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Paramount Group, Inc.
Form 10-K
February 15, 2018

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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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 31, 2018, there were 240,427,944 shares of the registrant's common stock outstanding.

As of June 30, 2017, the aggregate market value of the 204,426,210 shares of common stock held by non-affiliates of the Registrant was \$3,270,819,000 based on the June 30, 2017 closing share price of our common stock of \$16.00 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 17, 2018) 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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⁽¹⁾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, 2017, 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 real estate investment trust (“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. A reader should review carefully, our consolidated 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 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 90.7% of, the Operating Partnership as of December 31, 2017. As of December 31, 2017, our portfolio consisted of 14 Class A office properties aggregating approximately 12.5 million square feet that was 94.2% leased and 89.9% 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, which 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. We 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 89.9% as of December 31, 2017; 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, Norton Rose Fulbright, 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 27 years, and has worked at our company for an average of over 20 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, 2017, our share of net debt to enterprise value was 40.6% and we had \$219.4 million of cash and cash equivalents and an \$800.0 million revolving credit facility, which was increased to \$1.0 billion in January 2018.

◆ **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, 2017, 2016 and 2015.

Segments

Our reportable segments are separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. Our determination of segments is 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.

Employees

As of December 31, 2017, we had 327 employees, including 94 corporate employees and 233 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 such as 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

PATH Act

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 (“TRSs”). For taxable years beginning after December 31, 2017, the PATH Act reduced this limit to 20%. As of December 31, 2017, the securities we own in our TRSs 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 TRS 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.

Tax Cuts and Jobs Act

The “Tax Cuts and Jobs Act” (the “TCJA”), generally applicable for tax years beginning after December 31, 2017, was signed into law on December 22, 2017 and made significant changes to the Code, including a number of provisions of the Code that affect the taxation of businesses and their owners, including REITs and their stockholders.

Among other changes, the TCJA made the following changes:

• For tax years beginning after December 31, 2017 and before January 1, 2026, (i) the U.S. federal income tax rates on ordinary income of individuals, trusts and estates have been generally reduced and (ii) non-corporate taxpayers are permitted to take a deduction for certain pass-through business income, including dividends received from REITs that are not designated as capital gain dividends or qualified dividend income, subject to certain limitations.

• The maximum U.S. federal income tax rate for corporations has been reduced from 35% to 21%, and corporate alternative minimum tax has been eliminated for corporations, which would generally reduce the amount of U.S. federal income tax payable by our TRSs and by us to the extent we were subject to corporate U.S. federal income tax (for example, if we distributed less than 100% of our taxable income or recognized built-in gains in assets acquired from C corporations). In addition, the maximum withholding rate on distributions by us to non-U.S. stockholders that are treated as attributable to gain from the sale or exchange of a U.S. real property interest is reduced from 35% to 21%.

• Certain new limitations on the deductibility of interest expense now apply, which limitations may affect the deductibility of interest paid or accrued by us or our TRSs.

• Certain new limitations on net operating losses now apply, which limitations may affect net operating losses generated by us or our TRSs.

• A U.S. tax-exempt stockholder that is subject to tax on its unrelated business taxable income (“UBTI”) will be required to separately compute its taxable income and loss for each unrelated trade or business activity for purposes of determining its UBTI.

• Accounting rules generally require us to recognize income items for federal income tax purposes no later than when we take the item into account for financial statement purposes, which may accelerate our recognition of certain income items.

This summary does not purport to be a detailed discussion of the changes to U.S. federal income tax laws as a result of the enactment of the TCJA. Technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We cannot predict the long-term effect of the TCJA or any future law changes on REITs or their stockholders.

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 (“NOI”), our funds from operations (“FFO”) 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, 2017, approximately 58% 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, 2017, the vacancy rate of our portfolio was 5.8%. In addition, 1.5% of the square footage of the properties in our portfolio will expire by the end of 2018. 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 26% 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.

We may be adversely affected by trends in the office real estate industry.

Telecommuting, flexible work schedules, open workplaces and teleconferencing are becoming more common. These practices enable businesses to reduce their space requirements. There is also an increasing trend among some businesses to utilize shared office spaces and co-working spaces. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.

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, under the TCJA, was reduced from 35% to 21%, 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.

Terrorist attacks and/or shooting incidents may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets, including New York City, Washington D.C. and San Francisco, that have been or may be in the future the targets of actual or threatened terrorism attacks and/or shooting incidents. 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, put right 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, One Market Plaza and 50 Beale 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, One Market Plaza and 50 Beale have forced sale rights pursuant to which, after a specified period, each may require us to sell the property to a third party. At any time on or after (i) November 24, 2020, with respect to 712 Fifth Avenue, (ii) March 31, 2021, with respect to One Market Plaza, and (iii) August 12, 2024, with respect to 50 Beale, our joint venture partners 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. In the case of 712 Fifth Avenue and 50 Beale, 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). In the case of One Market Plaza, upon exercise of forced sale 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 to sell these properties to third parties at times or prices that may not be favorable to us, which could adversely impact us.

