the proceeds of which were used toward the repayment of debt assumed in the Formation Transactions and the defeasance of notes and mortgages payable.

The Predecessor

Cash and cash equivalents were \$52,086,000 and \$307,161,000 at November 23, 2014 and December 31, 2013, respectively, a decrease of \$255,075,000. The following table sets forth the changes in cash flow.

	Period from January 1, 2014 to November 23, 2014
(Amount in thousands)	
Net cash used in:	
Operating activities	\$(84,495)
Investing activities	(64,330)
Financing activities	(106,250)

Operating Activities

Period from January 1, 2014 to November 23, 2014 – Our Predecessor used \$84,495,000 of cash for operating activities for the period January 1, 2014 to November 23, 2014, due to \$80,195,000 of net changes in operating assets and liabilities, which included \$31,061,000 of net real estate fund investments from the purchase of a new asset and additional investments in existing assets.

Investing Activities

Period from January 1, 2014 to November 23, 2014 – Our Predecessor used \$64,330,000 of cash for investing activities for the period January 1, 2014 to November 23, 2014, primarily due to \$64,650,000 for the acquisition by the Residential Fund, which utilizes historical cost accounting rather than investment company accounting.

Financing Activities

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Period from January 1, 2014 to November 23, 2014 – Our Predecessor used \$106,250,000 of cash for financing activities for the period January 1, 2014 to November 23, 2014, primarily due to (i) \$266,028,000 of distributions to noncontrolling interests, (ii) \$149,135,000 of distributions to Predecessor shareholders and (iii) \$23,744,000 of offering costs, partially offset by (iv) \$272,721,000 of contributions from noncontrolling interests, (v) \$39,075,000 of proceeds from loans payable to noncontrolling interests and (vi) \$23,688,000 of contributions from Predecessor shareholders.

Non-GAAP Financial Measures

We use and present NOI, Cash NOI, FFO and Core FFO, as supplemental measures of our performance. The summary below describes our use of these measures, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income or loss, the most directly comparable GAAP measure.

Net Operating Income (“NOI”)

We use NOI to measure the operating performance of our properties. NOI consists of property-related revenue (which includes rental income, tenant reimbursement income and certain other income) less operating expenses (which includes building expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We also present Cash NOI, which deducts from NOI, straight-line rent adjustments and the amortization of above and below-market leases, including our share of such adjustments of unconsolidated joint ventures. In addition, we present our share of NOI and Cash NOI, which represents our share of NOI and Cash NOI of consolidated and unconsolidated joint ventures, based on our percentage ownership in the underlying assets. We use these metrics internally as performance measures and believe they provide useful information to investors regarding our financial condition and results of operations because they reflect only those income and expense items that are incurred at the property level. Other real estate companies may use different methodologies for calculating NOI and Cash NOI, and accordingly, our presentation of NOI and Cash NOI may not be comparable to other real estate companies.

The following tables present reconciliations of our net income to NOI and Cash NOI for the years ended December 31, 2016 and 2015 and for the period from November 24, 2014 to December 31, 2014.

(Amounts in thousands)	The Company For the Year Ended December 31, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$2,069	\$29,478	\$ 247	\$ 22,167	\$(49,823)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	269,450	183,316	31,068	53,109	1,957
General and administrative	53,510	-	-	-	53,510
Interest and debt expense	157,746	73,729	22,406	55,817	5,794
Transaction related costs	2,404	-	-	-	2,404
Income tax expense	1,785	-	-	37	1,748

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NOI from unconsolidated joint ventures	17,195	16,874	-	-	321
Loss from unconsolidated real estate funds	498	-	-	-	498
Income from unconsolidated joint ventures	(7,413)	(7,335)	-	-	(78)
Fee income	(16,931)	-	-	-	(16,931)
Interest and other income, net	(6,934)	(203)	(53)	(28)	(6,650)
Unrealized gain on interest rate swaps	(39,814)	(5,636)	-	(34,178)	-
NOI	433,565	290,223	53,668	96,924	(7,250)
Less NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	414	-	-	-	414
Consolidated joint ventures	(47,561)	-	-	(47,561)	-
Paramount's share of NOI	\$386,418	\$290,223	\$ 53,668	\$ 49,363	\$(6,836)
NOI	\$433,565	\$290,223	\$ 53,668	\$ 96,924	\$(7,250)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(82,724)	(64,056)	(4,772)	(13,872)	(24)
Amortization of above and below-market leases, net	(9,536)	8,921	(2,204)	(16,253)	-
Cash NOI	341,305	235,088	46,692	66,799	(7,274)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	414	-	-	-	414
Consolidated joint ventures	(32,571)	-	-	(32,571)	-
Paramount's share of Cash NOI	\$309,148	\$235,088	\$ 46,692	\$ 34,228	\$(6,860)

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The Company
For the Year Ended December 31, 2015

(Amounts in thousands)

	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$21,143	\$35,932	\$ (462)	\$ 7,858	\$(22,185)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	294,624	210,597	30,088	52,748	1,191
General and administrative	42,056	-	-	-	42,056
Interest and debt expense	168,366	84,164	20,609	55,285	8,308
Transaction related costs	4,483	-	-	-	4,483
Transfer taxes due in connection with sale of shares					
by a former joint venture partner	5,872	-	-	-	5,872
Income tax expense (benefit)	2,566	-	(321)	11	2,876
NOI from unconsolidated joint ventures	16,580	16,210	-	-	370
Income from real estate fund investments	(37,975)	-	-	-	(37,975)
Income from unconsolidated joint ventures	(6,850)	(6,734)	-	-	(116)
Fee income	(10,248)	-	-	-	(10,248)
Interest and other income, net	(871)	(324)	(30)	(13)	(504)
Unrealized gain on interest rate swaps	(75,760)	(45,066)	-	(30,694)	-
NOI	423,986	294,779	49,884	85,195	(5,872)
Less NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	(668)	-	-	-	(668)
Consolidated joint ventures	(54,657)	(11,576)	-	(43,081)	-
Paramount's share of NOI	\$368,661	\$283,203	\$ 49,884	\$ 42,114	\$(6,540)
NOI	\$423,986	\$294,779	\$ 49,884	\$ 85,195	\$(5,872)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)					
	(69,112)	(45,847)	(6,029)	(17,205)	(31)
Amortization of above and below-market leases, net	(9,917)	8,052	(2,237)	(15,732)	-
Cash NOI	344,957	256,984	41,618	52,258	(5,903)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	(668)	-	-	-	(668)
Consolidated joint ventures	(35,948)	(9,665)	-	(26,283)	-
Paramount's share of Cash NOI	\$308,341	\$247,319	\$ 41,618	\$ 25,975	\$(6,571)

