

Paramount Group, Inc.  
Form 10-Q  
August 08, 2018  
f

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the Quarterly Period Ended: June 30, 2018

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)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

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

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 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 Exchange Act). Yes No

As of July 20, 2018, there were 240,529,397 shares of the registrant's common stock outstanding.

---

## Table of Contents

Item	Page Number
Part I. Financial Information	
Item 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) as of June 30, 2018 and December 31, 2017</u>	3
<u>Consolidated Statements of Income (Unaudited) for the three and six months ended     _ June 30, 2018 and 2017</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the three and six months     _ ended June 30, 2018 and 2017</u>	5
<u>Consolidated Statements of Changes in Equity (Unaudited) for the six months     _ ended June 30, 2018 and 2017</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the six months     _ ended June 30, 2018 and 2017</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	61
Item 4. <u>Controls and Procedures</u>	63
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	64
Item 1A. <u>Risk Factors</u>	64
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
Item 3. <u>Defaults Upon Senior Securities</u>	64
Item 4. <u>Mine Safety Disclosures</u>	64
Item 5. <u>Other Information</u>	64

Item 6. <u>Exhibits</u>	64
<u>Signatures</u>	66

## PART I – FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## PARAMOUNT GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands, except share, unit and per share amounts)	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Real estate, at cost		
Land	\$2,186,006	\$2,209,506
Buildings and improvements	6,132,725	6,119,969
	8,318,731	8,329,475
Accumulated depreciation and amortization	(566,164 )	(487,945 )
Real estate, net	7,752,567	7,841,530
Cash and cash equivalents	233,530	219,381
Restricted cash	32,755	31,044
Investments in unconsolidated joint ventures	67,823	44,762
Investments in unconsolidated real estate funds	9,292	7,253
Preferred equity investments, net of allowance of \$0 and \$19,588	35,925	35,817
Marketable securities	25,913	29,039
Accounts and other receivables, net of allowance of \$451 and \$277	15,549	17,082
Deferred rent receivable	252,140	220,826
Deferred charges, net of accumulated amortization of \$25,232 and \$19,412	116,147	98,645
Intangible assets, net of accumulated amortization of \$226,131 and \$200,857	316,451	352,206
Other assets	57,821	20,076
Total assets <sup>(1)</sup>	\$8,915,913	\$8,917,661
<b>LIABILITIES AND EQUITY</b>		
Notes and mortgages payable, net of deferred financing costs of \$37,341 and \$41,800	\$3,562,459	\$3,541,300
Revolving credit facility	-	-
Due to affiliates	27,299	27,299
Accounts payable and accrued expenses	123,720	117,630
Dividends and distributions payable	26,621	25,211
Intangible liabilities, net of accumulated amortization of \$85,673 and \$75,073	115,559	130,028
Other liabilities	54,507	54,109
Total liabilities <sup>(1)</sup>	3,910,165	3,895,577
Commitments and contingencies		
Paramount Group, Inc. equity:		

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 240,529,397 and 240,427,022 shares in 2018 and 2017, respectively	2,403	2,403
Additional paid-in-capital	4,297,823	4,297,948
Earnings less than distributions	(215,353 )	(133,693 )
Accumulated other comprehensive income	28,647	10,083
Paramount Group, Inc. equity	4,113,520	4,176,741
Noncontrolling interests in:		
Consolidated joint ventures	403,686	404,997
Consolidated real estate fund	57,816	14,549
Operating Partnership (25,300,324 and 24,620,279 units outstanding)	430,726	425,797
Total equity	5,005,748	5,022,084
Total liabilities and equity	\$8,915,913	\$8,917,661

- (1) Represents the consolidated assets and liabilities of Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). The Operating Partnership is a consolidated variable interest entity (“VIE”), of which we are the sole general partner and own approximately 90.5% as of June 30, 2018. The assets and liabilities of the Operating Partnership, as of June 30, 2018, include \$2,001,880 and \$1,265,423 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 12, Variable Interest Entities.

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
<b>REVENUES:</b>				
Rental income	\$ 169,529	\$ 158,187	\$ 332,934	\$ 313,577
Tenant reimbursement income	13,164	11,856	27,410	24,708
Fee and other income	8,726	7,661	15,346	20,655
Total revenues	191,419	177,704	375,690	358,940
<b>EXPENSES:</b>				
Operating	67,646	63,461	136,624	129,432
Depreciation and amortization	64,775	68,636	129,931	131,628
General and administrative	17,195	16,573	29,826	30,154
Transaction related costs	293	502	413	777
Real estate impairment loss	46,000	-	46,000	-
Total expenses	195,909	149,172	342,794	291,991
Operating (loss) income	(4,490 )	28,532	32,896	66,949
Income from unconsolidated joint ventures	2,521	16,535	2,459	18,472
Loss from unconsolidated real estate funds	(14 )	(2,411 )	(80 )	(2,123 )
Interest and other income, net	2,094	2,486	4,110	5,686
Interest and debt expense	(36,809 )	(34,817 )	(72,891 )	(71,835 )
Loss on early extinguishment of debt	-	(5,162 )	-	(7,877 )
Gain on sale of real estate	-	133,989	-	133,989
Unrealized gain on interest rate swaps	-	-	-	1,802
Net (loss) income before income taxes	(36,698 )	139,152	(33,506 )	145,063
Income tax benefit (expense)	120	(970 )	(357 )	(5,252 )
Net (loss) income	(36,578 )	138,182	(33,863 )	139,811
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,752 )	(1,897 )	(2,807 )	(3,188 )
Consolidated real estate fund	(152 )	(20,169 )	(582 )	(20,081 )
Operating Partnership	3,666	(13,100 )	3,550	(13,154 )
Net (loss) income attributable to common stockholders	\$(34,816 )	\$ 103,016	\$(33,702 )	\$ 103,388
<b>(LOSS) INCOME PER COMMON SHARE - BASIC:</b>				
(Loss) income per common share	\$(0.14 )	\$0.44	\$(0.14 )	\$0.44
Weighted average shares outstanding	240,336,485	234,990,468	240,324,183	232,968,602



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(LOSS) INCOME PER COMMON SHARE -  
DILUTED:

(Loss) income per common share	\$(0.14	) \$0.44	\$(0.14	) \$0.44
Weighted average shares outstanding	240,336,485	235,010,830	240,324,183	232,995,822
DIVIDENDS PER COMMON SHARE	\$0.10	\$0.095	\$0.20	\$0.190

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net (loss) income	\$ (36,578)	\$ 138,182	\$ (33,863)	\$ 139,811
Other comprehensive income (loss):				
Change in value of interest rate swaps	5,795	(4,041 )	20,346	(9 )
Pro rata share of other comprehensive income (loss) of				
unconsolidated joint ventures	103	35	157	(187 )
Comprehensive (loss) income	(30,680)	134,176	(13,360)	139,615
Less comprehensive (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,752 )	(1,897 )	(2,807 )	(3,188 )
Consolidated real estate fund	(152 )	(20,169 )	(582 )	(20,081 )
Operating Partnership	3,103	(12,647 )	1,611	(13,187 )
Comprehensive (loss) income attributable to				
common stockholders	\$ (29,481)	\$ 99,463	\$ (15,138)	\$ 103,159

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands, except per share and unit amounts)	Common Shares				Noncontrolling Interests in				
	Shares	Amount	Additional Paid-in-Capital	Earnings Less than Distributions	Accumulated Other Comprehensive Income (Loss)	Consolidated Joint Ventures	Consolidated Real Estate Fund	Consolidated Operating Partnership	Total Equity
Balance as of December 31, 2016	230,015	\$2,300	\$4,116,987	\$(129,654)	\$372	\$253,788	\$64,793	\$577,361	\$4,885,947
Net income	-	-	-	103,388	-	3,188	20,081	13,154	139,811
Common shares issued upon redemption of common units	8,207	82	135,877	-	-	-	-	(135,959)	-
Common shares issued under Omnibus share plan, net of shares withheld for taxes	62	-	-	(154 )	-	-	-	-	(154 )
Dividends and distributions (\$0.19 per share and unit)	-	-	-	(44,617 )	-	-	-	(5,801 )	(50,418 )
Contributions from noncontrolling interests	-	-	-	-	-	4,973	4,305	-	9,278
Distributions to noncontrolling	-	-	-	-	-	(32,816 )	(74,346)	-	(107,162 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

interests									
Change in value of interest rate swaps	-	-	-	-	(67 )	-	-	58	(9 )
Pro rata share of other comprehensive loss of unconsolidated joint ventures	-	-	-	-	(162 )	-	-	(25 )	(187 )
Amortization of equity awards	-	-	1,522	-	-	-	-	7,283	8,805
Balance as of June 30, 2017	238,284	\$2,382	\$4,254,386	\$(71,037 )	\$143	\$229,133	\$14,833	\$456,071	\$4,885,911
Balance as of December 31, 2017	240,427	\$2,403	\$4,297,948	\$(133,693)	\$10,083	\$404,997	\$14,549	\$425,797	\$5,022,084
Basis adjustment upon adoption of ASU 2017-05	-	-	-	529	-	-	6,557	-	7,086
Balance as of January 1, 2018	240,427	2,403	4,297,948	(133,164)	10,083	404,997	21,106	425,797	5,029,170
Net (loss) income	-	-	-	(33,702 )	-	2,807	582	(3,550 )	(33,863 )
Common shares issued upon redemption of common units	27	-	469	-	-	-	-	(469 )	-
Common shares issued under Omnibus share plan, net of shares withheld for taxes	75	-	-	(213 )	-	-	-	-	(213 )
Dividends and distributions (\$0.20 per share)	-	-	-	(48,103 )	-	-	-	(5,144 )	(53,247 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

and unit)										
Contributions from noncontrolling interests	-	-	-	-	-	-	36,128	-	36,128	
Distributions to noncontrolling interests	-	-	-	-	-	(4,118 )	-	-	(4,118 )	
Change in value of interest rate swaps	-	-	-	-	18,422	-	-	1,924	20,346	
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	142	-	-	15	157	
Amortization of equity awards	-	-	1,470	-	-	-	-	10,088	11,558	
Other	-	-	(2,064 )	(171 )	-	-	-	2,065	(170 )	
Balance as of June 30, 2018	240,529	\$2,403	\$4,297,823	\$(215,353)	\$28,647	\$403,686	\$57,816	\$430,726	\$5,005,748	

See notes to consolidated financial statements (unaudited).

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30,	
	2018	2017
(Amounts in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(33,863 )	\$ 139,811
Adjustments to reconcile net (loss) income to net cash provided by		
operating activities:		
Depreciation and amortization	129,931	131,628
Real estate impairment loss	46,000	-
Amortization of deferred financing costs	5,515	5,548
Gain on sale of real estate	-	(133,989)
Straight-lining of rental income	(29,983 )	(32,121 )
Amortization of above and below-market leases, net	(8,724 )	(10,989 )
Loss on early extinguishment of debt	-	7,877
Unrealized gain on interest rate swaps	-	(1,802 )
Realized and unrealized losses (gains) on marketable securities	1	(2,486 )
Income from unconsolidated joint ventures	(2,459 )	(18,472 )
Distributions of earnings from unconsolidated joint ventures	1,170	2,758
Loss from unconsolidated real estate funds	80	2,123
Distributions of earnings from unconsolidated real estate funds	135	146
Amortization of stock-based compensation expense	10,915	7,867
Other non-cash adjustments	40	(169 )
Changes in operating assets and liabilities:		
Accounts and other receivables	1,533	3,102
Deferred charges	(13,734 )	(14,297 )
Other assets	(1,910 )	7,294
Accounts payable and accrued expenses	1,297	(15,257 )
Other liabilities	567	420
Net cash provided by operating activities	106,511	78,992
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to real estate	(51,610 )	(33,079 )
Investments in unconsolidated joint ventures	(17,137 )	(28,791 )
Escrow deposits and loans receivable for Residential Development Fund	(15,680 )	-
Sales of marketable securities	15,253	9,543
Purchases of marketable securities	(12,140 )	(6,230 )
Distributions of capital from unconsolidated joint ventures	2,608	20,000
Contributions of capital to unconsolidated real estate funds	(2,254 )	(584 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Proceeds from sale of real estate	-	540,333
Deposit on real estate	-	(12,914 )
Distributions of capital from unconsolidated real estate funds	-	3,845
Net cash (used in) provided by investing activities	(80,960 )	492,123

See notes to consolidated financial statements (unaudited).

7

---

## PARAMOUNT GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid to common stockholders	\$(46,892 )	\$(43,832 )
Contributions from noncontrolling interests	36,128	9,278
Proceeds from notes and mortgages payable	16,700	991,556
Debt issuance costs	(6,351 )	(7,344 )
Distributions paid to common unitholders	(4,945 )	(6,526 )
Distributions to noncontrolling interests	(4,118 )	(107,162 )
Repurchase of shares related to stock compensation agreements and related tax withholdings	(213 )	(154 )
Repayments of notes and mortgages payable	-	(1,044,821)
Repayment of borrowings under revolving credit facility	-	(290,000 )
Borrowings under revolving credit facility	-	60,000
Settlement of interest rate swap liabilities	-	(19,425 )
Loss on early extinguishment of debt	-	(7,877 )
Net cash used in financing activities	(9,691 )	(466,307 )
Net increase in cash and cash equivalents and restricted cash	15,860	104,808
Cash and cash equivalents and restricted cash at beginning of period	250,425	192,339
Cash and cash equivalents and restricted cash at end of period	\$266,285	\$297,147

RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED  
CASH

Cash and cash equivalents at beginning of period	\$219,381	\$162,965
Restricted cash at beginning of period	31,044	29,374
Cash and cash equivalents and restricted cash at beginning of period	\$250,425	\$192,339
Cash and cash equivalents at end of period	\$233,530	\$254,763
Restricted cash at end of period	32,755	42,384
Cash and cash equivalents and restricted cash at end of period	\$266,285	\$297,147

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash payments for interest	\$67,367	\$73,817
Cash payments for income taxes, net of refunds	1,699	3,191



Edgar Filing: Paramount Group, Inc. - Form 10-Q

NON-CASH TRANSACTIONS:

Dividends and distributions declared but not yet paid	\$26,621	\$25,211
Additions to real estate included in accounts payable and accrued expenses	10,400	8,988
Basis adjustment to investment in unconsolidated joint ventures upon		
adoption of ASU 2017-05	7,086	-
Write-off of fully amortized and/or depreciated assets	2,947	4,930
Common shares issued upon redemption of common units	469	135,959
Increase (decrease) in value of interest rate swaps	20,346	(9 )
Increase (decrease) due to deconsolidation of One Stuart Lane:		
Investments in unconsolidated joint ventures	-	14,915
Real estate, net	-	(14,915 )

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 1. Organization and Business

As used in these consolidated financial statements, unless otherwise indicated, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership. We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of June 30, 2018, our portfolio consisted of 14 Class A office properties aggregating approximately 12.5 million square feet. We conduct our business through, and substantially all of our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 90.5% of, the Operating Partnership as of June 30, 2018.

## 2. Basis of Presentation and Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conjunction with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted. These consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. In the opinion of management, all adjustments (which include only normal recurring adjustments) and eliminations (which include intercompany balances and transactions) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. The consolidated balance sheet as of December 31, 2017 was derived from audited financial statements as of that date, but does not include all information and disclosures required by GAAP. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

### Significant Accounting Policies

There are no material changes to our significant accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Use of Estimates

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of the operating results for the full year.

### Reclassification

Certain prior year balances have been reclassified to conform to current year presentation.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

#### Recently Issued Accounting Pronouncements Not Materially Impacting Our Financial Statements

In May 2014, the Financial Accounting Standard's Board ("FASB") issued ASU 2014-09, an update to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments made in applying the guidance. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. We adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. The adoption of ASU 2014-09 did not impact our consolidated financial results but resulted in additional disclosures on our consolidated financial statements. See Note 14, Revenues.