Contractual commitments with existing private equity real estate funds and our investment club may limit our ability to acquire properties, issue loans or invest in preferred equity directly in the near term.

Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”), our private equity real estate fund focused on acquiring and/or issuing loans to real estate and real estate related companies or investing in their preferred equity, completed its final closing in April 2016, with \$775,200,000 in capital commitments. As of December 31, 2017, Fund VIII has called and substantially invested \$369,950,000 of such capital commitments. We expect that all investments that meet Fund VIII’s primary stated investment objectives will continue to be made through Fund VIII, until the end of its investment period, which will end three years after the final closing (i.e., April 28, 2019), unless we, as the general partner of Fund VIII, choose to extend it an additional year. We have the option (but not the obligation) of participating in each of Fund VIII’s 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 or issue loans, or invest in preferred equity partially through this fund that we otherwise would have acquired solely through our operating partnership, which may prevent our operating partnership from acquiring or issuing loans, or investing in preferred equity 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.

Paramount Gateway Office Club (the “Club”) is our strategic real estate co-investment platform focused on acquiring real estate assets and/or real estate related equity investments. In connection with the creation of the Club, we agreed that the Club would be our exclusive investment vehicle for all investments that fit within the Club’s investment parameters (subject to our ability to co-invest), until the four year anniversary of the final closing of the Club. Because of the exclusivity requirements of the Club, we may be required to acquire properties through this platform 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 up to 51.0% of the equity required for any property alongside the third-party investors in the Club to the extent we determine it is in our best interest. In connection with any property in which we co-invest, we will have the authority, subject to major decision rights in favor of our joint venture partners, to make a majority of the decisions in connection with such property. In July 2017, we completed an initial closing of the Club with \$300,000,000 of third-party equity capital commitments. Concurrently with the closing, the Club made its first investment by acquiring a 49.0% equity interest in 50 Beale Street, a 660,625 square foot Class A office building in San Francisco, CA. The acquisition valued the property at \$517,500,000 and included the assumption of \$228,000,000 of existing debt. In January 2018, we completed a second closing of the Club, bringing aggregate third-party equity capital commitments to \$600,000,000.

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, 2017, including debt of our unconsolidated joint ventures, we had \$4.5 billion of total debt, of which our share is \$3.1 billion, substantially all of which was secured debt, and we have \$800 million of available borrowing capacity under our unsecured revolving credit facility, which was increased to \$1.0 billion in January 2018. 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 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. 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 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, 2017, \$380.1 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 FFO, 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, 2017, 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 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 (which, for corporations, was repealed for tax years beginning after December 31, 2017 under the

TCJA), 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 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 21%, effective January 1, 2018, 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 are taxable as ordinary income when paid to such stockholders. However, the TCJA provides a deduction of up to 20% of a non-corporate taxpayer's ordinary REIT dividends with such deduction scheduled to expire for taxable years beginning after December 31, 2025. 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 effect of limitations on interest and net operating loss deductibility under the TCJA, 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 (often referred to as a “push-out election”), subject to a higher rate of interest than otherwise would apply. Recently released proposed Treasury Regulations provide that when a push-out election causes a partner that is itself a partnership to be assessed with its share of such additional taxes from the adjustment, such partnership may cause such additional taxes to be pushed out to its own partners. In addition, these proposed Treasury Regulations provide that when a push-out election affects a partner that is a REIT, such REIT may be able to use deficiency dividend procedures with respect to adjustments resulting from such election. Many questions remain as to how the new rules will apply, 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).

Tax legislation or regulatory action could adversely affect us or our investors.

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.

On December 22, 2017, President Trump signed into law the TCJA. The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. These changes include permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many of the provisions contained therein. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders.

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, 2017, our portfolio consisted of 14 Class A office properties aggregating approximately 12.5 million square feet that was 94.2% leased and 89.9% occupied. The following table presents an overview of our portfolio as of December 31, 2017.

(Amounts in thousands, except square feet and per square foot amounts)

Property	Submarket	Paramount Ownership	Square Feet	%		Annualized Rent ⁽³⁾			
				Leased ⁽¹⁾	Occupied ⁽²⁾	Amount	Per Square Foot ⁽⁴⁾		
New York:									
1633 Broadway	West Side	100.0	% 2,518,196	95.4	% 86.8	% \$151,729	\$72.61		
1301 Avenue of the Americas	Sixth Avenue/Rock Center	100.0	% 1,781,571	97.9	% 90.5	% 120,990	75.87		
1325 Avenue of the Americas	Sixth Avenue/Rock Center	100.0	% 808,998	80.9	% 77.2	% 41,048	66.34		
31 West 52nd Street	Sixth Avenue/Rock Center	100.0	% 761,790	78.0	% 78.0	% 52,333	85.04		
900 Third Avenue	East Side	100.0	% 598,903	94.7	% 94.7	% 41,206	73.13		
712 Fifth Avenue	Madison/Fifth Avenue	50.0	% 543,386	95.1	% 94.6	% 57,382	112.23		
60 Wall Street ⁽⁵⁾	Downtown	5.0	% 1,625,483	100.0	% 100.0	% 73,600	45.28		
Subtotal / Weighted Average									
New York			8,638,327	93.8	% 89.4	% 538,288	70.58		
Paramount's Ownership Interest			6,822,588	92.4	% 86.8	% 439,684	75.58		
Washington, D.C.:									
425 Eye Street	East End	100.0	% 372,552	98.7	% 98.5	% 16,799	45.91		
2099 Pennsylvania Avenue	CBD	100.0	% 208,905	88.9	% 86.4	% 14,175	78.51		
1899 Pennsylvania Avenue	CBD	100.0	% 190,955	100.0	% 100.0	% 15,638	82.02		
Liberty Place	East End	100.0	% 174,090	94.9	% 92.6	% 13,871	85.49		
Subtotal / Weighted Average			946,502	96.1	% 95.0	% 60,483	67.15		