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(Amounts in thousands)	The Company Period from November 24, 2014 to December 31, 2014				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$72,722	\$(20,962)	\$(1,908)	\$1,753	\$93,839
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	34,481	25,789	3,104	5,485	103
General and administrative	2,207	61	27	3	2,116
Interest and debt expense	43,743	33,869	2,223	5,541	2,110
Formation related costs	143,437	-	-	-	143,437
Income tax expense	505	-	475	-	30
NOI from unconsolidated joint ventures	1,680	1,680	-	-	-
Income from unconsolidated joint ventures	(938)	(938)	-	-	-
Fee income	(1,176)	-	-	-	(1,176)
Interest and other loss (income), net	179	(26)	(3)	(1)	209
Unrealized gain on interest rate swaps	(15,084)	(9,012)	-	(6,072)	-
Gain on consolidation of a partially owned entity	(239,716)	-	-	-	(239,716)
NOI	42,040	30,461	3,918	6,709	952
Less NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	(789)	-	-	-	(789)
Consolidated joint ventures	(4,921)	(1,531)	-	(3,390)	-
Paramount's share of NOI	\$36,330	\$28,930	\$3,918	\$3,319	\$163
NOI	\$42,040	\$30,461	\$3,918	\$6,709	\$952
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)					
	(5,660)	(4,293)	(186)	(1,181)	-
Amortization of above and below-market leases, net	(467)	1,222	(233)	(1,456)	-
Cash NOI	35,913	27,390	3,499	4,072	952
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated real estate funds	(788)	-	-	-	(788)
Consolidated joint ventures	(3,304)	(1,259)	-	(2,045)	-
Paramount's share of Cash NOI	\$31,821	\$26,131	\$3,499	\$2,027	\$164

Same Store NOI

The tables below set forth the reconciliations of our share of NOI to our share of Same Store NOI and Same Store Cash NOI for the years ended December 31, 2016 and 2015. These metrics are used to measure the operating performance of our properties that were owned by us in a similar manner during both the current and prior reporting periods, and represents our share of Same Store NOI and Same Store Cash NOI from consolidated and unconsolidated joint ventures based on our percentage ownership in the underlying assets. Same Store Cash NOI excludes the effect of non-cash items such as the straight-lining of rental revenue and the amortization of above and below-market leases.

(Amounts in thousands)	The Company For the Year Ended December 31, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the year ended December 31, 2016	\$386,418	\$290,223	\$ 53,668	\$ 49,363	\$(6,836)
Acquisitions ⁽¹⁾	(13,754)	(11,136)	-	(2,618)	-
Lease termination income (including our share of unconsolidated joint ventures)	(17,040)	(16,859) ⁽²⁾	-	(181)	-
Other, net	4,182	4,373 ⁽³⁾	26	(217)	-
Paramount's share of Same Store NOI for the year ended December 31, 2016	\$359,806	\$266,601	\$ 53,694	\$ 46,347	\$(6,836)
(Amounts in thousands)	For the Year Ended December 31, 2015				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the year ended December 31, 2015	\$368,661	\$283,203	\$ 49,884	\$ 42,114	\$(6,540)
Acquisitions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(870)	(569)	-	(301)	-
Other, net	(3,975)	(3,775) ⁽⁴⁾	-	(200)	-
Paramount's share of Same Store NOI for the year ended December 31, 2015	\$363,816	\$278,859	\$ 49,884	\$ 41,613	\$(6,540)
(Decrease) increase in Same Store NOI	\$(4,010)	\$(12,258)	\$ 3,810	\$ 4,734	\$(296)
% (Decrease) increase	(1.1%)	(4.4%)	7.6	% 11.4	%

⁽¹⁾Represents NOI from the acquisitions of the remaining 35.8% equity interest that we did not previously own in 31 West 52nd Street, which was acquired in October 2015 and One Front Street, which was acquired in December

2016.

- (2) Includes \$10,861 from the termination of a tenant's lease at 1633 Broadway.
- (3) Includes an aggregate of \$12,406 of non-cash write-offs primarily related to an above-market lease asset from the termination of a tenant's lease at 1633 Broadway, partially offset by \$10,315 of income from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.
- (4) Includes \$3,915 of income from the accelerated amortization of the aforementioned below-market lease liability in connection with a tenant's lease modification.

adjusted to exclude net gains from sales of depreciated real estate assets, impairment losses on depreciable real estate and depreciation and amortization expense from real estate assets, including the pro rata share of such adjustments of unconsolidated joint ventures. FFO is commonly used in the real estate industry to assist investors and analysts in comparing results of real estate companies because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. In addition, we present Core FFO as an alternative measure of our operating performance, which adjusts FFO for certain other items that we believe enhance the comparability of our FFO across periods. Core FFO, when applicable, excludes the impact of transaction related costs, unrealized gains or losses on interest rate swaps, severance costs and defeasance and debt breakage costs, in order to reflect the Core FFO of our real estate portfolio and operations. In future periods, we may also exclude other items from Core FFO that we believe may help investors compare our results.

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FFO and Core FFO are presented as supplemental financial measures and do not fully represent our operating performance. Other REITs may use different methodologies for calculating FFO and Core FFO or use other definitions of FFO and Core FFO and, accordingly, our presentation of these measures may not be comparable to other real estate companies. Neither FFO nor Core FFO is intended to be a measure of cash flow or liquidity. Please refer to our consolidated financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table presents a reconciliation of net income to FFO and Core FFO.