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

In May 2017, the FASB issued ASU 2017-09, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2017-09 clarifies the types of changes to the terms and conditions of a share-based payment award that requires modification accounting. ASU 2017-09 does not change the accounting for modification of share-based awards, but clarifies that modification accounting should only be applied if there is a change to the value, vesting condition or award classification and would not be required if the changes are considered non-substantive. ASU 2017-09 is effective for interim and annual reporting periods in fiscal years that begin after December 31, 2017, with early adoption permitted. We adopted the provisions of ASU 2017-09 on January 1, 2018 and the adoption of ASU 2017-09 did not have an impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, an update to ASC Topic 815, Derivatives and Hedging. ASU 2017-12 improves transparency and understandability of information by better aligning the financial reporting for

hedging relationships with the risk management activities. ASU 2017-12 also simplifies the application of hedge accounting through changes in both the designation and measurement of qualifying hedging relationships. ASU 2017-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We are evaluating the impact of ASU 2017-12 but do not believe the adoption will have an impact on our consolidated financial statements.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements Impacting or Potentially Impacting Our Financial Statements

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, Leases. ASU 2016-02 amends the existing guidance for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either financing or operating and recording a right-of-use asset and a lease liability for all leases with a term greater than 12 months. Accounting for lessors under ASU 2016-02 is substantially similar to existing guidance, however, lessors are required to separate lease components (rental income) and non-lease components (revenue related to various services we provide). In July 2018, the FASB issued ASU 2018-11 that provides lessors with a practical expedient to not separate lease and non-lease components, if certain criteria are met, and provides an additional transition method to adopt the standard. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We plan to adopt the provisions of ASU 2016-02 on January 1, 2019 and are in the process of evaluating whether we will elect to apply the practical expedient.

In November 2016, the FASB issued ASU 2016-18, an update to ASC Topic 230, Statement of Cash Flows, to provide guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include restricted cash with cash and cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-18 retrospectively, on December 31, 2017. This adoption resulted in (i) additional disclosures to reconcile cash and cash equivalents and restricted cash on our consolidated balance sheets to our consolidated statements of cash flows and (ii) a decrease to cash provided by operating activities of \$3,000,000 and an increase in cash provided by investing activities of \$16,010,000 for the six months ended June 30, 2017.

In February 2017, the FASB issued ASU 2017-05, an update to ASC Topic 610, Other Income. ASU 2017-05 clarifies the scope and accounting for derecognition of a nonfinancial asset and eliminates the guidance in ASC 360-20 specific to real estate sales and partial sales. ASU 2017-05 requires an entity that transfers control of a nonfinancial asset to measure any noncontrolling interest it retains (or receives) at fair value. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for entities concurrently early adopting ASU 2014-09. We adopted the provisions of ASU 2017-05 on January 1, 2018, using the modified retrospective approach. Upon adoption, we recorded a \$7,086,000 adjustment to "investments in unconsolidated joint ventures" relating to the measurement of our consolidated Residential Development Fund's ("RDF") retained interest in One Stuart Lane (formerly 75 Howard Street) at fair value with an offset to equity. See Note 4, Investments in Unconsolidated Joint Ventures.

### 3. Dispositions

#### Waterview

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, which is included as a component of “gain on sale of real estate” on our consolidated statements of income for the three and six months ended June 30, 2017.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 4. Investments in Unconsolidated Joint Ventures

Prior to March 14, 2018, RDF, in which we have a 7.4% interest, owned 20.0% of One Steuart Lane (the "Property"). On March 14, 2018, RDF transferred its 20.0% interest to a new joint venture in which it owns a 75.0% interest. Separately on March 14, 2018, RDF acquired an additional 10.0% interest in the Property from its existing partner. Subsequent to these transactions RDF owns a 25.0% economic interest in the Property, comprised of the newly acquired 10.0% interest and an indirect 15.0% interest it owns through the joint venture. As a result of these transactions, RDF was required to consolidate its 75.0% interest in the joint venture that owns 20.0% of the Property, and reflect the 25.0% interest in this venture (5.0% economic interest in the Property) it does not own as noncontrolling interests. We continue to consolidate our 7.4% interest in RDF and reflect the 92.6% interest we do not own as noncontrolling interests. As of June 30, 2018, our economic interest in the Property was 1.85%.

The following tables summarize our investments in unconsolidated joint ventures as of the dates thereof and the income or loss from these investments for the periods set forth below.

(Amounts in thousands)	Paramount	As of	
Our Share of Investments:	Ownership	June 30, 2018	December 31, 2017
712 Fifth Avenue <sup>(1)</sup>	50.0%	\$-	\$-
60 Wall Street <sup>(2)</sup>	5.0%	23,760	25,083
One Steuart Lane <sup>(2)</sup>	25.0% <sup>(3)</sup>	40,236 <sup>(4)</sup>	16,031
Oder-Center, Germany <sup>(2)</sup>	9.5%	3,827	3,648
Investments in unconsolidated joint ventures		\$67,823	\$ 44,762



(Amounts in thousands)	Paramount Ownership	For the Three Months Ended		For the Six Months Ended	
		June 30, 2018	2017	June 30, 2018	2017
Our Share of Net Income (Loss):					
712 Fifth Avenue <sup>(1)</sup>	50.0%	\$2,608	\$16,504	\$2,608	\$18,434
60 Wall Street <sup>(2)</sup>	5.0%	(102 )	(31 )	(175 )	(36 )
One Steuart Lane <sup>(2)</sup>	25.0% <sup>(3)</sup>	(16 )	33	(18 )	33
Oder-Center, Germany <sup>(2)</sup>	9.5%	31	29	44	41
Income from unconsolidated joint ventures		\$2,521	\$16,535	\$2,459	\$18,472

<sup>(1)</sup>As of June 30, 2018, our basis in the partnership was negative \$20,654 resulting from distributions made to us in excess of our share of earnings recognized. Accordingly, we no longer recognize our proportionate share of earnings from the venture because we have no further obligation to fund additional capital to the venture. Instead, we only recognize earnings to the extent we receive cash distributions from the venture.

<sup>(2)</sup>As of June 30, 2018, the carrying amount of our investments in 60 Wall Street, One Steuart Lane and Oder-Center is greater than our share of equity in these investments by \$2,868, \$692 and \$5,362, respectively.

<sup>(3)</sup>Represents RDF's economic interest in the Property.

<sup>(4)</sup>Includes a \$7,086 basis adjustment which was recorded upon the adoption of ASU 2017-05 on January 1, 2018.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

712 Fifth Avenue

The following tables provide summarized financial information of 712 Fifth Avenue as of the dates and for the periods set forth below.

(Amounts in thousands)	As of	
Balance Sheets:	June 30,	December
	2018	31, 2017
Real estate, net	\$199,731	\$202,040
Other assets	59,879	58,034
Total assets	\$259,610	\$260,074
Notes and mortgages payable, net	\$296,337	\$296,132
Other liabilities	4,582	4,615
Total liabilities	300,919	300,747
Partners' deficit	(41,309 )	(40,673 )
Total liabilities and partners' deficit	\$259,610	\$260,074

(Amounts in thousands)	For the Three		For the Six	
Income Statements:	Months Ended		Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Rental income	\$12,329	\$12,713	\$24,658	\$25,658
Tenant reimbursement income	1,245	1,209	2,590	2,517
Fee and other income	159	468	617	594

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Total revenues	13,733	14,390	27,865	28,769
Operating expenses	6,126	6,102	12,310	12,068
Depreciation and amortization	2,898	3,075	5,924	5,995
Total expenses	9,024	9,177	18,234	18,063
Operating income	4,709	5,213	9,631	10,706
Interest and other income, net	157	48	270	72
Interest and debt expense	(2,674 )	(3,126 )	(5,319 )	(5,951 )
Unrealized gain on interest rate swaps	-	728	-	1,896
Net income	\$2,192	\$2,863	\$4,582	\$6,723

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 5. Investments in Unconsolidated Real Estate Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VII, LP (“Fund VII”) and its parallel fund, Paramount Group Real Estate Fund VII-H, LP (“Fund VII-H”). As of June 30, 2018, Fund VII and Fund VII-H own 100% of Zero Bond Street. We also manage Paramount Group Real Estate Fund VIII, LP (“Fund VIII”), our Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments.

The following tables summarize our investments in these unconsolidated real estate funds as of the dates thereof and the income or loss recognized for the periods set forth below.

(Amounts in thousands)	As of	
	June 30, 2018	December 31, 2017
Our Share of Investments:		
Property funds	\$2,352	\$ 2,429
Alternative investment fund	6,940	4,824
Investments in unconsolidated real estate funds	\$9,292	\$ 7,253

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Our Share of Net Income (Loss):				
Net investment income	\$59	\$71	\$125	\$124
Net realized (loss) gain	-	(5 )	-	174
Net unrealized loss	(73)	(324 )	(205)	(228 )
Carried interest	-	(2,153)	-	(2,193)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Loss from unconsolidated real estate funds	\$(14)	\$(2,411)	(80 )	\$(2,123)
--	--------	-----------	-------	-----------

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables provide summarized financial information for Fund VII as of the dates and for the periods set forth below.

(Amounts in thousands)	As of	
	June 30, 2018	December 31, 2017
<b>Balance Sheets:</b>		
Real estate investments	\$31,126	\$ 32,943
Cash and cash equivalents	1,022	138
<b>Total assets</b>	<b>\$32,148</b>	<b>\$ 33,081</b>
<b>Other liabilities</b>	<b>\$1,145</b>	<b>\$ 1,058</b>
<b>Total liabilities</b>	<b>1,145</b>	<b>1,058</b>
<b>Equity</b>	<b>31,003</b>	<b>32,023</b>
<b>Total liabilities and equity</b>	<b>\$32,148</b>	<b>\$ 33,081</b>

  

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
<b>Income Statements:</b>				
Investment income	\$5	\$777	\$5	\$962
Investment expenses	76	560	120	1,036
Net investment (loss) income	(71 )	217	(115 )	(74 )
Net realized losses	-	(66 )	-	(66 )
Net unrealized losses	(1,138)	(4,456)	(3,017)	(4,321)
Loss from real estate fund investments	\$(1,209)	\$(4,305)	\$(3,132)	\$(4,461)

## 6. Preferred Equity Investments

We own a 24.4% interest in PGRESS Equity Holdings L.P., an entity that owns certain preferred equity investments that are consolidated into our consolidated financial statements.

The following is a summary of the preferred equity investments.

(Amounts in thousands, except square feet)	Paramount	Dividend	Initial	As of	
	Ownership	Rate	Maturity	June 30, 2018	December 31, 2017
Preferred Equity Investment					
470 Vanderbilt Avenue <sup>(1)</sup>	24.4%	10.3%	Feb-2019	\$35,925	\$35,817
2 Herald Square <sup>(2)</sup>	n/a	n/a	n/a	-	19,588
				35,925	55,405
Less: valuation allowance <sup>(2)</sup>				-	(19,588 )
Total preferred equity investments, net				\$35,925	\$35,817

<sup>(1)</sup>Represents a preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 686,000 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.

<sup>(2)</sup>Represents a preferred equity investment in a partnership that owned 2 Herald Square, a 369,000 square foot office and retail property in Manhattan. In April 2017, the borrower defaulted on the obligation to extend the maturity date or redeem the preferred equity investment and accordingly, we had recorded a valuation allowance of \$19,588. In May 2018, the senior lender foreclosed out our interests and accordingly, we wrote off our preferred equity investment and the related valuation allowance.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 7. Intangible Assets and Liabilities

The following table summarizes our intangible assets (acquired above-market leases and acquired in-place leases) and intangible liabilities (acquired below-market leases) and the related amortization as of the dates and for the periods set forth below.

(Amounts in thousands)	As of			
	June 30, 2018	December 31, 2017		
Intangible assets:				
Gross amount	\$542,582	\$553,063		
Accumulated amortization	(226,131)	(200,857)		
	\$316,451	\$352,206		
Intangible liabilities:				
Gross amount	\$201,232	\$205,101		
Accumulated amortization	(85,673 )	(75,073 )		
	\$115,559	\$130,028		
(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of above and below-market leases, net				
(component of "rental income")	\$4,304	\$7,981	\$8,724	\$10,989
Amortization of acquired in-place leases				
(component of "depreciation and amortization")	\$14,721	\$22,649	\$30,014	\$40,423



Edgar Filing: Paramount Group, Inc. - Form 10-Q

The table below sets forth annual amortization of acquired above and below-market leases, net and amortization of acquired in-place leases for each of the five succeeding years commencing from January 1, 2019.

(Amounts in thousands)	Above and	
	Below-Market	In-Place
For the Year Ending December 31,	Leases	Leases
2019	\$ 14,257	\$53,428
2020	8,679	42,303
2021	4,341	30,310
2022	942	24,200
2023	4,421	19,445

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 8. Debt

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 revolving credit 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.

The following is a summary of our outstanding debt.

(Amounts in thousands)	Maturity Date	Fixed/ Variable Rate	Interest Rate as of June 30, 2018		As of June 30, 2018	December 31, 2017
Notes and mortgages payable:						
1633 Broadway						
	Dec-2022	Fixed <sup>(1)</sup>	3.54 %		\$ 1,000,000	\$ 1,000,000
	Dec-2022	L + 175 bps	3.73 %		46,800	<sup>(2)</sup> 30,100
			3.55 %		1,046,800	1,030,100
One Market Plaza <sup>(3)</sup>						
	Feb-2024	Fixed	4.03 %		975,000	975,000
1301 Avenue of the Americas						
	Nov-2021	Fixed	3.05 %		500,000	500,000
	Nov-2021	L + 180 bps	3.80 %		350,000	350,000
			3.36 %		850,000	850,000
31 West 52nd Street						
	May-2026	Fixed	3.80 %		500,000	500,000
50 Beale <sup>(3)</sup>						
	Oct-2021	Fixed	3.65 %		228,000	228,000
Total notes and mortgages payable			3.68 %		3,599,800	3,583,100
Less: deferred financing costs					(37,341 )	(41,800 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Total notes and mortgages payable, net	\$3,562,459	\$3,541,300
--	-------------	-------------

\$1.0 Billion Revolving Credit

Facility	Jan-2022	L + 115 bps	n/a	\$-	\$-
----------	----------	-------------	-----	-----	-----

<sup>(1)</sup>Represents loans with variable interest rates that have been fixed by interest rate swaps. See Note 9, Derivative Instruments and Hedging Activities.

<sup>(2)</sup>Represents amounts borrowed to fund leasing costs at the property. The loan balance can be increased by an additional \$200,000 upon the satisfaction of certain performance hurdles related to the property.

<sup>(3)</sup>Our ownership interest in One Market Plaza and 50 Beale is 49.0% and 31.1%, respectively.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 9. Derivative Instruments and Hedging Activities

## Interest Rate Swaps – Designated as Cash Flow Hedges

We have interest rate swaps with an aggregate notional amount of \$1.0 billion that are designated as cash flow hedges. We also have entered into forward starting interest rate swaps with an aggregate notional amount of \$400,000,000 to extend the maturity of certain swaps for an additional year. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in “other comprehensive income (loss)” (outside of earnings). We recognized other comprehensive income of \$5,795,000 and \$20,346,000 for the three and six months ended June 30, 2018, respectively, and other comprehensive loss of \$4,041,000 and \$9,000 for the three and six months ended June 30, 2017, respectively, from the changes in fair value of these interest rate swaps. See Note 10, Accumulated Other Comprehensive Income (Loss). During the next twelve months, we estimate that \$5,995,000 of the amounts recognized in accumulated other comprehensive income will be reclassified as a decrease to interest expense.