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Washington, D.C.											
Paramount's											
Ownership Interest					946,502	96.1	%	95.0	%	60,483	67.15
San Francisco:											
One Market Plaza	South Financial District	49.0	%	1,583,136	97.7	%	96.6	%	112,177	72.50	
One Front Street	North Financial District	100.0	%	646,759	99.3	%	85.3	%	34,419	62.14	
50 Beale Street ⁽⁶⁾	South Financial District	31.1	%	660,625	82.6	%	78.2	%	29,399	57.27	
Subtotal / Weighted Average											
San Francisco					2,890,520	94.6	%	89.9	%	175,995	67.32
Paramount's											
Ownership Interest					1,627,950	96.4	%	89.8	%	98,529	66.95
Total Portfolio / Weighted Average											
Paramount's					12,475,349	94.2	%	89.9	%	\$774,766	\$69.54
Ownership Interest					9,397,040	93.5	%	88.1	%	\$598,696	\$73.10

(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) Acquired on January 24, 2017.

(6) Acquired on July 17, 2017.

Tenant Diversification

As of December 31, 2017, 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, 2017.

(Amounts in thousands, except square feet and per square feet amounts)

Tenant	Lease Expiration	Total Square Feet Occupied	Our Share of		Annualized Rent ⁽¹⁾			
			Total Square Feet Occupied	% of Total Square Feet	Per Square Foot	% of Annualized Rent		
Barclays Capital, Inc.	Dec-2020 ⁽²⁾	500,790 ⁽²⁾	500,790 ⁽²⁾	5.3 %	\$32,457	\$64.81	5.4 %	
Allianz Global Investors, LP	Jan-2031	320,911	320,911	3.4 %	28,203	87.88	4.7 %	
Clifford Chance LLP	Jun-2024	328,992	328,992	3.5 %	26,218	79.69	4.4 %	
Norton Rose Fulbright	Sep-2034 ⁽³⁾	320,325 ⁽³⁾	320,325 ⁽³⁾	3.4 %	25,343	79.12	4.2 %	
Credit Agricole Corporate & Investment Bank								
Investment Bank	Feb-2023	312,679	312,679	3.3 %	24,913	79.68	4.2 %	
Morgan Stanley & Company	Mar-2032	260,829	260,829	2.8 %	19,124	73.32	3.2 %	
WMG Acquisition Corporation								
(Warner Music Group)	Jul-2029	293,487	293,487	3.1 %	16,947	57.74	2.8 %	
Showtime Networks, Inc.	Jan-2026	238,880	238,880	2.5 %	14,416	60.35	2.4 %	
Kasowitz Benson Torres & Friedman, LLP								
Friedman, LLP	Mar-2037	203,394	203,394	2.2 %	14,354	70.57	2.4 %	
U.S. General Services Administration								
Administration	Jun-2021	310,450	310,450	3.3 %	14,332	46.17	2.4 %	

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

⁽²⁾ 3,372 of the square feet leased expires on June 30, 2023.

⁽³⁾ 116,462 of the square feet leased expires on March 31, 2032.

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, 2017.

(Amounts in thousands, except square feet)	Our Share of					
	Square Feet	% of Occupied Square Feet	Annualized Rent ⁽¹⁾	% of Annualized Rent		
Industry	Occupied					
Legal Services	1,797,586	21.9 %	\$ 138,432	23.1 %		
Financial Services - Commercial and Investment Banking	1,727,381	21.0 %	123,130	20.6 %		
Technology and Media	1,428,952	17.4 %	94,288	15.7 %		
Financial Services, all others	930,909	11.3 %	79,193	13.2 %		
Insurance	554,680	6.8 %	43,370	7.2 %		
Retail	270,738	3.3 %	22,480	3.8 %		
Government	345,278	4.2 %	16,830	2.8 %		
Real Estate	226,434	2.8 %	15,544	2.6 %		
Consumer Products	192,620	2.3 %	14,804	2.5 %		
Other	733,244	9.0 %	50,625	8.5 %		

⁽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, 2017 for each of the ten calendar years beginning with the year ending December 31, 2018. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

(Amounts in thousands, except square feet)