	The Company		Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31, 2016	2015	
(Amounts in thousands, except shares and per share amounts)			
Reconciliation of net income to FFO and Core FFO:			
Net income	\$2,069	\$21,143	\$72,722
Real estate depreciation and amortization (including			
our share of unconsolidated joint ventures)	275,653	300,645	35,086
FFO	277,722	321,788	107,808
Less FFO attributable to noncontrolling interests in:			
Consolidated real estate funds	419	(22,096)	(223)
Consolidated joint ventures	(41,320)	(39,383)	(5,130)
Operating Partnership	(41,681)	(50,960)	(20,030)
FFO attributable to common stockholders	\$195,140	\$209,349	\$82,425
Per diluted share	\$0.89	\$0.99	\$0.39
FFO	\$277,722	\$321,788	\$107,808
Non-core (income) expense:			
Unrealized gain on interest rate swaps (including			
our share of unconsolidated joint ventures)	(41,869)	(77,872)	(15,727)
Defeasance and debt breakage costs	4,608	-	25,717
Transaction related costs	2,404	4,483	143,437
Severance costs	2,874	3,315	-
Transfer taxes due in connection with the sale of shares			
by a former joint venture partner	-	5,872	-
Predecessor income tax true-up	-	721	-
Gain on consolidation of an unconsolidated joint venture	-	-	(239,716)
Core FFO	245,739	258,307	21,519
Less Core FFO attributable to noncontrolling interests in:			
Consolidated real estate funds	419	(22,096)	(153)
Consolidated joint ventures	(23,890)	(21,355)	(1,353)

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Operating Partnership	(39,152)	(42,060)	(3,913)
Core FFO attributable to common stockholders	\$183,116	\$172,796	\$16,100
Per diluted share	\$0.84	\$0.81	\$0.08

Reconciliation of weighted average shares outstanding:

Weighted average shares outstanding	218,053,062	212,106,718	212,106,718
Effect of dilutive securities	15,869	4,572	1,190
Denominator for FFO per diluted share	218,068,931	212,111,290	212,107,908

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Our primary market risk results from our indebtedness, which bears interest at both fixed and variable rates. We manage our market risk on variable rate debt by entering into swap agreements to fix the rate on all or a portion of the debt for varying periods through maturity. This in turn, reduces the risks of variability of cash flows created by variable rate debt and mitigates the risk of increases in interest rates. Our objective when undertaking such arrangements is to reduce our floating rate exposure and we do not enter into hedging arrangements for speculative purposes. Subject to maintaining our status as a REIT for Federal income tax purposes, we may utilize swap arrangements in the future.

The following table summarizes our consolidated debt, the weighted average interest rates and the fair value as of December 31, 2016.

Property (Amounts in thousands)	Rate	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed Rate Debt:									
1633 Broadway ⁽¹⁾	3.54%	\$-	\$-	\$-	\$-	\$-	\$1,000,000	\$1,000,000	\$1,001,862
1301 Avenue of the Americas	3.05%	-	-	-	-	500,000	-	500,000	486,937
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	482,832
1899 Pennsylvania Avenue	4.88%	-	-	-	87,675	-	-	87,675	90,269
Liberty Place	4.50%	-	84,000	-	-	-	-	84,000	85,079
One Market Plaza ⁽¹⁾⁽²⁾	6.13%	-	-	860,546	-	-	-	860,546	845,768
Total Fixed Rate Debt	4.30%	\$-	\$84,000	\$860,546	\$87,675	\$500,000	\$1,500,000	\$3,032,221	\$2,992,747
Variable Rate Debt:									
1633 Broadway	2.37%	\$-	\$-	\$-	\$-	\$-	\$13,544	\$13,544	\$13,569
1301 Avenue of the Americas	2.43%	-	-	-	-	350,000	-	350,000	351,648
	4.94%	-	-	12,414	-	-	-	12,414	13,298

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One Market Plaza ⁽²⁾									
Revolving Credit Facility	2.02%	-	230,000	-	-	-	-	230,000	230,018
Total Variable Rate Debt	2.32%	\$-	\$230,000	\$12,414	\$-	\$350,000	\$13,544	\$605,958	\$608,533
Total Consolidated Debt	3.97%	\$-	\$314,000	\$872,960	\$87,675	\$850,000	\$1,513,544	\$3,638,179	\$3,601,280

⁽¹⁾All or a portion of this debt has been swapped from floating rate debt to fixed rate debt. See table below.

⁽²⁾We refinanced this loan on January 19, 2017.

In addition to the above, our unconsolidated joint ventures had \$269,573,000 of outstanding indebtedness as of December 31, 2016, of which our share was \$125,442,000.

The following table summarizes our fixed rate debt that has been swapped from floating rate to fixed as of December 31, 2016.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of December 31, 2016
(Amounts in thousands)					
1633 Broadway ⁽¹⁾	\$400,000	Dec-2020	Dec-2021	2.35 %	\$ 139
Total interest rate swap assets					\$ 139
One Market Plaza ⁽²⁾	\$840,000	Aug-2007 - Aug-2012	Aug-2017	5.02 %	\$ 21,227
1633 Broadway ⁽¹⁾	1,000,000	Dec-2015	Dec-2020 - Dec-2022	1.79 %	1,219
Total interest rate swap liabilities					\$ 22,446

⁽¹⁾Represents interest rate swaps designated as cash flow hedges. Changes in the fair value of these hedges are recognized in "other comprehensive income (loss)" (outside of earnings).

⁽²⁾Represents interest rate swaps not designated as hedges. We refinanced this loan on January 19, 2017.

The following table summarizes our share of total indebtedness and the effect to interest expense of a 100 basis point increase in LIBOR.

(Amounts in thousands, except per share amount)	December 31, 2016			Effect of 1% Increase in Base Rates	December 31, 2015		
	Balance	Weighted Average Interest Rate			Balance	Weighted Average Interest Rate	
Paramount's share of consolidated debt:							
Variable rate	\$599,627	2.29	%	\$ 5,996	\$321,771	1.75	%
Fixed rate ⁽¹⁾	2,593,343	3.99	%	-	2,202,664	4.79	%
	\$3,192,970	3.67	%	\$ 5,996	\$2,524,435	4.40	%

Paramount's share of debt of non-consolidated entities

(non-recourse):

Variable rate	\$55,750	2.72	%	\$ 558	\$55,750	2.34	%
Fixed rate ⁽¹⁾	69,692	5.74	%	-	69,794	5.74	%
	\$125,442	4.40	%	\$ 558	\$125,544	4.23	%

Noncontrolling interests' share of above				\$ (1,146)			
Total change in annual net income				\$ 5,408			
Per diluted share				\$ 0.02			

⁽¹⁾Our fixed rate debt includes floating rate debt that has been swapped to fixed. See table on page 81.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Paramount Group, Inc.