The table below summarizes the fair value of our interest rate swaps that are designated as cash flow hedges.

(Amounts in thousands)	Fair Value as of	
	June 30, 2018	December 31, 2017
Interest rate swap assets designated as cash flow hedges (included in “other assets”)	\$29,884	\$ 9,855
Interest rate swap liabilities designated as cash flow hedges (included in “other liabilities”)	\$-	\$ 317

We have agreements with various derivative counterparties that contain provisions wherein a default on our indebtedness could be deemed a default on our derivative obligations, which would require us to either post collateral up to the fair value of our derivative obligations or settle the obligations for cash. As of June 30, 2018, we did not have any obligations relating to our swaps that contained such provisions.

## Interest Rate Swaps – Non-designated Hedges

As of June 30, 2018, we did not have any interest rate swaps that were not designated as hedges. Prior to January 19, 2017, our interest rate swap on One Market Plaza was not designated as a hedge. This interest rate swap was terminated in connection with the refinancing of the property on January 19, 2017. For the period from January 1, 2017 through January 19, 2017, we recognized an unrealized gain of \$1,802,000, in connection with this interest rate swap, which is included as “unrealized gain on interest rate swaps” in our consolidated statement of income for the six months ended June 30, 2017.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 10. Accumulated Other Comprehensive Income (Loss)

The following table sets forth changes in accumulated other comprehensive income by component for the three and six months ended June 30, 2018 and 2017, including amounts attributable to noncontrolling interests in the Operating Partnership.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Amount of income (loss) related to the effective portion of				
cash flow hedges recognized in other comprehensive income	\$6,123	\$(6,025)	\$20,202	\$(4,529)
Amounts reclassified from accumulated other comprehensive				
income (decreasing) increasing interest and debt expense	(328 )	1,984	144	4,520
Amount of income related to unconsolidated joint				
ventures recognized in other comprehensive income (loss) <sup>(1)</sup>	103	35	157	(187 )
Amount of gain (loss) related to the ineffective portion of cash				
flow hedges and amount excluded from effectiveness testing	-	-	-	-

<sup>(1)</sup>Represents foreign currency translation adjustments. No amounts were reclassified from accumulated other comprehensive income during any of the periods set forth above.

## 11. Noncontrolling Interests

## Consolidated Joint Ventures

Noncontrolling interests in consolidated joint ventures consist of equity interests held by third parties in One Market Plaza, 50 Beale and PGRESS Equity Holdings L.P. As of June 30, 2018 and December 31, 2017, noncontrolling interests in our consolidated joint ventures aggregated \$403,686,000 and \$404,997,000, respectively.

#### Consolidated Real Estate Fund

Noncontrolling interests in our consolidated real estate fund consist of equity interests held by third parties in RDF. As of June 30, 2018 and December 31, 2017, the noncontrolling interests in our consolidated real estate fund aggregated \$57,816,000 and \$14,549,000, respectively.

#### Operating Partnership

Noncontrolling interests in the Operating Partnership represent common units of the Operating Partnership that are held by third parties, including management, and units issued to management under equity incentive plans. Common units of the Operating Partnership may be tendered for redemption to the Operating Partnership for cash. We, at our option, may assume that obligation and pay the holder either cash or common shares on a one-for-one basis. Since the number of common shares outstanding is equal to the number of common units owned by us, the redemption value of each common unit is equal to the market value of each common share and distributions paid to each common unitholder is equivalent to dividends paid to common stockholders. As of June 30, 2018 and December 31, 2017, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of \$430,726,000 and \$425,797,000, respectively, and a redemption value of \$389,625,000 and \$390,231,000, respectively.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 12. Variable Interest Entities

In the normal course of business, we are the general partner of various types of investment vehicles, which may be considered VIEs. We may, from time to time, own equity or debt securities through vehicles, each of which are considered variable interests. Our involvement in financing the operations of the VIEs is generally limited to our investments in the entity. We consolidate these entities when we are deemed to be the primary beneficiary.

## Consolidated VIEs

We are the sole general partner of, and own approximately 90.5% of, the Operating Partnership as of June 30, 2018. The Operating Partnership is considered a VIE and is consolidated in our consolidated financial statements. Since we conduct our business through and substantially all of our interests are held by the Operating Partnership, the assets and liabilities on our consolidated financial statements represent the assets and liabilities of the Operating Partnership. As of June 30, 2018 and December 31, 2017, the Operating Partnership held interests in consolidated VIEs owning properties, a real estate fund and preferred equity investments that were determined to be VIEs. The assets of these consolidated VIEs may only be used to settle the obligations of the entities and such obligations are secured only by the assets of the entities and are non-recourse to the Operating Partnership or us. The table below summarizes the assets and liabilities of consolidated VIEs of the Operating Partnership.

(Amounts in thousands)	As of	
	June 30, 2018	December 31, 2017
Real estate, net	\$1,711,766	\$1,726,800
Cash and restricted cash	79,622	55,658
Investments in unconsolidated joint ventures	40,236	16,031
Preferred equity investments, net	35,925	35,817
Accounts and other receivables, net	1,626	2,550
Deferred rent receivable	47,663	44,000
Deferred charges, net	10,777	8,123
Intangible assets, net	56,230	66,112



Edgar Filing: Paramount Group, Inc. - Form 10-Q

Other assets	18,035	929
Total VIE assets	\$2,001,880	\$1,956,020
Notes and mortgages payable, net	\$1,197,126	\$1,196,607
Accounts payable and accrued expenses	29,392	21,211
Intangible liabilities, net	38,754	46,365
Other liabilities	151	155
Total VIE liabilities	\$1,265,423	\$1,264,338

Unconsolidated VIEs

As of June 30, 2018, the Operating Partnership held variable interests in entities that own our unconsolidated real estate funds that were deemed to be VIEs. The table below summarizes our investments in these unconsolidated real estate funds and the maximum risk of loss from these investments.

	As of	
	June	December
(Amounts in thousands)	30,	31, 2017
	2018	
Investments	\$9,292	\$ 7,253
Asset management fees and other receivables	697	597
Maximum risk of loss	\$9,989	\$ 7,850

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 13. Fair Value Measurements

## Financial Assets and Liabilities Measured at Fair Value

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of marketable securities and interest rate swaps. The table below aggregates the fair values of these financial assets and liabilities as of the dates set forth below, based on their levels in the fair value hierarchy.

(Amounts in thousands)	As of June 30, 2018			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$25,913	\$25,913	\$-	\$ -
Interest rate swap assets (included in "other assets")	29,884	-	29,884	-
Total assets	\$55,797	\$25,913	\$29,884	\$ -

  

(Amounts in thousands)	As of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$29,039	\$29,039	\$-	\$ -
Interest rate swap assets (included in "other assets")	9,855	-	9,855	-
Total assets	\$38,894	\$29,039	\$9,855	\$ -
Interest rate swap liabilities (included in "other liabilities")	\$317	\$-	\$317	\$ -
Total liabilities	\$317	\$-	\$317	\$ -

## Assets Measured at Fair Value on a Nonrecurring Basis

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist of real estate assets that have been written down to estimated fair value in the current period. In the quarter ended June 30, 2018, in accordance with ASC 360-10, we recorded a \$46,000,000 impairment loss, which is included as “real estate impairment loss” on our consolidated statements of income for the three and six months ended June 30, 2018. The estimated fair value of real estate assets on our consolidated balance sheet was \$138,000,000 and is classified as Level 3 within the fair value hierarchy.

Financial Assets and Liabilities Not Measured at Fair Value

Financial assets and liabilities not measured at fair value on our consolidated balance sheets consists of preferred equity investments, notes and mortgages payable and the revolving credit facility. The following is a summary of the carrying amounts and fair value of these financial instruments as of the dates set forth below.

(Amounts in thousands)	As of June 30, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred equity investments, net	\$35,925	\$36,212	\$35,817	\$36,112
Total assets	\$35,925	\$36,212	\$35,817	\$36,112
Notes and mortgages payable	\$3,599,800	\$3,591,251	\$3,583,100	\$3,596,953
Revolving credit facility	-	-	-	-
Total liabilities	\$3,599,800	\$3,591,251	\$3,583,100	\$3,596,953

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 14. Revenues

Our revenues consist primarily of rental income, tenant reimbursement income and fee and other income. The following table sets forth the details of our revenues.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Rental income	\$169,529	\$158,187	\$332,934	\$313,577
Tenant reimbursement income	13,164	11,856	27,410	24,708
Fee and other income:				
Fee income:				
Property management	1,490	1,532	2,992	3,142
Asset management	1,823	2,359	3,433	4,625
Acquisition, disposition and leasing	1,750	250	1,750	5,570
Other	346	307	699	667
Total fee income	5,409	4,448	8,874	14,004
Lease termination income	29	895	57	961
Other income <sup>(1)</sup>	3,288	2,318	6,415	5,690
Total fee and other income	8,726	7,661	15,346	20,655
Total revenues	\$191,419	\$177,704	\$375,690	\$358,940

<sup>(1)</sup>Primarily comprised of (i) tenant requested services, including overtime heating and cooling and (ii) parking income.

## Property-related Revenues

Property-related revenue is recognized in accordance with ASC Topic 840, Leases, and consists of (i) rental income, which is generated from the lease-up of office, retail and storage space to tenants under operating leases and

recognized on a straight-line basis over the non-cancellable term of the lease (ii) tenant reimbursement income, which is comprised of reimbursement of certain operating costs and real estate taxes from tenants (iii) lease termination income and (iv) other income.

#### Revenue from Contracts with Customers

Revenue from contracts with customers, which is primarily comprised of (i) property management fees, (ii) asset management fees, (iii) fees relating to acquisitions, dispositions and leasing services and (iv) other fee income, is recognized in accordance with ASC Topic 606, Revenue From Contracts With Customers. Fee income is generated from the various services we provide to our customers and is disaggregated based on the types of services we provide pursuant to ASC Topic 606.

Fee income is recognized as and when we satisfy our performance obligations pursuant to contractual agreements. Property management and asset management services are provided continuously over time and revenue is recognized over that time. Fee income relating to acquisitions, dispositions and leasing services is recognized upon completion of the acquisition, disposition or leasing services as required in the contractual agreements. The amount of fee income to be recognized is stated in the contract as a fixed price or as a stated percentage of revenues, contributed capital or transaction price. Fee income is reported in a non-operating segment, and therefore is shown as a reconciling item to net income in Note 21, Segments.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The table below sets forth the amounts receivable from our customers under our various fee agreements and are included as a component of “accounts and other receivables” on our consolidated balance sheets.

(Amounts in thousands)	Total	Property Management	Asset Management	Acquisition Disposition and Leasing	Other
Accounts and other receivables:					
Balance as of December 31, 2017	\$1,558	\$ 290	\$ 762	\$ 490	\$ 16
Balance as of June 30, 2018	1,651	274	836	490	51
Increase (decrease)	\$93	\$ (16)	) \$ 74	\$ -	\$ 35

As of June 30, 2018 and December 31, 2017, our consolidated balance sheets included \$550,000 and \$387,000, respectively, of deferred revenue in connection with prepayments for services we have not yet provided. These amounts are included as a component of “accounts payable and accrued expenses” on our consolidated balance sheets and will be recognized as income upon completion of the required services.

There are no other contract assets or liabilities as of June 30, 2018 and December 31, 2017.

## 15. Interest and Other Income, net

The following table sets forth the details of interest and other income.

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Preferred equity investment income <sup>(1)</sup>	\$917	\$953	\$1,816	\$2,366
Interest and other income	978	511	2,004	596
Mark-to-market of investments in our deferred compensation plans <sup>(2)</sup>	199	1,022	290	2,724
Total interest and other income, net	\$2,094	\$2,486	\$4,110	\$5,686

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$223 and \$232 for the three months ended June 30, 2018 and 2017, respectively, and \$442 and \$576 for the six months ended June 30, 2018 and 2017, respectively. See Note 6, Preferred Equity Investments.

<sup>(2)</sup>The change resulting from the mark-to-market of the deferred compensation plan assets is entirely offset by the change in deferred compensation plan liabilities, which is included as a component of “general and administrative” expenses on our consolidated statements of income.

## 16. Interest and Debt Expense

The following table sets forth the details of interest and debt expense.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense	\$34,055	\$31,999	\$67,376	\$66,287
Amortization of deferred financing costs	2,754	2,818	5,515	5,548
Total interest and debt expense	\$36,809	\$34,817	\$72,891	\$71,835

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 17. Incentive Compensation

### Stock-Based Compensation

We account for all stock-based compensation in accordance with ASC 718, Compensation – Stock Compensation. As of June 30, 2018, we have 9,167,437 shares available for future grants under the 2014 Equity Incentive Plan (“Plan”), if all awards granted are full value awards, as defined in the Plan. Stock-based compensation expense was \$4,650,000 and \$4,438,000 for the three months ended June 30, 2018 and 2017, respectively, and \$10,915,000 and \$7,867,000 for the six months ended June 30, 2018 and 2017, respectively.

### 2017 Performance-Based Awards Program (“2017 Performance Program”)

On February 5, 2018, the Compensation Committee of our Board of Directors (the “Compensation Committee”) approved the 2017 Performance Program, a multi-year performance-based long-term equity compensation program. The purpose of the 2017 Performance Program is to further align the interests of our stockholders with that of management by encouraging our senior officers to create stockholder value in a “pay for performance” structure.

Under the 2017 Performance Program, participants may earn awards in the form of Long Term Incentive Plan (“LTIP”) units of our Operating Partnership based on our Total Shareholder Return (“TSR”) over a three-year performance measurement period beginning on January 1, 2018 and continuing through December 31, 2020, on both an absolute basis and relative basis as follows:

25.0% of the award is earned if our TSR over the three-year performance measurement period equals or exceeds 30.0%, with no awards being earned if our TSR over such period is less than 18.0% and awards being determined based on linear interpolation if our TSR over such period falls between such ranges.



75.0% of the award is earned if our TSR over the three-year performance measurement period equals or exceeds the 80th percentile of the performance of the SNL Office REIT Index constituents on a relative basis, with no awards being earned if our TSR over such period is less than the 30th percentile and awards being determined based on linear interpolation if our TSR over such period falls between such ranges.

Awards granted to our Chief Executive Officer, under the 2017 Performance Program include an additional performance feature requiring threshold TSR performance on both an absolute and a relative basis in order for any awards to be earned. Accordingly, our Chief Executive Officer will not earn any awards under the 2017 Performance Program unless our TSR for the performance measurement period is 18.0% or higher and in the 30th percentile or higher of the SNL Office REIT Index constituents.

In addition, if the designated performance objectives are achieved, awards earned under the 2017 Performance Program are also subject to vesting based on continued employment with us through December 31, 2021, with 50.0% of each award vesting upon the conclusion of the performance measurement period, and the remaining 50.0% vesting on December 31, 2021. Furthermore, our Named Executive Officers are required to hold earned awards for an additional year following vesting.

The fair value of the awards granted under the 2017 Performance Program on the date of the grant was \$7,009,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

#### 2015 Performance-Based Awards Program (“2015 Performance Program”)

On April 3, 2018, the Compensation Committee determined that the performance goals set forth in the 2015 Performance Program were not satisfied during the performance measurement period, which ended on March 31, 2018. Accordingly, all of the 779,055 LTIP units that were granted on April 1, 2015, were forfeited, with no awards being earned.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 18. Earnings Per Share

The following table provides a summary of net income and the number of common shares used in the computation of basic and diluted income per common share, which includes the weighted average number of common shares outstanding and the effect of dilutive potential common shares, if any.