Year of Lease Expiration ⁽²⁾	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
Month to Month	7,865	5,509	\$ 310	\$ 58.44	0.0%
2018	181,933	140,053	11,585	84.03	1.8%
2019	697,883	580,536	43,727	75.69	6.9%
2020	787,238	514,577	37,247	71.58	5.8%
2021	1,626,605	1,408,925	89,239	64.16	14.0%
2022	2,389,183	569,236	38,664	75.61	6.1%
2023	723,782	661,845	51,016	77.74	8.0%
2024	705,685	671,903	52,318	78.06	8.2%
2025	873,820	599,539	43,551	72.69	6.8%
2026	753,435	666,818	49,240	70.65	7.7%
2027	125,471	117,455	9,530	81.17	1.5%
Thereafter	2,831,701	2,805,952	211,826	75.06	33.2%

⁽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 a new 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, 2017, the vacancy rate of our portfolio was 5.8%. In addition, 189,798 square feet (including month-to-month tenants), or 1.5% of the square footage of our portfolio is scheduled to expire during the year ending December 31, 2018, which represents approximately 1.8% 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 Alternative Investment Fund and the Property Funds. The following is a summary of our ownership in these funds and the funds' ownership in the underlying investments.

Alternative Investment Fund

We are the general partner and investment manager of Paramount Group Real Estate Fund VIII L.P. ("Fund VIII"), an Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments. Fund VIII completed its final closing in April 2016 with \$775,200,000 in capital commitments, of which \$369,950,000 has been called and substantially invested as of December 31, 2017. These investments have various stated interest rates ranging from 5.50% to 9.61% and maturities ranging from October 2018 to December 2027. Fund VIII's investment period is scheduled to end in April 2019, unless extended by us until April 2020. As of December 31, 2017, our ownership interest in Fund VIII was approximately 1.3%.

Property Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VII, L.P. ("Fund VII") and its parallel fund, Paramount Group Real Estate Fund VII-H, L.P. ("Fund VII-H"). Fund VII and VII-H collectively own 100% of 0 Bond Street, a 64,390 square foot creative office building in the NoHo submarket of Manhattan. As of December 31, 2017, our ownership interest in Fund VII and Fund VII-H was approximately 7.2%.

Residential Development Fund

We also serve as the general partner of the Residential Development Fund ("RDF"). The purpose of RDF is to construct a for sale residential project in San Francisco. We own 7.4% interest in RDF that owns a 20% interest in 75 Howard Street, a fully-entitled residential condominium land parcel ("75 Howard").

Preferred Equity Investments

As of December 31, 2017, 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
Preferred Equity Investment	Ownership	Rate	Initial Maturity	31, 2017
470 Vanderbilt Avenue ⁽¹⁾	24.4%	10.3%	Feb-2019	\$ 35,817
2 Herald Square ⁽²⁾	24.4%	10.3%	Apr-2017	19,588
				55,405
Less: valuation allowance ⁽²⁾				(19,588)
Total preferred equity investments, net				\$ 35,817

⁽¹⁾Represents a \$33,750 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 650,000 square foot office building 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 had a dividend rate of 10.3%, of which 7.0% was paid in cash and the remainder accreted to the balance of the investment. The preferred equity investment had two one-year extension options. On April 11, 2017, the partnership that owns 2 Herald Square defaulted on the obligation to extend the maturity date or redeem the preferred equity investment, together with accrued and unpaid dividends. We believe, based on current facts and circumstances, that the redemption of our preferred equity investment is not probable. Accordingly, we have recorded a \$19,588 valuation allowance which represents the carrying value of the preferred equity investment.

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.

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 joint venture partner in 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 then 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 held by our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue based on the current ownership interests.

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, 2017 and 2016:

Quarter Ended	2017			2016		
	High	Low	Dividends	High	Low	Dividends
March 31	\$17.58	\$15.87	\$ 0.095	\$17.97	\$14.23	\$ 0.095
June 30	17.25	15.32	0.095	17.40	15.26	0.095
September 30	16.79	15.14	0.095	18.28	15.36	0.095
December 31	16.61	15.49	0.095	16.74	14.58	0.095

As of December 31, 2017, there were approximately 302 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

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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, 2017, we declared a regular quarterly cash dividend of \$0.095 per share of common stock for the fourth quarter ended December 31, 2017, which was paid on January 12, 2018 to stockholders of record as of the close of business on December 29, 2017.

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	2015	2016	2017
Paramount	\$ 100.00	\$ 102.26	\$ 101.95	\$ 92.23	\$ 93.62
S&P 500 Index	100.00	100.72	102.12	114.33	139.29
SNL Office REIT Index	100.00	104.09	105.01	117.18	120.34
All Equity Index	100.00	104.09	107.03	116.26	126.35

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes certain information about our equity compensation plans as of December 31, 2017.