New York, NY

We have audited the accompanying consolidated balance sheets of Paramount Group, Inc. and subsidiaries (the Company or Successor) as of December 31, 2016 and 2015, the related consolidated statements of income and comprehensive income for the years ended December 31, 2016 (Successor) and 2015 (Successor) and for the period from November 24, 2014 to December 31, 2014 (Successor), the related combined consolidated statements of changes in equity and cash flows for the years ended December 31, 2016 (Successor) and 2015 (Successor) and for the period from November 24, 2014 to December 31, 2014 (Successor), and the related combined consolidated statements of income, changes in equity and cash flows for the period from January 1, 2014 through November 23, 2014 (Paramount Predecessor). Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Paramount Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the two years ended December 31, 2016 (Successor) and 2015 (Successor), for the period from November 24, 2014 through December 31, 2014 (Successor) and for the period from January 1, 2014 through November 23, 2014 (Paramount Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, NY

February 22, 2017

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share, unit and per share amounts)

ASSETS	The Company	
	December 31, 2016	December 31, 2015
Rental property, at cost		
Land	\$2,091,535	\$2,042,071
Buildings and improvements	5,757,558	5,610,046
	7,849,093	7,652,117
Accumulated depreciation and amortization	(318,161)	(243,089)
Rental property, net	7,530,932	7,409,028
Cash and cash equivalents	162,965	143,884
Restricted cash	29,374	41,823
Real estate fund investments	-	416,438
Investments in unconsolidated real estate funds	28,173	-
Investments in unconsolidated joint ventures	6,411	7,102
Preferred equity investments	55,051	53,941
Marketable securities	22,393	21,521
Deferred rent receivable	163,695	77,792
Accounts and other receivables, net of allowance of \$202 and \$365	15,251	10,844
Deferred charges, net of accumulated amortization of \$9,832 and \$14,204	71,184	74,991
Intangible assets, net of accumulated amortization of \$166,841 and \$143,987	412,225	511,207
Assets held for sale	346,685	-
Other assets	22,829	6,658
Total assets ⁽¹⁾	\$8,867,168	\$8,775,229

LIABILITIES AND EQUITY

Notes and mortgages payable, net of deferred financing costs of \$43,281 and \$18,914	\$3,364,898	\$2,922,610
Revolving credit facility	230,000	20,000
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	-	45,662
Accounts payable and accrued expenses	103,896	102,730
Dividends and distributions payable	25,151	25,067
Deferred income taxes	1,467	2,533
Interest rate swap liabilities	22,446	93,936
Intangible liabilities, net of accumulated amortization of \$55,349 and \$41,931	153,018	179,741
Other liabilities	53,046	45,101
Total liabilities ⁽¹⁾	3,981,221	3,464,679

Commitments and contingencies

Paramount Group, Inc. equity:

Common stock \$0.01 par value per share; authorized 900,000,000 shares;

issued and outstanding 230,015,356 and 212,112,137 shares

in 2016 and 2015, respectively

2,300

2,122

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Additional paid-in-capital	4,116,987	3,802,858
Earnings less than distributions	(129,654)	(36,120)
Accumulated other comprehensive income (loss)	372	(7,843)
Paramount Group, Inc. equity	3,990,005	3,761,017
Noncontrolling interests in:		
Consolidated real estate funds	64,793	414,637
Consolidated joint ventures	253,788	236,849
Operating Partnership (34,511,214 and 51,660,088 units outstanding)	577,361	898,047
Total equity	4,885,947	5,310,550
Total liabilities and equity	\$8,867,168	\$8,775,229

⁽¹⁾Represents the consolidated assets and liabilities of Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). The Operating Partnership is a consolidated variable interest entity (“VIE”), of which we are the sole general partner and own approximately 87.0%. As of December 31, 2016, the assets and liabilities of the Operating Partnership include \$1,514,292 and \$970,473, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 13, Variable Interest Entities.

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except share and per share amounts)	The Company		Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31, 2016	2015	
REVENUES:			
Rental income	\$590,161	\$586,530	\$ 57,465
Tenant reimbursement income	44,943	50,885	5,865
Fee and other income	48,237	24,993	2,805
Total revenues	683,341	662,408	66,135
EXPENSES:			
Operating	250,040	244,754	26,011
Depreciation and amortization	269,450	294,624	34,481
General and administrative	53,510	42,056	2,207
Transaction related costs	2,404	10,355	-
Total expenses	575,404	591,789	62,699
Operating income	107,937	70,619	3,436
Income from real estate fund investments	-	37,975	1,412
Loss from unconsolidated real estate funds	(498)	-	-
Income from unconsolidated joint ventures	7,413	6,850	938
Interest and other income (loss), net	6,934	871	(179)
Interest and debt expense	(157,746)	(168,366)	(43,743)
Unrealized gain on interest rate swaps	39,814	75,760	15,084
Formation related costs	-	-	(143,437)
Gain on consolidation of an unconsolidated joint venture	-	-	239,716
Net income before income taxes	3,854	23,709	73,227
Income tax expense	(1,785)	(2,566)	(505)
Net income	2,069	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:			
Consolidated real estate funds	1,316	(21,173)	(135)
Consolidated joint ventures	(15,423)	(5,459)	(1,353)
Operating Partnership	2,104	1,070	(13,926)
Net (loss) income attributable to common stockholders	\$(9,934)	\$(4,419)	\$ 57,308
(LOSS) INCOME PER COMMON SHARE - BASIC:			
(Loss) income per common share	\$(0.05)	\$(0.02)	\$ 0.27
Weighted average shares outstanding	218,053,062	212,106,718	212,106,718

(LOSS) INCOME PER COMMON SHARE - DILUTED:

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(Loss) income per common share	\$ (0.05) \$ (0.02) \$ 0.27
Weighted average shares outstanding	218,053,062	212,106,718	212,107,908
DIVIDENDS PER COMMON SHARE	\$0.380	\$0.419	⁽¹⁾ \$ -

⁽¹⁾Includes the \$0.039 cash dividend for the 38 day period following the completion of our initial public offering and related Formation Transactions and ending on December 31, 2014.

See notes to combined consolidated financial statements.

PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENT OF INCOME

(Amounts in thousands)	The Predecessor Period from January 1, 2014 to November 23, 2014
REVENUES:	
Rental income	\$ 30,208
Tenant reimbursement income	1,646
Distributions from real estate fund investments	17,083
Realized and unrealized gains, net	129,354
Fee and other income	49,098
Total revenues	227,389
EXPENSES:	
Operating	15,862
Depreciation and amortization	10,203
General and administrative	30,912
Profit sharing compensation	12,041
Other	7,974
Total expenses	76,992
Operating income	150,397
Income from unconsolidated joint ventures	4,241
Unrealized loss on interest rate swaps	(673)
Interest and other income, net	2,479
Interest and debt expense	(28,585)
Net income before income taxes	127,859
Income tax expense	(18,461)
Net income	109,398
Net income attributable to noncontrolling interests	(87,888)
Net income attributable to the Predecessor	\$ 21,510

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	The Company		Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31,		
	2016	2015	
Net income	\$2,069	\$21,143	\$ 72,722
Other comprehensive income (loss):			
Change in value of interest rate swaps	8,161	(9,241)	-
Pro rata share of other comprehensive income (loss)			
of unconsolidated joint ventures	17	(512)	-
Comprehensive income	10,247	11,390	72,722
Less comprehensive (income) loss attributable to			
noncontrolling interests in:			
Consolidated real estate funds	1,316	(21,173)	(135)
Consolidated joint ventures	(15,423)	(5,459)	(1,353)
Operating Partnership	2,141	2,980	(13,926)
Comprehensive (loss) income attributable to			
common stockholders	\$(1,719)	\$(12,262)	\$ 57,308

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands, except per share amounts)	Common Shares			Earnings (Less than) In Excess of Distribution	Accumulated Other Comprehensive Income (Loss) Shareholders' Equity	Noncontrolling Interests in			Total Equity	
	Shares	Amount	Additional Paid-in-Capital			Consolidated Real Estate Funds	Consolidated Joint Ventures	Operating Partnership		
The Predecessor										
Balance as of December 31, 2013	-	\$-	\$-	\$-	\$-	\$321,769	\$1,703,675	\$-	\$-	\$2,025,444
Net income	-	-	-	-	-	21,510	87,888	-	-	109,398
Contributions	-	-	-	-	-	23,688	272,721	-	-	296,409
Distributions	-	-	-	-	-	(176,434)	(266,028)	-	-	(442,462)
Deemed contributions	-	-	-	-	-	187,389	-	-	-	187,389
Balance as of November 23, 2014	-	-	-	-	-	377,922	1,798,256	-	-	2,176,178
The Company										
Net income	-	-	-	57,308	-	-	135	1,353	13,926	72,722
Common shares issued:										
Initial public offering	150,650	1,507	2,496,693	-	-	-	-	-	-	2,498,200
Private placement	3,914	39	68,461	-	-	-	-	-	-	68,500
Acquire property interests	11,279	113	209,203	-	-	-	-	-	-	209,316
Upon redemption of common units	210	2	3,890	-	-	-	-	-	(3,892)	-
Under Omnibus share plan	6	1	-	-	-	-	-	-	-	1
Common units issued:										
Founders Grant	-	-	-	-	-	-	-	-	71,000	71,000

Under Omnibus share plan	-	-	(13,702)	-	-	-	-	-	13,702	-
Allocation of equity resulting from shares and units issued in connection with the Formation Transactions	46,048	460	1,130,868	-	-	(377,922)	(1,509,417)	347,219	819,177	410,385
Contributions from noncontrolling interests	-	-	-	-	-	-	57,843	-	-	57,843
Distributions to noncontrolling interests	-	-	-	-	-	-	(7,683)	(805)	-	(8,488)
Adjustments to noncontrolling interests	-	-	(43,981)	-	-	-	-	-	43,981	-
Other	-	-	-	-	-	-	(1,064)	51	309	(704)
Balance as of December 31, 2014	212,107	\$2,122	\$3,851,432	\$57,308	\$-	\$-	\$338,070	\$347,818	\$958,203	\$5,554,953

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

(Amounts in thousands, except per share amounts)	Common Shares			Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in				Total Equity
	Shares	Amount	Additional Paid-in-Capital			Consolidated Predecessor's Consolidated Operating Partnership	Consolidated Joint Ventures	Consolidated Operating Partnership	Equity	
Balance as of December 31, 2014	212,107	\$2,122	\$3,851,432	\$57,308	\$-	\$-	\$338,070	\$347,818	\$958,203	\$5,554,953
Net income (loss)	-	-	-	(4,419)	-	-	21,173	5,459	(1,070)	21,143
Common shares and units issued under										
Omnibus share plan	5	-	(2,127)	-	-	-	-	-	2,131	4
Dividends and distributions										
(\$0.419 per share and unit)	-	-	-	(88,874)	-	-	-	-	(21,651)	(110,525)
Contributions from noncontrolling interests	-	-	-	-	-	-	165,399	2,530	-	167,929
Distributions to noncontrolling interests	-	-	-	-	-	-	(55,905)	(731)	-	(56,636)
Change in value of interest rate swaps	-	-	-	-	(7,431)	-	-	-	(1,810)	(9,241)
Pro rata share of other comprehensive										
loss of unconsolidated joint ventures	-	-	-	-	(412)	-	-	-	(100)	(512)
Acquisition of noncontrolling interests' in	-	-	(91,417)	-	-	-	(53,772)	(118,227)	-	(263,416)

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consolidated joint ventures and funds											
Adjustments to noncontrolling interests	-	-	43,981	-	-	-	-	-	(43,981)	-	
Amortization of equity awards	-	-	1,459	-	-	-	-	-	6,325	7,784	
Other	-	-	(470)	(135)	-	-	(328)	-	-	(933)	
Balance as of December 31, 2015	212,112	2,122	3,802,858	(36,120)	(7,843)	-	414,637	236,849	898,047	5,310,550	
Deconsolidation of real estate fund											
investments upon adoption of											
ASU 2015-02	-	-	-	-	-	-	(351,035)	-	-	(351,035)	
Balance as of January 1, 2016	212,112	2,122	3,802,858	(36,120)	(7,843)	-	63,602	236,849	898,047	4,959,515	
Net income (loss)	-	-	-	(9,934)	-	-	(1,316)	15,423	(2,104)	2,069	
Common shares issued upon redemption of											
common units	17,808	178	312,079	-	-	-	-	-	(312,257)	-	
Common shares and units issued under											
Omnibus share plan	95	-	-	-	-	-	-	-	-	-	
Dividends and distributions (\$0.380 per share and unit)	-	-	-	(83,805)	-	-	-	-	(16,796)	(100,601)	
Contributions from noncontrolling interests	-	-	-	-	-	-	2,500	5,151	-	7,651	
Distributions to noncontrolling	-	-	-	-	-	-	-	(3,636)	-	(3,636)	

interests										
Change in value of interest rate swaps	-	-	-	-	8,203	-	-	-	(42)	8,161
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	12	-	-	-	5	17
Amortization of equity awards	-	-	2,034	-	-	-	-	-	10,494	12,528
Other	-	-	16	205	-	-	7	1	14	243
Balance as of December 31, 2016	230,015	\$2,300	\$4,116,987	\$(129,654)	\$372	\$-	\$64,793	\$253,788	\$577,361	\$4,885,947