(Amounts in thousands, except per share amounts)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Numerator:				
Net (loss) income attributable to common stockholders	\$(34,816 )	\$103,016	\$(33,702 )	\$103,388
Earnings allocated to unvested participating securities	(18 )	(59 )	(36 )	(73 )
Numerator for (loss) income per common share - basic				
and diluted	\$(34,834 )	\$102,957	\$(33,738 )	\$103,315
Denominator:				
Denominator for basic (loss) income per common share -				
weighted average shares	240,336	234,990	240,324	232,969
Effect of dilutive stock-based compensation plans <sup>(1)</sup>	-	20	-	27
Denominator for diluted (loss) income per common				
share - weighted average shares	240,336	235,010	240,324	232,996
(Loss) income per common share - basic and diluted	\$(0.14 )	\$0.44	\$(0.14 )	\$0.44

<sup>(1)</sup>The effect of dilutive securities for the three months ended June 30, 2018 and 2017 excludes 27,846 and 32,317 weighted average share equivalents, respectively, and 27,730 and 34,147 weighted average share equivalents for the six months ended June 30, 2018 and 2017, respectively, as their effect was anti-dilutive.

## 19. Related Party

### Due to Affiliates

As of June 30, 2018 and December 31, 2017, we had an aggregate of \$27,299,000 of liabilities that were due to affiliates. These liabilities were comprised of a \$24,500,000 note payable to CNBB-RDF Holdings, LP, which is an entity partially owned by Katharina Otto-Bernstein (a member of our Board of Directors), and a \$2,799,000 note payable to a different entity owned by members of the Otto Family, both of which were made in lieu of certain cash distributions prior to the completion of our initial public offering. The notes are due in November 2018 and bear interest at a fixed rate of 1.40%. We recognized interest expense of \$97,000 and \$35,000 for the three months ended June 30, 2018 and 2017, respectively, and \$192,000 and \$69,000 for the six months ended June 30, 2018 and 2017, respectively, in connection with these notes, which is included as a component of “interest and debt expense” on our consolidated statements of income.

### Management Agreements

We provide property management, leasing and other related services to certain properties owned by members of the Otto Family. We recognized fee income of \$215,000 and \$210,000 for the three months ended June 30, 2018 and 2017, respectively, and \$424,000 and \$412,000 for the six months ended June 30, 2018 and 2017, respectively, in connection with these agreements, which is included as a component of “fee and other income” on our consolidated statements of income.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

We also provide property management, asset management, leasing and other related services to our unconsolidated joint ventures and real estate funds. We recognized fee income of \$4,558,000 and \$3,369,000 for the three months ended June 30, 2018 and 2017, respectively, and \$7,094,000 and \$11,775,000 for the six months ended June 30, 2018 and 2017, respectively, in connection with these agreements. As of June 30, 2018 and December 31, 2017, amounts owed to us under these agreements aggregated \$1,722,000, and \$1,627,000, respectively, and are included as a component of “accounts and other receivables, net” on our consolidated balance sheets.

Hamburg Trust Consulting GMBH (“HTC”)

We have an agreement with HTC, a licensed broker in Germany, to supervise selling efforts for our private equity real estate funds (or investments in feeder vehicles for these funds) to investors in Germany, including distribution of securitized notes of a feeder vehicle for Fund VIII. Pursuant to this agreement, we have agreed to pay HTC for the costs incurred to sell investments in this feeder vehicle, which primarily consist of commissions paid to third party agents, and other incremental costs incurred by HTC as a result of the engagement, plus, in each case, a mark-up of 10%. HTC is 100% owned by Albert Behler, our Chairman, Chief Executive Officer and President. We incurred expense of \$42,000 and \$134,000 for the three months ended June 30, 2018 and 2017, respectively, and \$60,000 and \$170,000 for the six months ended June 30, 2018 and 2017, respectively, in connection with these agreements, which is included as a component of “transaction related costs” on our consolidated statements of income. As of June 30, 2018 and December 31, 2017, we owed \$83,000 and \$51,000, respectively, to HTC under these agreements, which are included as a component of “accounts payable and accrued expenses” on our consolidated balance sheets.

Mannheim Trust

Dr. Martin Bussmann (a member of our Board of Directors) is also a trustee and a director of Mannheim Trust, a subsidiary of which leases office space at 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture. The Mannheim Trust, which is for the benefit of Dr. Bussmann’s children, leases 5,593 square feet, which expires in April 2023. Our share of rental income from this lease was \$89,000 and \$84,000, for the three months ended June 30, 2018

and 2017, respectively, and \$181,000 and \$178,000 for the six months ended June 30, 2018 and 2017, respectively.

## 20. Commitments and Contingencies

### 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.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

#### Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of June 30, 2018, we believe we are in compliance with all of our covenants.

#### 718 Fifth Avenue - Put Right

Prior to the formation transactions, an affiliate of our predecessor owned a 25.0% interest in 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, (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 by our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue based on current ownership interests.

#### Transfer Tax Assessments

During 2017, the New York City Department of Finance issued Notices of Determination (“Notices”) assessing additional transfer taxes (including interest and penalties) in connection with the transfer of interests in certain properties during our 2014 initial public offering. Prior to February 16, 2018, we believed that the likelihood of a loss related to these assessments was remote. On February 16, 2018, the New York City Tax Appeals Tribunal issued a decision against a publicly traded REIT in a case interpreting the same provisions of the transfer tax statute, on similar but distinguishable facts. As a result, after consultation with legal counsel, we now believe the likelihood of loss is reasonably possible, and while it is not possible to predict the outcome of these Notices, we estimate the range of loss could be between \$0 and \$38,000,000. Since no amount in this range is a better estimate than any other amount within the range, we have not accrued any liability arising from potential losses relating to these Notices in our consolidated financial statements.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 21. 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.

The following tables provide Net Operating Income (“NOI”) for each reportable segment for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)	For the Three Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$186,010	\$115,536	\$15,435	\$55,344	\$(305)
Property-related operating expenses	(67,646)	(45,292)	(5,736)	(15,048)	(1,570)
NOI from unconsolidated joint ventures	4,569	4,493	-	-	76
NOI <sup>(1)</sup>	\$122,933	\$74,737	\$9,699	\$40,296	\$(1,799)

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$173,256	\$106,602	\$18,138	\$48,201	\$315
Property-related operating expenses	(63,461)	(43,289)	(6,565)	(11,120)	(2,487)
NOI from unconsolidated joint ventures	4,958	4,838	-	-	120
NOI <sup>(1)</sup>	\$114,753	\$68,151	\$11,573	\$37,081	\$(2,052)

(Amounts in thousands)	For the Six Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$366,816	\$229,181	\$30,884	\$107,243	\$(492)
Property-related operating expenses	(136,624)	(92,453)	(11,581)	(29,164)	(3,426)
NOI from unconsolidated joint ventures	9,309	9,158	-	-	151
NOI <sup>(1)</sup>	\$239,501	\$145,886	\$19,303	\$78,079	\$(3,767)



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$344,936	\$211,926	\$ 41,925	\$ 90,140	\$945
Property-related operating expenses	(129,432)	(88,048)	(15,489)	(21,725)	(4,170)
NOI from unconsolidated joint ventures	9,781	9,591	-	-	190
NOI <sup>(1)</sup>	\$225,285	\$133,469	\$ 26,436	\$ 68,415	\$(3,035)

<sup>(1)</sup>NOI is used to measure the operating performance of our properties. NOI consists of property-related revenue (which includes rental income, tenant reimbursement income and certain other income) less operating expenses (which includes building expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We use NOI internally as a performance measure and believe it provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Other real estate companies may use different methodologies for calculating NOI and, accordingly, our presentation of NOI may not be comparable to other real estate companies.

## PARAMOUNT GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table provides a reconciliation of NOI to net (loss) income attributable to common stockholders for the periods set forth below.

(Amounts in thousands)	For the Three		For the Six Months	
	Months Ended June 30, 2018	2017	Ended June 30, 2018	2017
NOI	\$122,933	\$114,753	\$239,501	\$225,285
Add (subtract) adjustments to arrive to net income:				
Fee income	5,409	4,448	8,874	14,004
Depreciation and amortization expense	(64,775 )	(68,636 )	(129,931 )	(131,628 )
General and administrative expenses	(17,195 )	(16,573 )	(29,826 )	(30,154 )
Transaction related costs	(293 )	(502 )	(413 )	(777 )
NOI from unconsolidated joint ventures	(4,569 )	(4,958 )	(9,309 )	(9,781 )
Income from unconsolidated joint ventures	2,521	16,535	2,459	18,472
Loss from unconsolidated real estate funds	(14 )	(2,411 )	(80 )	(2,123 )
Interest and other income, net	2,094	2,486	4,110	5,686
Interest and debt expense	(36,809 )	(34,817 )	(72,891 )	(71,835 )
Loss on early extinguishment of debt	-	(5,162 )	-	(7,877 )
Real estate impairment loss	(46,000 )	-	(46,000 )	-
Gain on sale of real estate	-	133,989	-	133,989
Unrealized gain on interest rate swaps	-	-	-	1,802
Net (loss) income before income taxes	(36,698 )	139,152	(33,506 )	145,063
Income tax benefit (expense)	120	(970 )	(357 )	(5,252 )
Net (loss) income	(36,578 )	138,182	(33,863 )	139,811
Less: net (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,752 )	(1,897 )	(2,807 )	(3,188 )
Consolidated real estate fund	(152 )	(20,169 )	(582 )	(20,081 )
Operating Partnership	3,666	(13,100 )	3,550	(13,154 )
Net (loss) income attributable to common stockholders	\$(34,816 )	\$103,016	\$(33,702 )	\$103,388

The following table provides the total assets for each of our reportable segments as of the periods set forth below.

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)

Total Assets as of:	Total	New York	Washington, D.C.	San Francisco	Other
June 30, 2018	\$8,915,913	\$5,518,698	\$ 638,793	\$2,419,887	\$338,535
December 31, 2017	8,917,661	5,511,061	693,408	2,421,173	292,019

22. Subsequent Events

Subsequent to quarter end, we entered into an agreement to sell 2099 Pennsylvania Avenue, a 208,776 square foot Class A office building in Washington, D.C., for approximately \$220,000,000.

## ITEM 2. 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.

### Forward-Looking Statements

We make statements in this Quarterly Report on Form 10-Q 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;
- regulatory changes, including changes to tax laws and regulations;
- 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 Quarterly Report on Form 10-Q or in our Annual Report on Form 10-K for the year ended December 31, 2017, including those set forth in Item 1A entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 our Annual Report on Form 10-K for the year ended December 31, 2017.

#### Tax Disclosure Update

For FIRPTA purposes, a "qualified foreign pension fund" shall not be treated as a non-U.S. stockholder, and any entity all of the interests of which are held by a qualified foreign pension fund shall be treated as such a fund. A "qualified foreign pension fund" is an organization or arrangement (i) created or organized in a foreign country, (ii) established to provide retirement or pension benefits to current or former employees (including self-employed individuals) or their designees by either (A) a foreign country as a result of services rendered by such employees to their employers, or (B) one or more employers in consideration for services rendered by such employees to such employers, (iii) which does not have a single participant or beneficiary that has a right to more than 5% of its assets or income, (iv) which is subject to government regulation and with respect to which annual information about its beneficiaries is provided, or is otherwise available, to relevant local tax authorities and (v) with respect to which, under its local laws, (A) contributions that would otherwise be subject to tax are deductible or excluded from its gross income or taxed at a reduced rate, or (B) taxation of its investment income is deferred, or such income is excluded from its gross income or taxed at a reduced rate.

#### Critical Accounting Policies

There are no material changes to our critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

## Recently Issued Accounting Literature

A summary of our 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 Quarterly Report on Form 10-Q.

## Business 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, Paramount Group Operating Partnership LP, a Delaware limited partnership (the "Operating Partnership"). We are the sole general partner of, and owned approximately 90.5% of the Operating Partnership as of June 30, 2018.

## Dispositions

Subsequent to quarter end, we entered into an agreement to sell 2099 Pennsylvania Avenue, a 208,776 square foot Class A office building in Washington, D.C., for approximately \$220,000,000.

## Financings

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 - Three Months Ended June 30, 2018

In the three months ended June 30, 2018, we leased 312,522 square feet, of which our share was 278,845 square feet that was leased at a weighted average initial rent of \$76.78 per square foot. This leasing activity, partially offset by lease expirations during the three months, increased our leased occupancy and same store leased occupancy (properties owned by us during both reporting periods) by 240 basis points to 96.4% at June 30, 2018 from 94.0% at March 31, 2018. Of the 312,522 square feet leased in the three months, 87,646 square feet represented our share of second generation space (space that had been vacant for less than twelve months) for which we achieved rental rate increases of 8.7% on a GAAP basis and 19.8% on a cash basis. The weighted average lease term for leases signed during the three months was 13.7 years and weighted average tenant improvements and leasing commissions on these leases were \$10.37 per square foot per annum, or 13.5% of initial rent.

#### New York:

In the three months ended June 30, 2018, we leased 259,855 square feet in our New York portfolio, of which our share was 254,988 square feet that was leased at a weighted average initial rent of \$76.95 per square foot. This leasing activity, partially offset by lease expirations during the three months, increased our leased occupancy and same store leased occupancy by 320 basis points to 95.9% at June 30, 2018 from 92.7% at March 31, 2018. Of the 259,855 square feet leased in the three months, 73,887 square feet represented our share of second generation space for which we achieved rental rates increases of 8.4% on a GAAP basis and 16.2% on a cash basis. The weighted average lease term for leases signed during the three months was 14.0 years and weighted average tenant improvements and leasing commissions on these leases were \$10.39 per square foot per annum, or 13.5% of initial rent.

#### Washington, D.C.:

In the three months ended June 30, 2018, we leased 1,667 square feet in our Washington, D.C. portfolio, which increased our leased occupancy and same store leased occupancy by 20 basis points to 96.7% at June 30, 2018 from 96.5% at March 31, 2018.



San Francisco:

In the three months ended June 30, 2018, we leased 51,000 square feet in our San Francisco portfolio, of which our share was 22,190 square feet that was leased at a weighted average initial rent of \$72.00 per square foot. This leasing activity, which was partially offset by lease expirations during the three months, increased our leased occupancy and same store occupancy by 50 basis points to 98.2% at June 30, 2018 from 97.7% at March 31, 2018. Of the 51,000 square feet leased in the three months, 12,092 square feet represented our share of second generation space for which we achieved rental rate increases of 10.3% on GAAP basis and 55.6% on a cash basis. The weighted average lease term for leases signed during the three months was 5.0 years and weighted average tenant improvements and leasing commissions on these leases were \$9.00 per square foot per annum, or 12.5% of initial rent.

The following table presents additional details on the leases signed during the three months ended June 30, 2018. It is not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The leasing statistics, except for square feet leased, represent office space only.