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) ⁽³⁾
Equity compensation plans approved by stockholders	11,696,820	⁽¹⁾ \$ 17.20	⁽²⁾ 10,376,577
Equity compensation plans not approved by stockholders	-	-	-
Total	11,696,820	\$ 17.20	10,376,577

⁽¹⁾ Includes an aggregate of (i) 2,448,743 shares of common stock issuable upon the exercise of outstanding options granted pursuant to our 2014 Equity Incentive Plan (the "Plan"), (ii) 5,383,148 shares of common stock issuable in exchange for common units issued or which may, upon the satisfaction of certain

conditions, be issuable pursuant to LTIP units that were previously granted pursuant to the Plan and (iii) 3,864,929 shares of common stock issuable in exchange for common units issued, pursuant to LTIP units that were previously granted outside of the Plan in connection with our initial public offering. The 5,383,148 LTIP units include 3,253,991 LTIP units that remain subject to the achievement of the requisite performance criteria.

- (2) The outstanding LTIP units and the common units into which they were converted or are convertible into do not have an exercise price. Accordingly, these awards are not included in the weighted-average exercise price calculation.
- (3) Based on awards being granted as "Full Value Awards," as defined in the Plan, including awards such as restricted stock and LTIP units that do not require the payment of an exercise price. If we were to grant awards other than "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 20,753,154.

Recent Purchases of Equity Securities

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. The amount of timing of repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time. We have not repurchased any of our common stock under the stock repurchase program.

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, 2017, 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 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.

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(Amounts in thousands, except per share amounts)	The Company			Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31, 2017	2016	2015	
REVENUES:				
Rental income	\$628,883	\$590,161	\$586,530	\$ 57,465
Tenant reimbursement income	52,418	44,943	50,885	5,865
Fee and other income	37,666	48,237	24,993	2,805
Total revenues	718,967	683,341	662,408	66,135
EXPENSES:				
Operating	266,136	250,040	244,754	26,011
Depreciation and amortization	266,037	269,450	294,624	34,481
General and administrative	61,577	53,510	42,056	2,207
Transaction related costs	2,027	2,404	10,355	-
Total expenses	595,777	575,404	591,789	62,699
Operating income	123,190	107,937	70,619	3,436
Income from unconsolidated joint ventures	20,185	7,413	6,850	938
Loss from unconsolidated real estate funds	(6,143)	(498)	-	-
Income from real estate fund investments	-	-	37,975	1,412
Interest and other (loss) income, net	(9,031)	6,934	871	(179)
Interest and debt expense	(143,762)	(153,138)	(168,366)	(43,743)
Loss on early extinguishment of debt	(7,877)	(4,608)	-	-
Gain on sale of real estate	133,989	-	-	-
Unrealized gain on interest rate swaps	1,802	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	112,353	3,854	23,709	73,227
Income tax expense	(5,177)	(1,785)	(2,566)	(505)
Net income	107,176	2,069	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:				
Consolidated joint ventures	10,365	(15,423)	(5,459)	(1,353)
Consolidated real estate funds	(19,797)	1,316	(21,173)	(135)
Operating Partnership	(11,363)	2,104	1,070	(13,926)
Net income (loss) attributable to common stockholders	\$86,381	\$(9,934)	\$(4,419)	\$ 57,308
Per Share Data:				
Income (loss) per common share - basic	\$0.37	\$(0.05)	\$(0.02)	\$ 0.27
Income (loss) per common share - diluted	\$0.37	\$(0.05)	\$(0.02)	\$ 0.27
Dividends per common share	\$0.380	\$0.380	\$0.419	(1)\$ -
Balance Sheet Data (as of end of period):				
Total assets	\$8,917,661	\$8,867,168	\$8,775,229	\$ 9,021,605
Real estate, at cost	8,329,475	7,849,093	7,652,117	7,530,239
Accumulated depreciation and amortization	(487,945)	(318,161)	(243,089)	(81,050)

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Debt, net	3,541,300	3,594,898	2,942,610	2,843,451
Total equity	5,022,084	4,885,947	5,310,550	5,554,953

Other Data:

Funds from operations attributable to common

stockholders ("FFO") ⁽²⁾	\$ 205,558	\$ 195,140	\$ 209,349	\$ 82,425
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Core funds from operations attributable to common

stockholders ("Core FFO") ⁽²⁾	210,072	183,579	167,091	16,100
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⁽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 74.

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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 year ended December 31, 2013 and as of the end of such year.

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

(Amounts in thousands)	The Predecessor As of December 31, 2013
Balance Sheet Data:	
Total assets	\$ 2,990,814
Real estate, at cost	414,998
Accumulated depreciation and amortization	(57,689)
Debt, net	497,982

Total equity	2,025,444
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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, including the related notes included therein.

Overview

We are a fully-integrated 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 in properties and investments are held by, our Operating Partnership. We are the sole general partner of, and owned approximately 90.7% of the Operating Partnership as of December 31, 2017.

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.

Critical Accounting Policies

Real Estate

Real estate 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.