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	The Company		Period from November 24, 2014 to December 31, 2014	The Predecessor Period from January 1, 2014 to November 23, 2014
	For the Year Ended December 31, 2016	2015		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$2,069	\$21,143	\$ 72,722	\$ 109,398
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	269,450	294,624	34,481	10,203
Unrealized (gain) loss on interest rate swaps	(39,814)	(75,760)	(15,084)	673
Straight-lining of rental income	(82,568)	(69,522)	(5,653)	161
Realized and unrealized (gains) losses on real estate fund investments	-	(21,201)	1,357	(129,354)
Loss from unconsolidated real estate funds	498	-	-	-
Distributions of cumulative earnings from unconsolidated real estate funds	189	-	-	-
Amortization of above and below-market leases, net	(9,536)	(9,917)	(467)	-
Amortization of stock-based compensation expense	11,278	7,309	-	-
Income from unconsolidated joint ventures	(7,413)	(6,850)	(938)	(4,241)
Other non-cash adjustments	2,628	5,824	1,368	7,303
Distributions of cumulative earnings from unconsolidated joint ventures	8,081	4,966	532	2,874
Amortization of deferred financing costs	6,804	2,565	240	389
Realized and unrealized (gains) losses on marketable securities	(494)	119	356	(1,706)
Defeasance cost in connection with the repayments of notes and mortgages payable	4,608	-	14,990	-
Gain on consolidation of an unconsolidated	-	-	(239,716)	-

joint venture				
Stock-based compensation expense in connection				
with the Founders Grant	-	-	71,000	-
Changes in operating assets and liabilities:				
Restricted cash	-	-	6,502	(8,271)
Real estate fund investments	-	(127,743)	(51,362)	(31,061)
Accounts and other receivables	(4,521)	(3,152)	(150)	(35,989)
Deferred charges	(15,701)	(40,510)	(13,181)	600
Other assets	(12,037)	6,465	13,722	311
Accounts payable and accrued expenses	11,479	(6,152)	14,162	(4,605)
Profit sharing payables	-	-	-	156
Deferred income taxes	(1,662)	(328)	-	(2,205)
Other liabilities	1,702	1,151	14,547	869
Net cash provided by (used in) operating activities	145,040	(16,969)	(80,572)	(84,495)

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(Amounts in thousands)	The Company		Period from	The Predecessor
	For the Year Ended		November 24, 2014	Period from
	December 31,	2015	to December 31, 2014	January 1, 2014
	2016	2015	to December 31, 2014	to November 23, 2014
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Acquisitions of rental property	\$(517,823)	\$-	\$ -	\$ (64,650)
Additions to rental properties	(132,686)	(107,859)	(6,143)	(1,266)
Changes in restricted cash	15,080	12,424	18,556	584
Contributions to unconsolidated real estate funds	(1,780)	-	-	-
Distributions of capital from unconsolidated real estate funds	203	-	-	-
Distributions of capital from unconsolidated joint ventures	40	19	-	2,079
Cash received from properties in connection with the Formation Transactions	-	-	192,500	-
Proceeds from repayment of loan to management	-	-	-	3,000
Investment in unconsolidated joint ventures	-	-	-	(4,077)
Net cash (used in) provided by investing activities	(636,966)	(95,416)	204,913	(64,330)
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Proceeds from notes and mortgages payable	1,362,414	1,013,544	-	-
Repayments of notes and mortgages payable	(689,269)	(927,633)	(1,704,330)	(2,827)
Proceeds from revolving credit facility	340,000	20,000	-	-
Purchase of marketable securities in connection with the defeasance of notes and mortgages payable	(214,608)	-	(435,774)	-
Repayments of revolving credit facility	(130,000)	-	-	-
Dividends paid to common stockholders	(82,105)	(68,723)	-	-
Debt issuance costs	(29,387)	(18,871)	(8,599)	-
Settlement of interest rate swap liabilities	(23,654)	(33,741)	(14,130)	-
Distributions paid to common unitholders	(18,412)	(16,735)	-	-

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Contributions from noncontrolling interests	7,651	167,929	57,843	272,721
Distributions to noncontrolling interests	(3,636)	(56,636)	(8,488)	(266,028)
Acquisition of noncontrolling interest in				
consolidated joint ventures	-	(261,464)	-	-
Cash paid for equity interests in the				
Formation Transactions	-	-	(214,949)	-
Proceeds from the issuance of common stock	-	-	2,590,599	-
Contribution from Predecessor shareholders	-	-	-	23,688
Distributions to Predecessor shareholders	-	-	-	(149,135)
Proceeds from loans payable to noncontrolling interests	-	-	-	39,075
Offering costs	-	-	-	(23,744)
Net cash provided by (used in) financing activities	518,994	(182,330)	262,172	(106,250)
Net increase (decrease) in cash and cash equivalents	27,068	(294,715)	386,513	(255,075)
Cash and cash equivalents at beginning of period	143,884	438,599	52,086	307,161
Decrease in cash due to deconsolidation				
of real estate fund investments	(7,987)	-	-	-
Cash and cash equivalents at end of period	\$ 162,965	\$ 143,884	\$ 438,599	\$ 52,086

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(Amounts in thousands)	The Company		Period from	The Predecessor
	For the Year Ended		November 24, 2014	Period from
	December 31,	December 31,	to December 31, 2014	January 1, 2014
	2016	2015	to November 23, 2014	to November 23, 2014
SUPPLEMENTAL DISCLOSURE OF				
CASH FLOW INFORMATION:				
Cash payments for interest	\$ 140,111	\$ 159,186	\$ 23,728	\$ 19,829
Cash payments for income taxes, net of refunds	2,095	2,798	-	18,998
NON-CASH TRANSACTIONS:				
(Decrease) increase due to deconsolidation of				
real estate fund investments				
Real estate fund investments	\$(416,438)	\$-	\$ -	\$ -
Loans payable to noncontrolling interests	(45,662)	-	-	-
Investments in unconsolidated real estate funds	27,292	-	-	-
Noncontrolling interests in consolidated				
real estate funds				
	(351,035)	-	-	-
Dividends and distributions declared but not yet paid	25,151	25,067	-	-
Common shares issued upon redemption				
of commons units				
	312,257	-	-	-
Transfer of rental property to assets held for sale	(346,685)	-	-	-
Marketable securities transferred in connection with				
the defeasance of notes and mortgages payable				
	214,608	-	435,774	-
Defeasance of notes and mortgages payable	(210,000)	-	(420,784)
Additions to real estate included in accounts payable				
and accrued expenses				
	12,104	32,009	16,598	-
Change in value of interest rate swaps	(8,161)	9,241	-	-
(Purchases) sale of marketable securities				
using restricted cash				
	(369)	(1,481)	146	7,110
Write-off of fully amortized and/or depreciated assets	11,431	1,399	-	2,735
Increase (decrease) in assets, liabilities				