Three Months Ended June 30, 2018	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	312,522	259,855	1,667	51,000
Pro rata share of total square feet leased:	278,845	254,988	1,667	22,190
Initial rent <sup>(1)</sup>	\$76.78	\$76.95	\$ -	\$ 72.00
Weighted average lease term (in years)	13.7	14.0	-	5.0
Tenant improvements and leasing commissions:				
Per square foot	\$ 141.92	\$ 145.53	\$ -	\$ 45.00
Per square foot per annum	\$10.37	\$10.39	\$ -	\$ 9.00
Percentage of initial rent	13.5 %	13.5 %	-	12.5 %
Rent concessions:				
Average free rent period (in months)	13.2	13.6	-	3.0
Average free rent period per annum (in months)	1.0	1.0	-	0.6

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Second generation  
space: <sup>(2)</sup>

Square feet	87,646	73,887	1,667	12,092
GAAP basis:				
Straight-line rent	\$73.68	\$74.20	\$ -	\$ 69.95
Prior straight-line rent	\$67.81	\$68.42	\$ -	\$ 63.43
Percentage (decrease) increase				
	8.7	% 8.4	% -	10.3 %
Cash basis:				
Initial rent <sup>(1)</sup>	\$74.78	\$75.17	\$ -	\$ 72.00
Prior escalated rent <sup>(3)</sup>	\$62.40	\$64.66	\$ -	\$ 46.27
Percentage increase				
	19.8	% 16.2	% -	55.6 %

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

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

<sup>(3)</sup>Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

Leasing Results - Six Months Ended June 30, 2018

In the six months ended June 30, 2018, we leased 597,689 square feet, of which our share was 495,693 square feet that was leased at a weighted average initial rent of \$80.74 per square foot. This leasing activity, partially offset by lease expirations during the six months, increased our leased occupancy and same store leased occupancy (properties owned by us during both reporting periods) by 290 basis points to 96.4% at June 30, 2018 from 93.5% at December 31, 2017. Of the 597,689 square feet leased in the six months, 248,861 square feet represented our share of second generation space (space that had been vacant for less than twelve months) for which we achieved rental rate increases of 11.7% on a GAAP basis and 18.4% on a cash basis. The weighted average lease term for leases signed during the six months was 11.4 years and weighted average tenant improvements and leasing commissions on these leases were \$9.62 per square foot per annum, or 11.9% of initial rent.

New York:

In the six months ended June 30, 2018, we leased 405,195 square feet in our New York portfolio, of which our share was 397,065 square feet that was leased at a weighted average initial rent of \$81.14 per square foot. This leasing activity, partially offset by lease expirations during the six months, increased our leased occupancy and same store leased occupancy by 350 basis points to 95.9% at June 30, 2018 from 92.4% at December 31, 2017. Of the 405,195 square feet leased in the six months, 181,685 square feet represented our share of second generation space for which we achieved rental rates increases of 7.1% on a GAAP basis and 12.5% on a cash basis. The weighted average lease term for leases signed during the six months was 12.7 years and weighted average tenant improvements and leasing commissions on these leases were \$9.58 per square foot per annum, or 11.8% of initial rent.

Washington, D.C.:

In the six months ended June 30, 2018, we leased 4,929 square feet in our Washington, D.C. portfolio, at a weighted average initial rent of \$58.50 per square foot. This leasing activity increased our leased occupancy and same store leased occupancy by 60 basis points to 96.7% at June 30, 2018 from 96.1% at December 31, 2017. The weighted average lease term for leases signed during the six months was 3.4 years and weighted average tenant improvements and leasing commissions on these leases were \$3.24 per square foot per annum, or 5.5% of initial rent.

San Francisco:

In the six months ended June 30, 2018, we leased 187,565 square feet in our San Francisco portfolio, of which our share was 93,699 square feet that was leased at a weighted average initial rent of \$79.88 per square foot. This leasing activity, which was partially offset by lease expirations during the six months, increased our leased occupancy and same store occupancy by 180 basis points to 98.2% at June 30, 2018 from 96.4% at December 31, 2017. Of the 187,565 square feet leased in the six months, 65,509 square feet represented our share of second generation space for which we achieved rental rate increases of 26.6% on GAAP basis and 39.4% on a cash basis. The weighted average lease term for leases signed during the six months was 6.0 years and weighted average tenant improvements and leasing commissions on these leases were \$10.15 per square foot per annum, or 12.7% of initial rent.

The following table presents additional details on the leases signed during the six months ended June 30, 2018. It is not intended to coincide with the commencement of rental revenue in accordance with GAAP. The leasing statistics, except for square feet leased, represent office space only.

Six Months Ended June 30, 2018	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	597,689	405,195	4,929	187,565
Pro rata share of total square feet leased:	495,693	397,065	4,929	93,699
Initial rent <sup>(1)</sup>	\$80.74	\$81.14	\$ 58.50	\$79.88
Weighted average lease term (in years)	11.4	12.7	3.4	6.0
Tenant improvements and leasing commissions:				
Per square foot	\$110.06	\$122.09	\$ 11.07	\$61.02
Per square foot per annum	\$9.62	\$9.58	\$ 3.24	\$10.15
Percentage of initial rent	11.9	% 11.8	% 5.5	% 12.7
Rent concessions:				
Average free rent period (in months)	9.8	11.6	1.0	2.0
Average free rent period per annum (in months)	0.9	0.9	0.3	0.3
Second generation space: <sup>(2)</sup>				

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Square feet	248,861	181,685	1,667	65,509
GAAP basis:				
Straight-line rent	\$81.92	\$81.81	\$ -	\$82.24
Prior straight-line rent	\$73.36	\$76.39	\$ -	\$64.96
Percentage increase	11.7 %	7.1 %	-	26.6 %
Cash basis:				
Initial rent <sup>(1)</sup>	\$84.05	\$84.85	\$ -	\$81.85
Prior escalated rent <sup>(3)</sup>	\$71.01	\$75.44	\$ -	\$58.73
Percentage increase	18.4 %	12.5 %	-	39.4 %

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

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

<sup>(3)</sup>Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

Financial Results - Three Months Ended June 30, 2018 and 2017

Net (Loss) Income, FFO and Core FFO

Net loss attributable to common stockholders was \$34,816,000, or \$0.14 per diluted share, for the three months ended June 30, 2018, compared to net income attributable to common stockholders of \$103,016,000, or \$0.44 per diluted share, for the three months ended June 30, 2017.

Funds from Operations (“FFO”) attributable to common stockholders was \$58,935,000, or \$0.25 per diluted share, for the three months ended June 30, 2018, compared to \$62,318,000, or \$0.27 per diluted share, for the three months ended June 30, 2017. FFO attributable to common stockholders for the three months ended June 30, 2018 and 2017 includes the impact of non-core items, which are listed in the table on page 59. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the three months ended June 30, 2018 and 2017 by \$1,036,000 and \$7,753,000, or \$0.01 and \$0.04 per diluted share, respectively.

Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of the non-core items listed on page 59, was \$57,899,000, or \$0.24 per diluted share for the three months ended June 30, 2018, compared to \$54,565,000, or \$0.23 per diluted share, for the three months ended June 30, 2017.

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 the three months ended June 30, 2018 versus June 30, 2017.

	New York	Washington, D.C.	San Francisco
Total			



Edgar Filing: Paramount Group, Inc. - Form 10-Q

Same Store NOI	6.1	% <sup>(1)</sup>	10.1	%	5.0	%	(8.8	%) <sup>(1)</sup>
Same Store Cash NOI	5.9	%	4.3	%	11.9	%	3.7	%

<sup>(1)</sup>This decrease resulted from income in the prior year from the accelerated amortization of certain below-market lease liabilities in connection with such tenants' lease modifications. Excluding this income, Same Store NOI increased by 9.5% for the total portfolio and 4.8% for our San Francisco portfolio.

See pages 52-60 "Non-GAAP Financial Measures" for a reconciliation of these measures to the most directly comparable GAAP measure and the reasons why we believe these non-GAAP measures are useful.

Financial Results - Six Months Ended June 30, 2018 and 2017

Net (Loss) Income, FFO and Core FFO

Net loss attributable to common stockholders was \$33,702,000, or \$0.14 per diluted share, for the six months ended June 30, 2018, compared to net income attributable to common stockholders of \$103,388,000, or \$0.44 per diluted share, for the six months ended June 30, 2017.

FFO attributable to common stockholders was \$112,588,000, or \$0.47 per diluted share, for the six months ended June 30, 2018, compared to \$113,907,000, or \$0.49 per diluted share, for the six months ended June 30, 2017. FFO attributable to common stockholders for the six months ended June 30, 2018 and 2017 includes the impact of non-core items, which are listed in the table on page 59. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common stockholders for the six months ended June 30, 2018 by \$274,000, or \$0.00 per diluted share, and increased FFO attributable to common stockholders for the six months ended June 30, 2017 by \$7,837,000, or \$0.04 per diluted share.

Core FFO attributable to common stockholders, which excludes the impact of the non-core items listed on page 59, was \$112,862,000, or \$0.47 per diluted share for the six months ended June 30, 2018, compared to \$106,070,000, or \$0.45 per diluted share, for the six months ended June 30, 2017.

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 the six months ended June 30, 2018 versus June 30, 2017.

	New York	Washington, D.C.	San Francisco
Total			

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Same Store NOI	6.3	% <sup>(1)</sup>	9.3	%	8.4	%	(4.0)	% <sup>(1)</sup>
Same Store Cash NOI	10.3	%	9.6	%	21.3	%	6.3	%

<sup>(1)</sup>This decrease resulted from income in the prior year from the accelerated amortization of certain below-market lease liabilities in connection with such tenants' lease modifications. Excluding this income, Same Store NOI increased by 8.1% for the total portfolio and 3.3% for our San Francisco portfolio.

See pages 52-60 "Non-GAAP Financial Measures" for a reconciliation of these measures to the most directly comparable GAAP measure and the reasons why we believe these non-GAAP measures are useful.

## Results of Operations - Three Months Ended June 30, 2018 and 2017

The following pages summarize our consolidated results of operations for the three months ended June 30, 2018 and 2017.

(Amounts in thousands)	For the Three Months Ended June 30,		
	2018	2017	Change
<b>REVENUES:</b>			
Rental income	\$ 169,529	\$ 158,187	\$ 11,342
Tenant reimbursement income	13,164	11,856	1,308
Fee and other income	8,726	7,661	1,065
Total revenues	191,419	177,704	13,715
<b>EXPENSES:</b>			
Operating	67,646	63,461	4,185
Depreciation and amortization	64,775	68,636	(3,861 )
General and administrative	17,195	16,573	622
Transaction related costs	293	502	(209 )
Real estate impairment loss	46,000	-	46,000
Total expenses	195,909	149,172	46,737
Operating (loss) income	(4,490 )	28,532	(33,022 )
Income from unconsolidated joint ventures	2,521	16,535	(14,014 )
Loss from unconsolidated real estate funds	(14 )	(2,411 )	2,397
	2,094	2,486	(392 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Interest and other income, net			
Interest and debt expense	(36,809 )	(34,817 )	(1,992 )
Loss on early extinguishment of debt	-	(5,162 )	5,162
Gain on sale of real estate	-	133,989	(133,989)
Net (loss) income before income taxes	(36,698 )	139,152	(175,850)
Income tax benefit (expense)	120	(970 )	1,090
Net (loss) income	(36,578 )	138,182	(174,760)
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(1,752 )	(1,897 )	145
Consolidated real estate fund	(152 )	(20,169 )	20,017
Operating Partnership	3,666	(13,100 )	16,766
Net (loss) income attributable to common stockholders	\$(34,816 )	\$103,016	\$(137,832)

## Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$191,419,000 for the three months ended June 30, 2018, compared to \$177,704,000 for the three months ended June 30, 2017, an increase of \$13,715,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Rental income</b>					
Acquisitions <sup>(1)</sup>	\$9,226	\$-	\$ -	\$ 9,226	\$-
Dispositions <sup>(2)</sup>	(3,011 )	-	(3,011 )	-	-
Same store operations	5,825	7,717 <sup>(3)</sup>	(16 )	(1,431 ) <sup>(4)</sup>	(445 )
Other, net	(698 )	-	-	(698 )	-
Increase (decrease) in rental income	\$ 11,342	\$ 7,717	\$ (3,027 )	\$ 7,097	\$ (445 )
<b>Tenant reimbursement income</b>					
Acquisitions <sup>(1)</sup>	\$423	\$-	\$ -	\$ 423	\$-
Dispositions <sup>(2)</sup>	(224 )	-	(224 )	-	-
Same store operations	1,109	897	348	(136 )	-
Increase in tenant reimbursement income	\$ 1,308	\$ 897	\$ 124	\$ 287	\$-
<b>Fee and other income</b>					
Property management	\$(42 )	\$-	\$ -	\$ -	\$(42 )
Asset management	(536 )	-	-	-	(536 )
Acquisition, disposition and leasing	1,500	-	-	-	1,500
Other	39	-	-	-	39
Increase in fee income	961	-	-	-	961
Acquisitions <sup>(1)</sup>	172	-	-	172	-
Dispositions <sup>(2)</sup>	(30 )	-	(30 )	-	-
Lease termination income	(866 )	-	-	(866 )	-
Other income	828	320	230	453	(175 )
Increase (decrease) in other income	104	320	200	(241 )	(175 )
<b>Increase (decrease) in fee and other income</b>					
other income	\$ 1,065	\$ 320	\$ 200	\$ (241 )	\$ 786
<b>Total increase (decrease) in revenues</b>	<b>\$ 13,715</b>	<b>\$ 8,934</b>	<b>\$ (2,703 )</b>	<b>\$ 7,143</b>	<b>\$ 341</b>

- (1) Represents revenues attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.
- (2) Represents revenues attributable to Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.
- (3) Primarily due to an increase in occupancy at 1633 Broadway and 1301 Avenue of the Americas.
- (4) Includes \$3,028 of income, in the three months ended June 30, 2017, from the accelerated amortization of certain below-market lease liabilities in connection with such tenants' lease modifications.

## Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, transaction related costs and real estate impairment loss, were \$195,909,000 for the three months ended June 30, 2018, compared to \$149,172,000 for the three months ended June 30, 2017, an increase of \$46,737,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Operating</b>					
Acquisitions <sup>(1)</sup>	\$3,228	\$-	\$-	\$3,228	\$-
Dispositions <sup>(2)</sup>	(933 )	-	(933 )	-	-
Bad debt expense	144	144	-	-	-
Same store operations	1,746	1,859	115	700	(928 )
Increase (decrease) in operating	\$4,185	\$2,003	\$ (818 )	\$ 3,928	\$ (928 )
<b>Depreciation and amortization</b>					
Acquisitions <sup>(1)</sup>	\$5,021	\$-	\$-	\$5,021	\$-
Dispositions <sup>(2)</sup>	-	-	-	-	-
Operations	(8,882 )	306	207	(9,544 )	149
(Decrease) increase in depreciation and amortization	\$(3,861 )	\$306	\$ 207	\$(4,523 )	\$149
<b>General and administrative</b>					
Stock-based compensation	\$212	\$-	\$-	\$-	\$212
Mark-to-market of investments in our deferred compensation plan	(823 )	-	-	-	(823 )
Operations	1,233	-	-	-	1,233
Increase in general and					<sup>(3)</sup>



Edgar Filing: Paramount Group, Inc. - Form 10-Q

administrative	\$622	\$-	\$ -	\$ -	\$622
----------------	-------	-----	------	------	-------

Decrease in transaction related costs	\$(209 )	\$-	\$ -	\$ -	\$(209 )
---------------------------------------	----------	-----	------	------	----------

Real estate impairment loss in 2018	\$46,000	\$-	\$ 46,000	\$ -	\$-
-------------------------------------	----------	-----	-----------	------	-----

Total increase (decrease) in expenses	\$46,737	\$2,309	\$ 45,389	\$(595 )	\$(366 )
---------------------------------------	----------	---------	-----------	----------	----------

- (1) Represents expenses attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.
- (2) Represents expenses attributable to Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.
- (3) Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in “interest and other income, net”.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$2,521,000 for the three months ended June 30, 2018, compared to \$16,535,000 for the three months ended June 30, 2017, a decrease of \$14,014,000. This decrease resulted from:

(Amounts in thousands)	
712 Fifth Avenue (\$2,608 in 2018, compared to \$16,504 in 2017) <sup>(1)</sup>	\$(13,896)
Other	(118 )
Total decrease	\$(14,014)

<sup>(1)</sup>As of June 30, 2018, our basis in the partnership was negative \$20,654 resulting from distributions made to us in excess of our share of earnings recognized. Accordingly, we no longer recognize our proportionate share of earnings from the venture because we have no further obligation to fund additional capital to the venture. Instead, we only recognize earnings to the extent we receive cash distributions from the venture.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$14,000 for the three months ended June 30, 2018, compared to \$2,411,000 for the three months ended June 30, 2017, a decrease of \$2,397,000. This decrease was primarily due to a reversal of carried interest in the three months ended June 30, 2017 of \$2,153,000.