Real estate 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. Real estate 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 real estate 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. Entities are considered to be the primary beneficiary if they have 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. We consolidate entities that are not VIEs where we have significant decision making control over 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, which consists of investments in unconsolidated joint ventures and funds are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. The agreements that govern our equity method investments may designate different percentage allocations among investors for profits and losses; however, our recognition of income or loss generally follows the investment's distribution priorities, which may change upon the achievement of certain investment return thresholds. We account for cash distributions in excess of our basis in the equity method investments as income when we have neither the requirement, nor the intent to provide

financial support to the joint venture. 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.

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value in accordance with ASC Topic 815, Derivatives and Hedging. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and whether we have designated a derivative as a hedge and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We use derivative financial instruments in the normal course of business to selectively manage or hedge a portion of the risk associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps. Interest rate swaps that are designated as hedges are so designated at the inception of the contract. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there is no significant ineffectiveness from any of our interest rate swaps. The effective portion of changes in the fair value of interest rate swaps that are designated as hedges are recognized in “other comprehensive income (loss)” (outside of earnings) and subsequently reclassified to earnings over the term that the hedged transaction affects 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” 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.

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.

Business Overview

Acquisitions

On January 24, 2017, a joint venture, in which we have a 5.0% ownership interest, acquired 60 Wall Street, a 1.6 million square foot office tower in Manhattan, for \$1.04 billion. In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property.

Prior to July 17, 2017, we owned a 3.1% economic interest in 50 Beale Street, a 660,625 square foot Class A office building in San Francisco, California (“50 Beale”) through two real estate funds that owned 42.8% of the property. The remaining 57.2% was owned by third party investors. On July 17, 2017, we and a new joint venture in which we have a 36.6% interest, completed the acquisition of 62.2% of the property from our two funds and the third party investors. Subsequent to the acquisition, we own a direct 13.2% interest in the property and the new joint venture owns the remaining 49.0% interest. Accordingly, our economic interest in the property is 31.1%. The acquisition valued the property at \$517,500,000 and included the assumption of \$228,000,000 of existing debt that bears interest at a fixed rate of 3.65% and is scheduled to mature in October 2021.

Paramount Gateway Office Club

We formed Paramount Gateway Office Club (the “Club”), a strategic real estate co-investment platform with aggregate third-party equity capital commitments of \$600,000,000. The Club will serve as our investment vehicle for all investments that fit within its investment parameters, subject to our option to co-invest up to 51.0% in each transaction, until the four year anniversary of the final closing of the Club.

Dispositions

On May 3, 2017, we completed the sale of Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia for \$460,000,000 and recognized a net gain of \$110,583,000.

Prior to May 5, 2017, our consolidated Residential Development Fund (“RDF”), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) in San Francisco, California. On May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net gain on sale, of which our share, net of income taxes, was \$1,661,000. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

Financings

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 February 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.

On May 3, 2017, we used the net proceeds from the Waterview sale to repay the \$200,000,000 outstanding under our revolving credit facility, the \$87,179,000 loan on 1899 Pennsylvania Avenue, and the \$84,000,000 loan on Liberty Place.

On June 13, 2017, we completed a \$300,000,000 refinancing of 712 Fifth Avenue, a 543,386 square foot Class A office and retail building located in the Plaza District of New York. The new 10-year interest-only loan matures in July 2027 and has a fixed rate of 3.39%. The net proceeds from the refinancing were used to repay the existing \$246,500,000 loan bearing interest at 4.41% and was scheduled to mature in March 2018. We received \$20,000,000 for our 50.0% share of net proceeds, after the repayment of the existing loan, closing costs and required reserves.

On January 10, 2018, we amended and restated the credit agreement governing our revolving credit facility. The maturity date of the revolving credit facility was extended from November 2018 to January 2022, with two six-month extension options, and the capacity was increased to \$1,000,000,000 from \$800,000,000. The interest rate on the extended facility, at current leverage levels, was lowered by 10 basis points from LIBOR plus 125 basis points to LIBOR plus 115 basis points, and the facility fee was reduced by 5 basis points from 25 basis points to 20 basis points.

Leasing Results – Year Ended December 31, 2017

In the year ended December 31, 2017, we leased 1,281,503 square feet, of which our share was 1,161,176 square feet that was leased at a weighted average initial rent of \$77.42 per square foot. This leasing activity, partially offset by lease expirations during the year, increased our leased occupancy by 80 basis points in the year to 93.5% at December 31, 2017 from 92.7% at December 31, 2016. This increase was primarily attributable to higher leased occupancy in our New York and Washington, D.C. portfolio. Our same store leased occupancy, which excludes the impact of changes in leased occupancy from acquisitions and dispositions during 2017, increased by 130 basis points to 93.6% at December 31, 2017 from 92.3% at December 31, 2016. Of the 1,281,503 square feet leased in the year, 761,860 square feet represented our share of second generation space for which we achieved rental rate increases of 8.7% on a GAAP basis and 13.1% on a cash basis. The weighted average lease term for leases signed during the year was 9.0 years and weighted average tenant improvements and leasing commissions on these leases were \$9.39 per square foot per annum, or 12.1% of initial rent.