and noncontrolling interests from				
the Formation Transactions:				
Rental property, net	-	-	7,043,651	-
Real estate funds	-	-	(2,045,922) -
Investment in unconsolidated joint ventures	-	-	(18,264) -
Working capital, net of cash	-	-	26,784	-
Intangible assets	-	-	689,894	-
Notes and mortgages payable	-	-	4,261,903	-
Intangible liabilities	-	-	222,985	-
Preferred equity obligation	-	-	114,147	-
Profit sharing compensation payable	-	-	(57,296) -
Interest rate swap liabilities	-	-	223,411	-
Reduction of equity for deferred offering costs	-	-	31,284	-
Debt assumed from affiliate	-	-	-	27,299

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

As used in these combined consolidated financial statements, unless otherwise indicated, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership. We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of December 31, 2016, our portfolio consisted of 13 Class A office properties aggregating approximately 10.8 million square feet.

We were incorporated in Maryland as a corporation on April 14, 2014 to continue the business of our Predecessor, as defined, and did not have any meaningful operations until the acquisition of substantially all of the assets of our Predecessor and the assets of the funds that it controlled, as well as the interests of unaffiliated third parties in certain properties. Our properties were acquired through a series of Formation Transactions (the “Formation Transactions”) concurrently with our initial public offering of 150,650,000 common shares at a public offering price of \$17.50 per share on November 24, 2014 (the “Offering”).

We conduct our business through, and substantially all of our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 87.0% of, the Operating Partnership as of December 31, 2016.

Our Predecessor

Our Predecessor was not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto Family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia and (iii) three partially owned properties in New York (See Note 7, Investments in Unconsolidated Joint Ventures).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying combined consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. These combined consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. All significant inter-company amounts have been eliminated.

Our Predecessor’s combined consolidated financial statements included all the accounts of our Predecessor, including its interests in (i) the 15 private equity real estate funds, (ii) Waterview and (iii) the three partially-owned properties. Our Predecessor evaluated each of the real estate funds pursuant to the control model of Accounting Standards Codification (“ASC”) 810-20, Consolidation—Control of Partnerships and Similar Entities and concluded that based on its rights and responsibilities as the sole managing member of the general partner it should consolidate each of the real estate funds. With the exception of the Residential Development Fund (“Residential Fund”), which was carried at historical cost, each of the real estate funds qualified as investment companies pursuant to Financial Services—Investment Companies (“ASC 946”); accordingly, the underlying real estate investments were carried at fair value, which was retained in consolidation by our Predecessor.

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and the assets of the real estate funds that it controlled, other than their interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control. However, as a result of our acquisition of these assets from the real estate funds in the Formation Transactions, we account for these assets following the Formation Transactions using historical cost accounting whereas, prior to the Formation Transactions, the Predecessor had accounted for these assets using the specialized accounting applicable to investment companies because, prior to the Formation Transactions, they had been held by the real estate funds, which qualified for investment company accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor.

Significant Accounting Policies

Rental Property

Rental property is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. We amortize acquired above-market and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of “depreciation and amortization”.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Rental property and related intangibles are classified as held for sale when all the necessary criteria are met. The criteria include (i) management, having the authority to approve action, commits to a plan to sell the property in its present condition, (ii) the sale of the property is at a price reasonable in relation to its current fair value and (iii) the sale is probable and expected to be completed within one year. Rental property and the related intangibles held for sale are carried at the lower of carrying amounts or estimated fair value less disposal costs. Depreciation and amortization is not recognized on rental property and related intangibles classified as assets held for sale.

Variable Interest Entities and Investments in Unconsolidated Joint Ventures and Funds

We consolidate variable interest entities ("VIEs") in which we are considered to be the primary beneficiary. The primary beneficiary is defined by the entity having both of the following characteristics: (i) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and (ii) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. For joint ventures that are not VIEs, we consolidate entities for which we have significant decision making control over the joint ventures' operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment, estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the joint venture, if applicable.

We account for investments under the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. Investments accounted for under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is

measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

Investments that do not qualify for consolidation or equity method accounting are accounted for under the cost method.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions, and short-term highly liquid investments with original maturities of three months or less. The majority of our cash and cash equivalents are held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

Restricted Cash

Restricted cash consists primarily of security deposits held on behalf of our tenants, cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements and cash restricted in connection with our deferred compensation plan.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for deferred rent receivable. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

Deferred Charges

Deferred charges include deferred lease costs and deferred financing costs related to our revolving credit facility. Deferred lease costs consist of fees and direct costs related to successful leasing activities. Such costs are amortized on a straight-line basis over the lives of the related leases and recognized in our consolidated statements of income as a component of “depreciation and amortization”. Deferred financing costs consist of fees and direct costs incurred in obtaining our revolving credit facility. Such costs are amortized over the terms of the revolving credit facility and recognized in our consolidated statements of income as a component of “interest and debt expense”.

Deferred Financing Costs Related to Notes and Mortgages Payable

Deferred financing costs related to notes and mortgages payable consists of fees and direct costs incurred in obtaining such financings. These costs are presented as a reduction of our notes and mortgages payable liability and are amortized over the terms of the related agreements and recognized in our consolidated statements of income as a component of “interest and debt expense”.

Income Taxes

We operate and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our

stockholders and meet certain other requirements. If, with respect to any taxable year, we fail to maintain our qualification as a REIT, and we are not entitled to relief under the relevant statutory provisions, we would be subject to income tax at regular tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income tax may be due on our undistributed taxable income.

Derivative Instruments and Hedging Activities

We manage our market risk on variable rate debt by entering into interest rate swaps to fix the rate on all or a portion of the debt for varying periods through maturity. These interest rate swaps are accounted for as derivative instruments and, pursuant to ASC Topic 815, are recorded on our consolidated balance sheets at fair value. Changes in the fair value of interest rate swaps are accounted for based on the hedging relationship and their designation and qualification. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in “other comprehensive income (loss)” (outside of earnings).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

Rental Income

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to “deferred rent receivable” on our consolidated balance sheets. Rental income also includes the amortization of acquired above-and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the property. This revenue is earned in the same period as the expenses are incurred.