Interest and Other Income, net

Interest and other income was \$2,094,000 for the three months ended June 30, 2018, compared to \$2,486,000 for the three months ended June 30, 2017, a decrease of \$392,000. This decrease resulted from:

(Amounts in thousands)	
Decrease in the value of investments in our	\$(823)

deferred compensation plan (which	
is offset by a decrease in “general and administrative”)	
Decrease in preferred equity investment income (\$917 in 2018, compared	(36 )
to \$953 in 2017) <sup>(1)</sup>	
Other, net	467
Total decrease	\$(392)

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$223 and \$232 for the three months ended June 30, 2018 and 2017, respectively.

#### Interest and Debt Expense

Interest and debt expense was \$36,809,000 for the three months ended June 30, 2018, compared to \$34,817,000 for the three months ended June 30, 2017, an increase of \$1,992,000. This increase resulted from:

(Amounts in thousands)

\$228 million assumption of existing debt at 50 Beale upon acquisition in July 2017	\$2,080
Higher interest rate on variable rate debt at 1301 Avenue of the Americas	830
\$171 million of debt repayments at 1899 Pennsylvania Avenue	
and Liberty Place in May 2017	(713 )
Lower amounts outstanding under our revolving credit facility	(384 )
Other, net	179
Total increase	\$1,992

#### Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was \$5,162,000 for the three months ended June 30, 2017 and represents costs related to the early repayment of debt at 1899 Pennsylvania Avenue and Liberty Place in May 2017.

#### Gain on Sale of Real Estate

In the three months ended June 30, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of an \$110,583,000 net gain on sale of Waterview in May 2017 and a \$23,406,000 net gain on sale of an 80.0% equity interest in One Steuart Lane (formerly 75 Howard Street) in May 2017.

#### Income Tax Benefit (Expense)

Income tax benefit was \$120,000 for the three months ended June 30, 2018, compared to an expense of \$970,000 for the three months ended June 30, 2017, a decrease in expense of \$1,090,000. This decrease was primarily due to a true-up of the prior year's income tax provision.

#### Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$1,752,000 for the three months ended June 30, 2018, compared to \$1,897,000 for the three months ended June 30, 2017, a decrease in income allocated to noncontrolling interests in consolidated joint ventures of \$145,000. This decrease resulted from:

(Amounts in thousands)

Loss attributable to 50 Beale Street (acquired in July 2017) \$(621)

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Higher income attributable to One Market Plaza

(\$1,679 in 2018, compared to \$1,176 in 2017)	503
Lower preferred equity investment income (\$694 in 2018, compared to \$721 in 2017)	(27 )
Total decrease	\$(145)

Net Income Attributable to Noncontrolling Interests in Consolidated Real Estate Fund

Net income attributable to noncontrolling interests in consolidated real estate fund was \$152,000 for the three months ended June 30, 2018, compared to \$20,169,000 for the three months ended June 30, 2017, a decrease in income attributable to the noncontrolling interests of \$20,017,000. This decrease was primarily due to noncontrolling interests share of the gain on the sale of an 80.0% equity interest in One Steuart Lane in May 2017.

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

Net loss attributable to noncontrolling interests in Operating Partnership was \$3,666,000 for the three months ended June 30, 2018, compared to net income \$13,100,000 for the three months ended June 30, 2017, a decrease in income attributable to noncontrolling interests of \$16,766,000. This decrease resulted from lower net income subject to allocation to the unitholders of the Operating Partnership for the three months ended June 30, 2018.

Results of Operations - Six Months Ended June 30, 2018 and 2017

The following pages summarize our consolidated results of operations for the six months ended June 30, 2018 and 2017.

	For the Six Months Ended June 30,		
(Amounts in thousands)	2018	2017	Change
<b>REVENUES:</b>			
Rental income	\$332,934	\$313,577	\$19,357
Tenant reimbursement income	27,410	24,708	2,702
Fee and other income	15,346	20,655	(5,309 )
Total revenues	375,690	358,940	16,750
<b>EXPENSES:</b>			
Operating	136,624	129,432	7,192
Depreciation and amortization	129,931	131,628	(1,697 )
General and administrative	29,826	30,154	(328 )
Transaction related costs	413	777	(364 )
Real estate impairment loss	46,000	-	46,000
Total expenses	342,794	291,991	50,803
Operating income	32,896	66,949	(34,053 )
Income from unconsolidated joint ventures	2,459	18,472	(16,013 )
Loss from unconsolidated real estate funds	(80 )	(2,123 )	2,043
Interest and other income, net	4,110	5,686	(1,576 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Interest and debt expense	(72,891 )	(71,835 )	(1,056 )
Loss on early extinguishment of debt	-	(7,877 )	7,877
Gain on sale of real estate	-	133,989	(133,989)
Unrealized gain on interest rate swaps	-	1,802	(1,802 )
Net (loss) income before income taxes	(33,506 )	145,063	(178,569)
Income tax expense	(357 )	(5,252 )	4,895
Net (loss) income	(33,863 )	139,811	(173,674)
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(2,807 )	(3,188 )	381
Consolidated real estate fund	(582 )	(20,081 )	19,499
Operating Partnership	3,550	(13,154 )	16,704
Net (loss) income attributable to common stockholders	\$(33,702 )	\$103,388	\$(137,090)

## Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$375,690,000 for the six months ended June 30, 2018, compared to \$358,940,000 for the six months ended June 30, 2017, an increase of \$16,750,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
<b>Rental income</b>					
Acquisitions <sup>(1)</sup>	\$17,549	\$-	\$-	\$17,549	\$-
Dispositions <sup>(2)</sup>	(11,478)	-	(11,478)	-	-
Same store operations	13,984	15,784 <sup>(3)</sup>	310	(799) <sup>(4)</sup>	(1,311)
Other, net	(698)	-	-	(698)	-
<b>Increase (decrease) in rental income</b>	<b>\$19,357</b>	<b>\$15,784</b>	<b>\$ (11,168)</b>	<b>\$16,052</b>	<b>\$(1,311)</b>
<b>Tenant reimbursement income</b>					
Acquisitions <sup>(1)</sup>	\$873	\$-	\$-	\$873	\$-
Dispositions <sup>(2)</sup>	(792)	-	(792)	-	-
Same store operations	2,621	1,468	1,203	(50)	-
<b>Increase in tenant reimbursement income</b>	<b>\$2,702</b>	<b>\$1,468</b>	<b>\$411</b>	<b>\$823</b>	<b>\$-</b>
<b>Fee and other income</b>					
Property management	\$(150)	\$-	\$-	\$-	\$(150)
Asset management	(1,192)	-	-	-	(1,192)
Acquisition, disposition and leasing	(3,820)	-	-	-	(3,820)
Other	32	-	-	-	32
<b>Decrease in fee income</b>	<b>(5,130)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,130)</b>
Acquisitions <sup>(1)</sup>	314	-	-	314	-
Dispositions <sup>(2)</sup>	(94)	-	(94)	-	-
Lease termination income	(904)	(38)	-	(866)	-
Other income	505	41	(190)	780	(126)
<b>(Decrease) increase in other income</b>	<b>(179)</b>	<b>3</b>	<b>(284)</b>	<b>228</b>	<b>(126)</b>
<b>(Decrease) increase in fee and other income</b>	<b>\$(5,309)</b>	<b>\$3</b>	<b>\$ (284)</b>	<b>\$228</b>	<b>\$(5,256)</b>
<b>Total increase (decrease) in revenues</b>	<b>\$16,750</b>	<b>\$17,255</b>	<b>\$ (11,041)</b>	<b>\$17,103</b>	<b>\$(6,567)</b>



Edgar Filing: Paramount Group, Inc. - Form 10-Q

- (1) Represents revenues attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.
- (2) Represents revenues attributable to Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.
- (3) Primarily due to an increase in occupancy at 1633 Broadway and 1301 Avenue of the Americas.
- (4) Includes \$3,028 of income, in the six months ended June 30, 2017, from the accelerated amortization of certain below-market lease liabilities in connection with such tenants' lease modifications.

## Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, transaction related costs and real estate impairment loss, were \$342,794,000 for the six months ended June 30, 2018, compared to \$291,991,000 for the six months ended June 30, 2017, an increase of \$50,803,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Operating					
Acquisitions <sup>(1)</sup>	\$6,278	\$-	\$ -	\$6,278	\$-
Dispositions <sup>(2)</sup>	(3,732 )	-	(3,732 )	-	-
Same store operations	4,502	4,261	(176 )	1,161	(744 )
Bad debt expense	144	144	-	-	-
Increase (decrease) in operating	\$7,192	\$4,405	\$ (3,908 )	\$7,439	\$(744 )
Depreciation and amortization					
Acquisitions <sup>(1)</sup>	\$9,978	\$-	\$ -	\$9,978	\$-
Dispositions	-	-	-	-	-
Operations	(11,675)	(539 )	438	(11,687 )	113
(Decrease) increase in depreciation and amortization	\$(1,697 )	\$(539 )	\$ 438	\$(1,709 )	\$113
General and administrative					
Stock-based compensation	\$3,048	\$-	\$ -	\$-	\$3,048 <sup>(3)</sup>
Mark-to-market of investments in our deferred compensation plan	(2,434 )	-	-	-	(2,434)
Operations	(942 )	-	-	-	(942 ) <sup>(4)</sup>

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Decrease in general and administrative	\$(328 )	\$-	\$ -	\$-	\$(328 )
Decrease in transaction related  costs	\$(364 )	\$-	\$ -	\$-	\$(364 )
Real estate impairment loss in 2018	\$46,000	\$-	\$ 46,000	\$-	\$-
Total increase (decrease) in  expenses	\$50,803	\$3,866	\$ 42,530	\$ 5,730	\$(1,323)

- (1) Represents expenses attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.
- (2) Represents expenses attributable to Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.
- (3) Primarily due to additional expense from stock awards granted in the current year.
- (4) Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in “interest and other income, net”.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$2,459,000 for the six months ended June 30, 2018, compared to \$18,472,000 for the six months ended June 30, 2017, a decrease of \$16,013,000. This decrease resulted from:

(Amounts in thousands)	
712 Fifth Avenue (\$2,608 in 2018, compared to \$18,434 in 2017) <sup>(1)</sup>	\$(15,826)
Other	(187 )
Total decrease	\$(16,013)

<sup>(1)</sup>As of June 30, 2018, our basis in the partnership was negative \$20,654 resulting from distributions made to us in excess of our share of earnings recognized. Accordingly, we no longer recognize our proportionate share of earnings from the venture because we have no further obligation to fund additional capital to the venture. Instead, we only recognize earnings to the extent we receive cash distributions from the venture.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$80,000 for the six months ended June 30, 2018, compared to \$2,123,000 for the six months ended June 30, 2017, a decrease of \$2,043,000. This decrease was primarily due to a reversal of carried interest in the six months ended June 30, 2017 of \$2,193,000.

Interest and Other Income, net

Interest and other income was \$4,110,000 for the six months ended June 30, 2018, compared to \$5,686,000 for the six months ended June 30, 2017, a decrease of \$1,576,000. This decrease resulted from:

(Amounts in thousands)	
Decrease in the value of investments in our	\$(2,434)

deferred compensation plan		
(which is offset by a decrease in “general and administrative”)		
Decrease in preferred equity investment income (\$1,816 in 2018, compared		
to \$2,366 in 2017) <sup>(1)</sup>	(550 )	
Other, net	1,408	
Total decrease		\$(1,576)

<sup>(1)</sup>Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$442 and \$576 for the six months ended June 30, 2018 and 2017, respectively.

#### Interest and Debt Expense

Interest and debt expense was \$72,891,000 for the six months ended June 30, 2018, compared to \$71,835,000 for the six months ended June 30, 2017, an increase of \$1,056,000. This increase resulted from:

(Amounts in thousands)	
\$228 million assumption of existing debt at 50 Beale upon acquisition	
in July 2017	\$4,161
Higher interest rate on variable rate debt at 1301 Avenue of the Americas	1,380
\$171 million of debt repayments at 1899 Pennsylvania Avenue and	
Liberty Place in May 2017	(2,724)
Lower amounts outstanding under our revolving credit facility	(1,401)
\$975 million refinancing of One Market Plaza in January 2017	(766 )
Other, net	406
Total increase	\$1,056

#### Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was \$7,877,000 for the six months ended June 30, 2017 and represents costs related to (i) the early repayment of One Market Plaza's debt in January 2017, in connection with its refinancing and (ii) the early repayment of debt at 1899 Pennsylvania Avenue and Liberty Place in May 2017.

#### Gain on Sale of Real Estate

In the six months ended June 30, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of an \$110,583,000 net gain on sale of Waterview in May 2017 and a \$23,406,000 net gain on sale of an 80.0% equity interest in One Steuart Lane in May 2017.

#### Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$1,802,000 for the six months ended June 30, 2017 and represents gains relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017.

#### Income Tax Expense

Income tax expense was \$357,000 for the six months ended June 30, 2018, compared to \$5,252,000 for the six months ended June 30, 2017, a decrease of \$4,895,000. This decrease was primarily due to a true-up of the prior year's income tax provision and lower income attributable to our taxable REIT subsidiaries.

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$2,807,000 for the six months ended June 30, 2018, compared to \$3,188,000 for the six months ended June 30, 2017, a decrease in income allocated to noncontrolling interests in consolidated joint ventures of \$381,000. This decrease resulted from:

(Amounts in thousands)	
Higher income attributable to One Market Plaza	
(\$3,125 in 2018, compared to \$1,398 in 2017) <sup>(1)</sup>	\$1,727
Loss attributable to 50 Beale Street (acquired in July 2017)	(1,692)
Lower preferred equity investment income (\$1,374 in 2018,	
compared to income of \$1,790 in 2017)	(416 )
Total decrease	\$(381 )

<sup>(1)</sup>Primarily due to lower interest expense in 2018 and costs related to early repayment of One Market Plaza's debt in connection with its refinancing in 2017.

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

Net income attributable to noncontrolling interests in consolidated real estate fund was \$582,000 for the six months ended June 30, 2018, compared to income of \$20,081,000 for the six months ended June 30, 2017, a decrease in income attributable to the noncontrolling interests of \$19,499,000. This decrease was primarily due to noncontrolling interests share of the gain on the sale of an 80.0% equity interest in One Steuart Lane in May 2017.

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

Net loss attributable to noncontrolling interests in Operating Partnership was \$3,550,000 for the six months ended June 30, 2018, compared to net income \$13,154,000 for the six months ended June 30, 2017, a decrease in income attributable to noncontrolling interests of \$16,704,000. This decrease resulted from a lower net income subject to allocation to the unitholders of the Operating Partnership for the six months ended June 30, 2018.

## Liquidity and Capital Resources

### Liquidity

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

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

As of June 30, 2018, we had \$1.266 billion of liquidity comprised of \$233,530,000 of cash and cash equivalents, \$32,755,000 of restricted cash and \$1.0 billion of borrowing capacity under our revolving credit facility. As of June 30, 2018, our outstanding consolidated debt aggregated \$3.6 billion. We had no amounts outstanding under our revolving credit facility as of June 30, 2018 and none of our debt matures until 2021. We may refinance our maturing debt when it comes due or refinance or repay it early depending on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

### Revolving Credit Facility

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 \$1.0 billion 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. We also



have an option, subject to customary conditions and incremental lender commitments, to increase the capacity under the facility to \$1.5 billion at any time prior to the maturity date of the facility.