New York

In the year ended December 31, 2017, we leased 713,410 square feet in our New York portfolio, of which our share was 684,048 square feet that was leased at a weighted average initial rent of \$78.83 per square foot. This leasing activity, partially offset by lease expirations during the year, increased our leased occupancy by 170 basis points to 92.4% at December 31, 2017 from 90.7% at December 31, 2016. Our same store leased occupancy, which excludes the impact of changes in leased occupancy from the acquisition of 60 Wall Street in January 2017 (a 100% leased asset), increased by 160 basis points to 92.3% at December 31, 2017 from 90.7% at December 31, 2016. Of the 684,048 square feet leased in the year, 322,696 square feet represented our share of second generation space for which rental rates increased by 4.3% on a GAAP basis and decreased by 3.9% on a cash basis. The weighted average lease term for leases signed during the year was 10.3 years and weighted average tenant improvements and leasing commissions on these leases were \$9.93 per square foot per annum, or 12.6% of initial rent.

Washington, D.C.

In the year ended December 31, 2017, we leased 24,425 square feet of previously vacant space in our Washington, D.C. portfolio, at a weighted average initial rent of \$73.03 per square foot. This leasing activity, partially offset by lease expirations during the year and the sale of Waterview (a 98.7% leased asset) in May 2017, increased our leased occupancy by 60 basis points in the year to 96.1% at December 31, 2017 from 95.5% at December 31, 2016. Same

store leased occupancy, which excludes the impact of changes in leased occupancy from the sale of Waterview, increased by 280 basis points to 96.1% at December 31, 2017 from 93.3% at December 31, 2016. The weighted average lease term for leases signed during the year was 8.3 years and weighted average tenant improvements and leasing commissions on these leases were \$7.34 per square foot per annum, or 10.1% of initial rent.

San Francisco

In the year ended December 31, 2017, we leased 543,668 square feet in our San Francisco portfolio, of which our share was 452,703 square feet that was leased at a weighted average initial rent of \$75.52 per square foot. Notwithstanding this leasing activity, our leased occupancy decreased by 260 basis points to 96.4% at December 31, 2017 from 99.0% at December 31, 2016 due to expiration of leases during the year and the acquisition of 50 Beale in July 2017 (a 82.6% leased asset). Same store leased occupancy, which excludes the impact of changes in leased occupancy from the acquisition of 50 Beale, decreased by 60 basis points to 98.4% at December 31, 2017 from 99.0% at December 31, 2016. Of the 543,668 square feet leased during the year, 439,164 square feet represented our share of second generation space for which we achieved rental rate increases of 12.1% on GAAP basis and 30.8% on a cash basis. The weighted average lease term for leases signed during the year was 7.1 years and weighted average tenant improvements and leasing commissions on these leases were \$8.35 per square foot per annum, or 11.1% of initial rent.

The following table presents additional details on the leases signed during the year ended December 31, 2017, and is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Year Ended December 31, 2017	Total	New York	Washington, San	
			D.C.	Francisco
Total square feet leased	1,281,503	713,410	24,425	543,668
Pro rata share of square feet leased:	1,161,176	684,048	24,425	452,703
Initial rent ⁽¹⁾	\$77.42	\$78.83	\$73.03	\$75.52
Weighted average lease term (in years)	9.0	10.3	8.3	7.1
Tenant improvements and leasing commissions:				
Per square foot	\$84.75	\$102.26	\$61.31	\$59.58
Per square foot per annum	\$9.39	\$9.93	\$7.34	\$8.35
Percentage of initial rent	12.1	% 12.6	% 10.1	% 11.1
Rent concessions:				
Average free rent period (in months)	7.6	10.7	8.9	2.9
Average free rent period per annum (in months)	0.8	1.0	1.1	0.4
Second generation space: ⁽²⁾				
Square feet	761,860	322,696	-	439,164
GAAP basis:				
Straight-line rent	\$75.96	\$77.05	\$-	\$75.18
Prior straight-line rent	\$69.90	\$73.88	\$-	\$67.07
Percentage increase	8.7	% 4.3	% -	12.1
Cash basis:				
Initial rent ⁽¹⁾	\$77.96	\$81.23	\$-	\$75.63
Prior escalated rent ⁽³⁾	\$68.92	\$84.49	\$-	\$57.84
Percentage increase (decrease)	13.1	% (3.9	%)	- 30.8

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

Financial Results – Year Ended December 31, 2017 and 2016

Net Income (Loss), FFO and Core FFO

Net income attributable to common stockholders was \$86,381,000, or \$0.37 per diluted share, for the year ended December 31, 2017, compared to a net loss of \$9,934,000, or \$0.05 per diluted share, for the year ended December 31, 2016. Funds from Operations (“FFO”) attributable to common stockholders was \$205,558,000, or \$0.87 per diluted share, for the year ended December 31, 2017, compared to \$195,140,000, or \$0.89 per diluted share, for the year ended December 31, 2016. FFO attributable to common stockholders for the years ended December 31, 2017 and 2016 includes the impact of non-core items, which are listed in the table on page 74. The aggregate of these items, net of amounts attributable to noncontrolling interests decreased FFO attributable to common stockholders by \$4,514,000 or \$0.02 per diluted share for the year ended December 31, 2017 and increased FFO attributable to common stockholders by \$11,561,000, or \$0.05 per diluted share for the year ended December 31, 2016. Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of the non-core items listed on page 74, was \$210,072,000, or \$0.89 per diluted share, for the year ended December 31, 2017, compared to \$183,579,000, or \$0.84 per diluted share, for the year ended December 31, 2016.