Fee and Other Income

Fee and other income includes management fees earned pursuant to contractual agreements. This revenue is recognized as the related services are performed. Fee and other income also includes lease termination and income from tenant requested services, including overtime heating and cooling.

Segment Reporting

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to be aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker,

makes key operating decisions, evaluates financial results and manages our business. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment. See Note 26, Segments Disclosure.

Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standard's Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, an update to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, Leases. ASU 2016-02 amends the existing guidance for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either financing or operating and recording a right-of-use asset and a lease liability for all leases with a term greater than 12 months. ASU 2016-02 requires lessors to account for leases using an approach that is substantially similar to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted.

While we believe that the key changes in ASU 2014-09 and ASU 2016-02 relate to the separation and allocation of consideration to, lease component (rental income) and non-lease components (revenue related to various services we provide), we continue to evaluate the other potential implications that these updates will have on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share-based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2014-12 on January 1, 2016, using the prospective method. This adoption did not have an impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, an update to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-02 on January 1, 2016, using the modified retrospective method. The adoption of ASU 2015-02 resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for Residential Fund, which is accounted for at historical cost and will continue to be consolidated into our consolidated financial statements. See Note 5, Real Estate Fund Investments.

In April 2015 and August 2015, the FASB issued ASU 2015-03 and ASU 2015-15, updates to ASC Topic 835, Interest – Imputation of Interest. These updates require an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability, rather than as an asset but provides for an exclusion for line-of-credit arrangements to be continued to be reported as an asset, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. Amortization of debt issuance costs will continue to be reported as interest expense. We adopted the provisions of these updates on January 1, 2016, and have retrospectively reclassified \$18,914,000 of deferred financing costs that were included in “deferred charges, net” as of December 31, 2015, to “notes

and mortgages payable, net". The deferred financing costs related to our revolving credit facility continue to be reported as an asset on our consolidated balance sheets.

In September 2015, the FASB issued ASU 2015-16, an update to ASC Topic 805, Business Combinations. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-16 on January 1, 2016, using the prospective method. This adoption did not have an impact on our consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

In March 2016, the FASB issued ASU 2016-09, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2016-09 improves the accounting for share-based payments including income tax consequences and the classification of awards as either equity awards or liability awards. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016, with early adoption permitted. We are evaluating the impact of ASU 2016-09 but do not believe the adoption will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, an update to ASC Topic 326, Financial Instruments – Credit Losses. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are evaluating the impact of ASU 2016-13 but do not believe the adoption will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, an update to ASC Topic 230, Statement of Cash Flows to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We are evaluating the impact of ASU 2016-15 but do not believe that the adoption will have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, an update to ASC Topic 810, Consolidation. ASU 2016-17 requires a reporting entity to consider only its proportionate indirect interest in the VIE held through a common control party in evaluating whether it is the primary beneficiary of a VIE. Currently, ASU 2015-02 requires the reporting entity to treat the common control party's interest in the VIE as if the reporting entity held the interest itself. ASU 2016-17 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We are evaluating the impact of ASU 2016-17 but do not believe that the adoption will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, an update to ASC Topic 230, Statement of Cash Flows to provide guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include restricted cash with cash and cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We are evaluating the impact of ASU 2016-18 but do not believe that the adoption will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, an update to ASC Topic 805, Business Combinations. ASU 2017-01 narrows the definition of a business and provides a framework for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 clarifies that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 also requires that a set cannot be considered a business unless it includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. We early adopted the provisions of ASU 2017-01 as of October 1, 2016 and concluded that the acquisition of our One Front Street property did not meet the definition of a business and was treated as an asset acquisition.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisitions

One Front Street

On December 1, 2016, we completed the acquisition of One Front Street, a 643,745 square foot Class A office building, in San Francisco, California, for \$521,000,000. The following table summarizes the allocation of purchase price between the assets acquired and liabilities assumed on the date of acquisition.

(Amounts in thousands)	The Company
Land	\$ 127,688
Building and improvements	376,702
In-place lease intangible assets	29,092
Above-market lease intangible assets	968
Below-market lease intangible liabilities	(16,921)
Net assets acquired	\$517,529 ⁽¹⁾

⁽¹⁾Represents the purchase price of \$521,000, net of a \$3,471 assumed tenant improvement obligation.

4. Dispositions

In accordance with provisions of ASC 360, Property, Plant and Equipment, we have reclassified the assets of Waterview, which is in our Washington, D.C. segment, to “assets held for sale”. The following table provides the details of the assets classified as held for sale.

The
Company

	As of December
(Amounts in thousands)	31, 2016
Land	\$ 78,300
Building and improvements, net	251,671
Deferred charges	14,512
Deferred rent receivable	2,202
Assets held for sale	\$ 346,685

On January 12, 2017, we entered into an agreement to sell Waterview, a 636,768 square foot Class A office building in Rosslyn, Virginia, for \$460,000,000. The sale, which is subject to customary closing conditions, is expected to close in the second quarter of 2017. See Note 27, Subsequent Events for details.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

5. Real Estate Fund Investments

The Company

On January 1, 2016, we adopted ASU 2015-02 Amendments to the Consolidation Analysis using the modified retrospective method. The adoption of ASU 2015-02 resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for the Residential Fund, which is accounted for at historical cost and will continue to be consolidated into our consolidated financial statements. See Note 2, Basis of Presentation and Significant Accounting Policies – Recently Issued Accounting Literature.

Unconsolidated Real Estate Funds

As of December 31, 2016, our unconsolidated real estate funds comprised of Property Funds and Alternative Investment Funds.

Property Funds

We manage four Property Funds comprised of (i) Paramount Group Real Estate Fund II, L.P. (“Fund II”), (ii) Paramount Group Real Estate Fund III, L.P. (“Fund III”), (iii) Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and (iv) Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”). The following is a summary of the Property Funds, our ownership interests in these funds and the funds’ ownership interest in the underlying properties.

	As of December 31, 2016			
Paramount	60	One	50	0
	Wall	Market	Beale	Bond
	Street			Street
Ownership	(1)	Plaza	Street	(2)

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Fund II	10.0%	46.3%	-	-	-	-
Fund III	3.1%	16.0%	2.0	%	-	-
Fund VII/VII-H	7.2%	-	-	-	42.8 %	100.0 %
Total Property Funds		62.3 %	2.0	%	42.8 %	100.0 %
Other Investors		37.7 %	98.0	% ⁽³⁾	57.2 %	-
Total						