The facility contains certain restrictions and covenants that require us to maintain, on an ongoing basis, (i) a leverage ratio not to exceed 60%, however, the leverage ratio may be increased to 65% for any fiscal quarter in which an acquisition of real estate is completed and for up to the next three subsequent consecutive fiscal quarters, (ii) a secured leverage ratio not to exceed 50%, (iii) a fixed charge coverage ratio of at least 1.50, (iv) an unsecured leverage ratio not to exceed 60%, however, the unsecured leverage ratio may be increased to 65% for any fiscal quarter in which an acquisition of real estate is completed and for up to the next three subsequent consecutive fiscal quarters and (v) an unencumbered interest coverage ratio of at least 1.75. The facility also contains customary representations and warranties, limitations on permitted investments and other covenants.

#### Dividend Policy

On June 15, 2018, we declared a regular quarterly cash dividend of \$0.10 per share of common stock for the second quarter ending June 30, 2018, which was paid on July 13, 2018 to stockholders of record as of the close of business on June 29, 2018. This dividend policy, if continued, would require us to pay out approximately \$26,625,000 each quarter to common stockholders and unitholders.

### Off Balance Sheet Arrangements

As of June 30, 2018, our unconsolidated joint ventures had \$898,250,000 of outstanding indebtedness, of which our share was \$181,017,000. We do not guarantee the indebtedness of our unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carve outs relating to specified covenants and representations; however, we may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans in order to enable the joint venture to repay this indebtedness upon maturity.

### Stock Repurchase Program

On August 1, 2017, our Board of Directors approved the repurchase of up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. The amount and 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.

### 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.

## Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of June 30, 2018, we believe we are in compliance with all of our covenants.

## Transfer Tax Assessments

During 2017, the New York City Department of Finance issued Notices of Determination (“Notices”) assessing additional transfer taxes (including interest and penalties) in connection with the transfer of interests in certain properties during our 2014 initial public offering. Prior to February 16, 2018, we believed that the likelihood of a loss related to these assessments was remote. On February 16, 2018, the New York City Tax Appeals Tribunal issued a decision against a publicly traded REIT in a case interpreting the same provisions of the transfer tax statute, on similar but distinguishable facts. As a result, after consultation with legal counsel, we now believe the likelihood of loss is reasonably possible, and while it is not possible to predict the outcome of these Notices, we estimate the range of loss could be between \$0 and \$38,000,000. Since no amount in this range is a better estimate than any other amount within the range, we have not accrued any liability arising from potential losses relating to these Notices in our consolidated financial statements.

## Inflation

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

## Cash Flows

Cash and cash equivalents and restricted cash were \$266,285,000 and \$250,425,000 as of June 30, 2018 and December 31, 2017, respectively. The following table sets forth the changes in cash flow.

	For the Six Months Ended June 30,	
(Amounts in thousands)	2018	2017
Net cash provided by (used)		

in):		
Operating activities	\$ 106,511	\$ 78,992
Investing activities	(80,960 )	492,123
Financing activities	(9,691 )	(466,307)

## Operating Activities

Six months ended June 30, 2018 – We generated \$106,511,000 of cash from operating activities for the six months ended June 30, 2018, primarily from (i) \$117,453,000 of net income (before \$105,316,000 of noncash adjustments and \$46,000,000 of real estate impairment loss), (ii) \$1,305,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$12,247,000 of net changes in operating assets and liabilities. Noncash adjustments of \$105,316,000 were primarily comprised of depreciation and amortization, straight-lining of rental income, amortization of above and below market leases and amortization of stock-based compensation.

Six months ended June 30, 2017 – We generated \$78,992,000 of cash from operating activities for the six months ended June 30, 2017, primarily from (i) \$94,826,000 of net income (before \$89,004,000 of noncash adjustments and \$133,989,000 of gain on sale of real estate) and (ii) \$2,904,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$18,738,000 of net changes in operating assets and liabilities. Noncash adjustments of \$89,004,000 were primarily comprised of depreciation and amortization, income from unconsolidated joint ventures, straight-lining of rental income, amortization of above and below market leases, loss on early extinguishment of debt and amortization of stock-based compensation.

## Investing Activities

Six months ended June 30, 2018 – We used \$80,960,000 of cash for investing activities for the six months ended June 30, 2018, primarily due to (i) \$51,610,000 for additions to real estate, which were comprised of spending for tenant improvements and other building improvements, (ii) \$17,137,000 for investments in unconsolidated joint ventures, (iii) \$15,680,000 for escrow deposits and loans receivable for RDF, partially offset by (iv) \$3,113,000 from the net sales and marketable securities (which are held in our deferred compensation plan) and (v) \$354,000 of net distributions from our unconsolidated joint ventures and real estate funds.

Six months ended June 30, 2017 – We generated \$492,123,000 of cash for investing activities for the six months ended June 30, 2017, primarily from (i) \$540,333,000 of proceeds from the sales of real estate, (ii) \$23,261,000 of net distributions from unconsolidated joint ventures and real estate funds and (iii) \$3,313,000 for net sales of marketable securities (which are held in our deferred compensation plan), partially offset by (iv) \$33,079,000 for additions to real estate, which were comprised of spending for tenant improvements and other building improvements, (v) \$28,791,000 for investments in unconsolidated joint ventures and (vi) \$12,914,000 deposit on real estate.

## Financing Activities

Six months ended June 30, 2018 – We used \$9,691,000 of cash for financing activities for the six months ended June 30, 2018, primarily due to (i) \$51,837,000 for dividends and distributions paid to common stockholders and unitholders, (ii) \$6,351,000 for the payment of debt issuance costs and (iii) \$4,118,000 for distributions to noncontrolling interests, partially offset by, (iv) \$36,128,000 of contributions from noncontrolling interests, and (v) \$16,700,000 of proceeds from notes and mortgages payable.

Six months ended June 30, 2017 – We used \$466,307,000 of cash from financing activities for the six months ended June 30, 2017, primarily due to (i) \$1,044,821,000 for repayment of notes and mortgages payable and \$7,877,000 for the loss on early extinguishment of debt, primarily for the early repayments of One Market Plaza, 1899 Pennsylvania Avenue and Liberty Place loans, (ii) \$290,000,000 for repayments of the amounts borrowed under the revolving credit facility (iii) \$107,162,000 for distributions to noncontrolling interests, (iv) \$50,358,000 for dividends and distributions paid to common stockholders and unitholders, (v) \$19,425,000 for the settlement of swap liabilities and (vi) \$7,344,000 for the payment of debt issuance costs, primarily offset by (vii) \$991,556,000 of proceeds from notes and mortgages payable, primarily from the refinancing of One Market Plaza, (viii) \$60,000,000 of borrowings under the revolving credit facility and (ix) \$9,278,000 of contributions from noncontrolling interests.



## Non-GAAP Financial Measures

We use and present NOI, Same Store NOI, FFO and Core FFO, as supplemental measures of our performance. The summary below describes our use of these measures, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income or loss, the most directly comparable GAAP measure. Other real estate companies may use different methodologies for calculating these measures, and accordingly, our presentation of these measures may not be comparable to other real estate companies. These non-GAAP measures should not be considered a substitute for, and should only be considered together with and as a supplement to, financial information presented in accordance with GAAP.

## Net Operating Income (“NOI”)

We use NOI to measure the operating performance of our properties. NOI consists of property-related revenue (which includes rental income, tenant reimbursement income and certain other income) less operating expenses (which includes building expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We also present Cash NOI, which deducts from NOI, straight-line rent adjustments and the amortization of above and below-market leases, net, including our share of such adjustments of unconsolidated joint ventures. In addition, we present our share of NOI and Cash NOI, which represents our share of NOI and Cash NOI of consolidated and unconsolidated joint ventures, based on our percentage ownership in the underlying assets. We use NOI and Cash NOI internally as performance measures and believe they provide useful information to investors regarding our financial condition and results of operations because they reflect only those income and expense items that are incurred at the property level.

The following tables present reconciliations of net (loss) income to NOI and Cash NOI for the three and six months ended June 30, 2018 and 2017.

(Amounts in thousands)	For the Three Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net (loss) income to					
NOI and Cash NOI:					
Net (loss) income	\$(36,578 )	\$11,115	\$(41,841 )	\$7,998	\$(13,850)
Add (subtract) adjustments to arrive at NOI					
and Cash NOI:					
Depreciation and amortization	64,775	38,369	5,540	20,206	660



Edgar Filing: Paramount Group, Inc. - Form 10-Q

General and administrative	17,195	-	-	-	17,195
Interest and debt expense	36,809	23,266	-	12,273	1,270
Transaction related costs	293	-	-	-	293
Income tax (benefit) expense	(120 )	-	-	5	(125 )
NOI from unconsolidated joint ventures	4,569	4,493	-	-	76
Income from unconsolidated joint ventures	(2,521 )	(2,506 )	-	-	(15 )
Loss from unconsolidated real estate funds	14	-	-	-	14
Fee income	(5,409 )	-	-	-	(5,409 )
Interest and other income, net	(2,094 )	-	-	(186 )	(1,908 )
Real estate impairment loss	46,000	-	46,000	-	-
NOI	122,933	74,737	9,699	40,296	(1,799 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(16,674 )	-	-	(16,674 )	-
Consolidated real estate fund	(13 )	-	-	-	(13 )
Paramount's share of NOI	\$106,246	\$74,737	\$9,699	\$23,622	\$(1,812 )
NOI	\$122,933	\$74,737	\$9,699	\$40,296	\$(1,799 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(16,853 )	(11,497)	204	(5,536 )	(24 )
Amortization of above and below-market leases, net					
(including our share of unconsolidated joint ventures)	(4,141 )	533	(550 )	(4,124 )	-
Cash NOI	101,939	63,773	9,353	30,636	(1,823 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(13,438 )	-	-	(13,438 )	-
Consolidated real estate fund	(13 )	-	-	-	(13 )
Paramount's share of Cash NOI	\$88,488	\$63,773	\$9,353	\$17,198	\$(1,836 )

Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income to NOI and Cash NOI:					
Net income	\$138,182	\$19,561	\$110,959	\$2,197	\$5,465
Add (subtract) adjustments to arrive at NOI					
and Cash NOI:					
Depreciation and amortization	68,636	38,063	5,333	24,729	511
General and administrative	16,573	-	-	-	16,573
Interest and debt expense	34,817	22,191	713	10,194	1,719
Loss on early extinguishment of debt	5,162	-	5,162	-	-
Transaction related costs	502	-	-	-	502
Income tax expense	970	-	-	3	967
NOI from unconsolidated joint ventures	4,958	4,838	-	-	120
Income from unconsolidated joint ventures	(16,535 )	(16,473 )	-	-	(62 )
Loss from unconsolidated real estate funds	2,411	-	-	-	2,411
Fee income	(4,448 )	-	-	-	(4,448 )
Interest and other income, net	(2,486 )	(29 )	(11 )	(42 )	(2,404 )
Gain on sale of real estate	(133,989 )	-	(110,583 )	-	(23,406 )
NOI	114,753	68,151	11,573	37,081	(2,052 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(12,200 )	-	-	(12,200 )	-
Consolidated real estate fund	(345 )	-	-	-	(345 )
Paramount's share of NOI	\$102,208	\$68,151	\$11,573	\$24,881	\$(2,397 )
NOI	\$114,753	\$68,151	\$11,573	\$37,081	\$(2,052 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)					
	(12,208 )	(7,545 )	(333 )	(4,302 )	(28 )
Amortization of above and below-market leases, net					
(including our share of unconsolidated joint ventures)	(7,818 )	817	(550 )	(8,085 )	-
Cash NOI	94,727	61,423	10,690	24,694	(2,080 )
Less Cash NOI attributable to noncontrolling					
interests in:					
Consolidated joint ventures	(8,946 )	-	-	(8,946 )	-
Consolidated real estate fund	(345 )	-	-	-	(345 )
Paramount's share of Cash NOI	\$85,436	\$61,423	\$10,690	\$15,748	\$(2,425 )



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net (loss) income to NOI and Cash NOI:					
Net (loss) income	\$(33,863 )	\$16,594	\$ (37,749 )	\$12,907	\$(25,615)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	129,931	76,555	11,052	41,069	1,255
General and administrative	29,826	-	-	-	29,826
Interest and debt expense	72,891	46,012	-	24,440	2,439
Transaction related costs	413	-	-	-	413
Income tax expense	357	-	-	8	349
NOI from unconsolidated joint ventures	9,309	9,158	-	-	151
Income from unconsolidated joint ventures	(2,459 )	(2,433 )	-	-	(26 )
Loss from unconsolidated real estate funds	80	-	-	-	80
Fee income	(8,874 )	-	-	-	(8,874 )
Interest and other income, net	(4,110 )	-	-	(345 )	(3,765 )
Real estate impairment loss	46,000	-	46,000	-	-
NOI	239,501	145,886	19,303	78,079	(3,767 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(32,688 )	-	-	(32,688 )	-
Consolidated real estate fund	13	-	-	-	13
Paramount's share of NOI	\$206,826	\$145,886	\$ 19,303	\$ 45,391	\$(3,754 )
NOI	\$239,501	\$145,886	\$ 19,303	\$ 78,079	\$(3,767 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(30,050 )	(21,005 )	362	(9,444 )	37
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(8,398 )	1,090	(1,097 )	(8,391 )	-
Cash NOI	201,053	125,971	18,568	60,244	(3,730 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(26,631 )	-	-	(26,631 )	-
Consolidated real estate fund	13	-	-	-	13
Paramount's share of Cash NOI	\$174,435	\$125,971	\$ 18,568	\$ 33,613	\$(3,717 )



Edgar Filing: Paramount Group, Inc. - Form 10-Q

(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$ 139,811	\$ 21,051	\$ 118,539	\$ 3,828	\$(3,607 )
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	131,628	77,094	10,614	42,778	1,142
General and administrative	30,154	-	-	-	30,154
Interest and debt expense	71,835	44,192	2,724	20,957	3,962
Loss on early extinguishment of debt	7,877	-	5,162	2,715	-
Transaction related costs	777	-	-	-	777
Income tax expense	5,252	-	-	8	5,244
NOI from unconsolidated joint ventures	9,781	9,591	-	-	190
Income from unconsolidated joint ventures	(18,472 )	(18,398 )	-	-	(74 )
Loss from unconsolidated real estate funds	2,123	-	-	-	2,123
Fee income	(14,004 )	-	-	-	(14,004 )
Interest and other income, net	(5,686 )	(61 )	(20 )	(69 )	(5,536 )
Gain on sale of real estate	(133,989 )	-	(110,583 )	-	(23,406 )
Unrealized gain on interest rate swaps	(1,802 )	-	-	(1,802 )	-
NOI	225,285	133,469	26,436	68,415	(3,035 )
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(24,229 )	-	-	(24,229 )	-
Consolidated real estate fund	(486 )	-	-	-	(486 )
Paramount's share of NOI	\$ 200,570	\$ 133,469	\$ 26,436	\$ 44,186	\$(3,521 )
NOI	\$ 225,285	\$ 133,469	\$ 26,436	\$ 68,415	\$(3,035 )
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(32,719 )	(21,513 )	(1,396 )	(9,843 )	33
Amortization of above and below-market leases, net	(10,699 )	2,957	(1,097 )	(12,559 )	-
Cash NOI	181,867	114,913	23,943	46,013	(3,002 )
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(16,828 )	-	-	(16,828 )	-
Consolidated real estate fund	(486 )	-	-	-	(486 )
Paramount's share of Cash NOI	\$ 164,553	\$ 114,913	\$ 23,943	\$ 29,185	\$(3,488 )



## Same Store NOI

The tables below set forth the reconciliations of our share of NOI to our share of Same Store NOI and Same Store Cash NOI for the three months and six months June 30, 2018 and 2017. These metrics are used to measure the operating performance of our properties that were owned by us in a similar manner during both the current and prior reporting periods, and represents our share of Same Store NOI and Same Store Cash NOI from consolidated and unconsolidated joint ventures based on our percentage ownership in the underlying assets. Same Store NOI also excludes lease termination income, bad debt expense and certain other items that vary from period to period. Same Store Cash NOI excludes the effect of non-cash items such as the straight-lining of rental revenue and the amortization of above and below-market leases.