See page 74 “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.

Same Store NOI

The table below summarizes the percentage increase (decrease) in our share of Same Store NOI and Same Store Cash NOI, by segment, for year ended December 31, 2017 versus December 31, 2016.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	(0.8 %)	(4.4 %)	20.9 %	1.3 %
Same Store Cash NOI	10.6 %	5.8 %	39.0 %	10.7 %

See page 70 “Non-GAAP Financial Measures – Net Operating Income (“NOI”)” and page 74 “Non-GAAP Financial Measures – Same Store NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

Results of Operations – Year Ended December 31, 2017 Compared to December 31, 2016

The following pages summarize our consolidated results of operations for the years ended December 31, 2017 and 2016.

(Amounts in thousands)	For the Year Ended		Change
	2017	2016	
REVENUES:			
Rental income	\$628,883	\$590,161	\$38,722
Tenant reimbursement income	52,418	44,943	7,475
Fee and other income	37,666	48,237	(10,571)
Total revenues	718,967	683,341	35,626
EXPENSES:			
Operating	266,136	250,040	16,096
Depreciation and amortization	266,037	269,450	(3,413)
General and administrative	61,577	53,510	8,067
Transaction related costs	2,027	2,404	(377)
Total expenses	595,777	575,404	20,373
Operating income	123,190	107,937	15,253
Income from unconsolidated joint ventures	20,185	7,413	12,772
Loss from unconsolidated real estate funds	(6,143)	(498)	(5,645)
Interest and other (loss) income, net	(9,031)	6,934	(15,965)
Interest and debt expense	(143,762)	(153,138)	9,376
Loss on early extinguishment of debt	(7,877)	(4,608)	(3,269)
Gain on sale of real estate	133,989	-	133,989
Unrealized gain on interest rate swaps	1,802	39,814	(38,012)
Net income before income taxes	112,353	3,854	108,499
Income tax expense	(5,177)	(1,785)	(3,392)
Net income	107,176	2,069	105,107
Less net (income) loss attributable to noncontrolling interests:			
Consolidated joint ventures	10,365	(15,423)	25,788
Consolidated real estate funds	(19,797)	1,316	(21,113)
Operating Partnership	(11,363)	2,104	(13,467)
Net income (loss) attributable to common stockholders	\$86,381	\$(9,934)	\$96,315

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$718,967,000 for the year ended December 31, 2017, compared to \$683,341,000 for the year ended December 31, 2016, an increase of \$35,626,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$52,020	\$-	\$-	\$52,020	\$-
Dispositions ⁽²⁾	(22,021)	-	(22,021)	-	-
Other, net	4,607	3,878	22	707	-
Same store operations	4,116	(3,423)	5,107	4,501	(2,069)
Increase (decrease) in rental income	38,722	455	(16,892)	57,228	(2,069)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	5,871	-	-	5,871	-
Dispositions ⁽²⁾	(1,629)	-	(1,629)	-	-
Same store operations	3,233	(620)	3,730	123	-
Increase (decrease) in tenant reimbursement income	7,475	(620)	2,101	5,994	-
Fee and other income					
Property management	388	-	-	-	388
Asset management ⁽⁵⁾	827	-	-	-	827
Acquisition and disposition ⁽⁵⁾	5,744	-	-	-	5,744
Other	322	-	-	-	322
Increase in fee income	7,281	-	-	-	7,281
Acquisitions ⁽¹⁾	704	-	-	704	-
Dispositions ⁽²⁾	(204)	-	(204)	-	-
Lease termination income	(14,821)	(16,013)	-	1,192	-
Other income	(3,531)	(3,068)	749	(1,254)	42
(Decrease) increase in other income	(17,852)	(19,081)	545	642	42
(Decrease) increase in fee and other income	(10,571)	(19,081)	545	642	7,323
Total increase (decrease) in revenues	\$35,626	\$(19,246)	\$(14,246)	\$63,864	\$5,254

(1)

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Represents revenues attributable to acquired properties (One Front Street and 50 Beale in San Francisco) for the months in which they were not owned by us in both reporting periods.

(2) Represents revenues attributable to sold properties (Waterview in Washington, D.C.) for the months in which they were not owned by us in both reporting periods.

(3) Primarily due to a decrease in occupancy at 31 West 52nd Street and 1325 Avenue of the Americas.

(4) Primarily due to an increase in occupancy at 2099 Pennsylvania Avenue and Liberty Place.

(5) Represents fees in connection with managing our real estate fund investments.

(6)

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Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$595,777,000 for the year ended December 31, 2017, compared to \$575,404,000 for the year ended December 31, 2016, an increase of \$20,373,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Operating					