(Amounts in thousands)	For the Three Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended June 30, 2018 <sup>(1)</sup>	\$ 106,246	\$ 74,737	\$ 9,699	\$ 23,622	\$ (1,812)
Acquisitions <sup>(2)</sup>	(2,361 )	-	-	(2,361 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(54 )	(54 )	-	-	-
Other, net	174	174	-	-	-
Paramount's share of Same Store NOI for the three months ended June 30, 2018	\$ 104,005	\$ 74,857	\$ 9,699	\$ 21,261	\$ (1,812)
(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended June 30, 2017 <sup>(1)</sup>	\$ 102,208	\$ 68,151	\$ 11,573	\$ 24,881	\$ (2,397)
Acquisitions	-	-	-	-	-
Dispositions <sup>(3)</sup>	(2,332 )	-	(2,332 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,041 )	(175 )	-	(866 )	-
Other, net	(785 )	30	-	(698 )	(117 )
Paramount's share of Same Store NOI for the three months ended June 30, 2017	\$ 98,050	\$ 68,006	\$ 9,241	\$ 23,317	\$ (2,514)
Increase (decrease) in Same Store NOI	\$ 5,955 <sup>(4)</sup>	\$ 6,851	\$ 458	\$ (2,056 ) <sup>(4)</sup>	\$ 702
% Increase (decrease)	6.1	% <sup>(4)</sup> 10.1	% 5.0	% (8.8	% <sup>(4)</sup>



- (1) See page 52 “Non-GAAP Financial Measures – Net Operating Income (“NOI”) for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.
- (2) Represents our share of NOI attributable to acquired properties (50 Beale Street in San Francisco) for the months in which they were not owned by us in both reporting periods.
- (3) Represents our share of NOI attributable to sold properties (Waterview in Washington, D.C.) for the months in which they were not owned by us in both reporting periods
- (4) This decrease resulted from income of \$3,028 in the prior year from the accelerated amortization of certain below-market lease liabilities in connection with such tenants’ lease modifications. Excluding this income, Same Store NOI increased by 9.5% for the total portfolio and 4.8% for our San Francisco portfolio.

(Amounts in thousands)	For the Three Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended June 30, 2018 <sup>(1)</sup>	\$88,488	\$63,773	\$ 9,353	\$ 17,198	\$(1,836)
Acquisitions <sup>(2)</sup>	(1,766 )	-	-	(1,766 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(54 )	(54 )	-	-	-
Other, net	174	174	-	-	-
Paramount's share of Same Store Cash NOI for the three months ended June 30, 2018	\$86,842	\$63,893	\$ 9,353	\$ 15,432	\$(1,836)
(Amounts in thousands)	For the Three Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended June 30, 2017 <sup>(1)</sup>	\$85,436	\$61,423	\$ 10,690	\$ 15,748	\$(2,425)
Acquisitions	-	-	-	-	-
Dispositions <sup>(3)</sup>	(2,332 )	-	(2,332 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,041 )	(175 )	-	(866 )	-
Other, net	(87 )	30	-	-	(117 )
Paramount's share of Same Store Cash NOI for the three months ended June 30, 2017	\$81,976	\$61,278	\$ 8,358	\$ 14,882	\$(2,542)
Increase in Same Store Cash NOI	\$4,866	\$2,615	\$ 995	\$ 550	\$706
% Increase	5.9	% 4.3	% 11.9	% 3.7	%

<sup>(1)</sup> See page 52 “Non-GAAP Financial Measures – Net Operating Income (“NOI”)” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

<sup>(2)</sup> Represents our share of Cash NOI attributable to acquired properties (50 Beale Street in San Francisco) for the months in which they were not owned by us in both reporting periods.

<sup>(3)</sup> Represents our share of Cash NOI attributable to sold properties (Waterview in Washington, D.C.) for the months in which they were not owned by us in both reporting periods.



(Amounts in thousands)	For the Six Months Ended June 30, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the six months ended June 30, 2018 <sup>(1)</sup>	\$206,826	\$145,886	\$ 19,303	\$ 45,391	\$(3,754)
Acquisitions <sup>(2)</sup>	(4,667 )	(173 )	-	(4,494 )	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(244 )	(244 )	-	-	-
Other, net	174	174	-	-	-
Paramount's share of Same Store NOI for the six months ended June 30, 2018	\$202,089	\$145,643	\$ 19,303	\$ 40,897	\$(3,754)
(Amounts in thousands)	For the Six Months Ended June 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the six months ended June 30, 2017 <sup>(1)</sup>	\$200,570	\$133,469	\$ 26,436	\$ 44,186	\$(3,521)
Acquisitions	-	-	-	-	-
Dispositions <sup>(3)</sup>	(8,632 )	-	(8,632 )	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,107 )	(241 )	-	(866 )	-
Other, net	(785 )	30	-	(698 )	(117 )
Paramount's share of Same Store NOI for the six months ended June 30, 2017	\$190,046	\$133,258	\$ 17,804	\$ 42,622	\$(3,638)
Increase (decrease) in Same Store NOI	\$12,043 <sup>(4)</sup>	\$12,385	\$ 1,499	\$(1,725 ) <sup>(4)</sup>	\$(116 )
% Increase (decrease)	6.3	% <sup>(4)</sup> 9.3	% 8.4	% (4.0	% <sup>(4)</sup>

<sup>(1)</sup> See page 52 “Non-GAAP Financial Measures – Net Operating Income (“NOI”)” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

<sup>(2)</sup> Represents our share of NOI attributable to acquired properties (60 Wall Street in New York and 50 Beale Street in San Francisco) for the months in which they were not owned by us in both reporting periods.

<sup>(3)</sup> Represents our share of NOI attributable to sold properties (Waterview in Washington, D.C.) for the months in which they were not owned by us in both reporting periods.

<sup>(4)</sup>

Edgar Filing: Paramount Group, Inc. - Form 10-Q

This decrease resulted from income of \$3,028 in the prior year from the accelerated amortization of certain below-market lease liabilities in connection with such tenants' lease modifications. Excluding this income, Same Store NOI increased by 8.1% for the total portfolio and 3.3% for our San Francisco portfolio.



Funds from Operations (“FFO”) and Core Funds from Operations (“Core FFO”)

FFO is a supplemental measure of our performance. We present FFO in accordance with the definition adopted by the National Association of Real Estate Investment Trusts (“Nareit”). Nareit defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, impairment losses on depreciable real estate and depreciation and amortization expense from real estate assets, including our share of such adjustments of unconsolidated joint ventures. FFO is commonly used in the real estate industry to assist investors and analysts in comparing results of real estate companies because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. In addition, we present Core FFO as an alternative measure of our operating performance, which adjusts FFO for certain other items that we believe enhance the comparability of our FFO across periods. Core FFO, when applicable, excludes the impact of certain items, including, transaction related costs, realized and unrealized gains or losses on real estate fund investments, unrealized gains or losses on interest rate swaps, severance costs and gains or losses on early extinguishment of debt, in order to reflect the Core FFO of our real estate portfolio and operations. In future periods, we may also exclude other items from Core FFO that we believe may help investors compare our results.

Edgar Filing: Paramount Group, Inc. - Form 10-Q

FFO and Core FFO are presented as supplemental financial measures and do not fully represent our operating performance. Neither FFO nor Core FFO is intended to be a measure of cash flow or liquidity. Please refer to our consolidated financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table presents a reconciliation of net (loss) income to FFO and Core FFO for the periods set forth below.

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Reconciliation of net (loss) income to FFO and Core FFO:				
Net (loss) income	\$(36,578 )	\$138,182	\$(33,863 )	\$139,811
Real estate depreciation and amortization (including our share of unconsolidated joint ventures)	66,711	70,660	133,871	135,500
Real estate impairment loss	46,000	-	46,000	-
Gain on sale of depreciable real estate	-	(110,583 )	-	(110,583 )
FFO	76,133	98,259	146,008	164,728
Less FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	(10,840 )	(7,740 )	(21,047 )	(14,935 )
Consolidated real estate fund	(152 )	(20,276 )	(582 )	(20,416 )
Operating Partnership	(6,206 )	(7,925 )	(11,791 )	(15,470 )
FFO attributable to common stockholders	\$58,935	\$62,318	\$112,588	\$113,907
Per diluted share	\$0.25	\$0.27	\$0.47	\$0.49



Edgar Filing: Paramount Group, Inc. - Form 10-Q

FFO	\$76,133	\$98,259	\$146,008	\$164,728
Non-core items:				
Our share of distributions from 712 Fifth Avenue in excess of earnings	(1,512 )	(15,072 )	(317 )	(15,072 )
Transaction related costs	293	502	413	777
Realized and unrealized loss from unconsolidated real estate funds	74	2,482	205	2,247
After-tax net gain on sale of residential condominium land parcel	-	(21,568 )	-	(21,568 )
Loss on early extinguishment of debt	-	5,162	-	7,877
Unrealized gain on interest rate swaps (including our share of unconsolidated joint ventures)	-	(364 )	-	(2,750 )
Core FFO	74,988	69,401	146,309	136,239
Less Core FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	(10,840 )	(7,740 )	(21,047 )	(15,401 )
Consolidated real estate fund	(152 )	12	(582 )	(128 )
Operating Partnership	(6,097 )	(7,108 )	(11,818 )	(14,640 )
Core FFO attributable to common stockholders	\$57,899	\$54,565	\$112,862	\$106,070
Per diluted share	\$0.24	\$0.23	\$0.47	\$0.45
Reconciliation of weighted average shares outstanding:				
Weighted average shares outstanding	240,336,485	234,990,468	240,324,183	232,968,602

Edgar Filing: Paramount Group, Inc. - Form 10-Q

Effect of dilutive securities	17,229	20,362	20,525	27,220
Denominator for FFO and Core FFO per diluted share	240,353,714	235,010,830	240,344,708	232,995,822

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The following table summarizes our consolidated debt, the weighted average interest rates and the fair value as of June 30, 2018.

Property (Amounts in thousands)	Rate	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
<b>Fixed Rate Debt:</b>									
1633 Broadway <sup>(1)</sup>	3.54%	\$ -	\$ -	\$ -	\$ -	\$1,000,000	\$ -	\$1,000,000	\$1,021,456
1301 Avenue of the Americas	3.05%	-	-	-	500,000	-	-	500,000	483,623
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	481,450
One Market Plaza	4.03%	-	-	-	-	-	975,000	975,000	975,412
50 Beale Street	3.65%	-	-	-	228,000	-	-	228,000	224,969
<b>Total Fixed Rate Debt</b>	<b>3.66%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$728,000</b>	<b>\$1,000,000</b>	<b>\$1,475,000</b>	<b>\$3,203,000</b>	<b>\$3,186,910</b>
<b>Variable Rate Debt:</b>									
1633 Broadway	3.73%	\$ -	\$ -	\$ -	\$ -	\$46,800	\$ -	\$46,800	\$47,804
1301 Avenue of the Americas	3.80%	-	-	-	350,000	-	-	350,000	356,537
<b>\$1.0 Billion Revolving Credit Facility</b>									
Facility	n/a	-	-	-	-	-	-	-	-
<b>Total Variable Rate Debt</b>	<b>3.79%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$350,000</b>	<b>\$46,800</b>	<b>\$ -</b>	<b>\$396,800</b>	<b>\$404,341</b>
<b>Total Consolidated Debt</b>	<b>3.68%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,078,000</b>	<b>\$1,046,800</b>	<b>\$1,475,000</b>	<b>\$3,599,800</b>	<b>\$3,591,251</b>

<sup>(1)</sup>All of this debt has been swapped from floating rate debt to fixed rate debt. See table below.

In addition to the above, our unconsolidated joint ventures had \$898,250,000 of outstanding indebtedness as of June 30, 2018, of which our share was \$181,017,000.

The following table summarizes our fixed rate debt that has been swapped from floating rate to fixed as of June 30, 2018.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of June 30, 2018
(Amounts in thousands)					
1633 Broadway <sup>(1)</sup>	\$300,000	Dec-2015	Dec-2022	1.95 %	\$9,762
1633 Broadway <sup>(1)</sup>	300,000	Dec-2015	Dec-2021	1.82 %	8,790
1633 Broadway <sup>(1)</sup>	400,000	Dec-2015	Dec-2020	1.65 %	9,423
1633 Broadway <sup>(1)</sup>	400,000	Dec-2020	Dec-2021	2.35 %	1,909
Total interest rate swap assets designated as cash flow hedges (included in "other assets")					\$29,884

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

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

	As of June 30, 2018			As of December 31, 2017		
	Balance	Weighted Average Interest Rate	Effect of 1% Increase in Base Rates	Balance	Weighted Average Interest Rate	
(Amounts in thousands, except per share amount)						
Paramount's share of consolidated debt:						
Variable rate	\$396,800	3.79 %	\$ 3,968	\$380,100	3.17 %	
Fixed rate <sup>(1)</sup>	2,548,658	3.59 %	-	2,548,658	3.59 %	
	\$2,945,458	3.62 %	\$ 3,968	\$2,928,758	3.54 %	

Paramount's share of debt of non-consolidated entities

(non-recourse):						
Variable rate	\$28,808	4.52 %	\$ 288	\$28,808	3.93 %	
Fixed rate <sup>(1)</sup>	152,209	3.41 %	-	152,182	3.41 %	
	\$181,017	3.59 %	\$ 288	\$180,990	3.49 %	
Noncontrolling interests' in the Operating Partnership share of above			\$ (409 )			
Total change in annual net income			\$ 3,847			
Per diluted share			\$ 0.02			

<sup>(1)</sup>Our fixed rate debt includes floating rate debt that has been swapped to fixed. See table on page 61.

## ITEM 4.CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of June 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures. Based on the foregoing evaluation, as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting in connection with the evaluation referenced above that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. As of June 30, 2018, 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 1A. RISK FACTORS

Except to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations”), there were no material changes to the risk factors disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Recent Sales of Unregistered Securities

None.

#### Recent Purchases of Equity Securities

None.



### Stock Repurchase Program

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 and 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 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the following Exhibit Index:



EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1* †	<u>Resignation Agreement among Paramount Group, Inc., Paramount Group Management LP, Paramount Group Operating Partnership LP and Dan Lauer, effective as of June 6, 2018.</u>
10.2* †	<u>Retirement and Consulting Agreement among Paramount Group, Inc., Paramount Group Management LP, Paramount Group Operating Partnership LP and Jolanta Bott, effective as of June 30, 2018.</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley</u>

Act of 2002.

32.1\*\* Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS\* XBRL Instance Document.

101.SCH\* XBRL Taxonomy Extension Schema.

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase.

101.DEF\* XBRL Taxonomy Extension Definition Linkbase.

101.LAB\* XBRL Taxonomy Extension Label Linkbase.

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase.

---

\* Filed herewith

\*\* Furnished herewith

† Indicates management contract or compensatory plan or arrangement



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Paramount Group, Inc.

Date: August 8, 2018 By: /s/ Wilbur Paes  
Wilbur Paes  
Executive Vice President, Chief Financial Officer and Treasurer

(duly authorized officer and principal financial and accounting officer)