

Paramount Group, Inc.
Form 10-Q
August 13, 2015

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, 2015

OR

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

For the transition period from _____ To _____

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of July 31, 2015, there were 212,111,937 shares of the registrant's common stock outstanding.



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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	The Company	
ASSETS	June 30, 2015	December 31, 2014
Rental property, at cost		
Land	\$2,042,071	\$2,042,071
Buildings and improvements	5,534,885	5,488,168
	7,576,956	7,530,239
Accumulated depreciation and amortization	(162,377)	(81,050)
Rental property, net	7,414,579	7,449,189
Real estate fund investments	335,545	323,387
Investments in unconsolidated joint ventures	6,128	5,749
Cash and cash equivalents	438,088	438,599
Restricted cash	45,737	55,728
Marketable securities	21,524	20,159
Deferred rent receivable	40,308	8,267
Accounts and other receivables, net of allowance of \$406 and \$333 in 2015		
and 2014, respectively	10,781	7,692
Deferred charges, net of accumulated amortization of \$13,002 and \$10,859 in 2015		
and 2014, respectively	49,547	39,165
Intangible assets, net of accumulated amortization of \$103,158 and \$20,509 in 2015		
and 2014, respectively	583,126	669,385
Other assets	9,529	13,121
Total assets	\$8,954,892	\$9,030,441
LIABILITIES AND EQUITY		
Mortgages and notes payable	\$2,853,237	\$2,852,287
Credit facility	-	-
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	43,981	42,195
Accounts payable and accrued expenses	96,595	93,472
Deferred income taxes	2,659	2,861
Interest rate swap liabilities	160,473	194,196

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Intangible liabilities, net of accumulated amortization of \$21,064 and \$3,757 in 2015

and 2014, respectively	201,839	219,228
Dividends and distributions payable	25,066	-
Other liabilities	45,922	43,950
Total liabilities	3,457,071	3,475,488
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 212,111,937 and 212,106,718 shares in 2015 and 2014, respectively	2,122	2,122
Additional paid-in-capital	3,893,756	3,851,432
Earnings (less than) in excess of distributions	(5,843)	57,308
Accumulated other comprehensive loss	(493)	-
Paramount Group, Inc. equity	3,889,542	3,910,862
Noncontrolling interests in:		
Consolidated joint ventures and funds	703,596	685,888
Operating Partnership (51,660,088 and 51,543,993 units outstanding in 2015		
and 2014, respectively)	904,683	958,203
Total equity	5,497,821	5,554,953
Total liabilities and equity	\$8,954,892	\$9,030,441

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	The Company	
	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
REVENUES:		
Rental income	\$145,917	\$289,160
Tenant reimbursement income	12,063	25,551
Fee and other income	4,948	9,443
Total revenues	162,928	324,154
EXPENSES:		
Operating	57,781	119,665
Depreciation and amortization	79,421	153,004
General and administrative	9,133	21,746
Acquisition and transaction related costs	8,208	9,347
Total expenses	154,543	303,762
Operating income	8,385	20,392
Income from real estate fund investments	14,072	19,293
Income from unconsolidated joint ventures	2,011	2,986
Unrealized gains on interest rate swaps	21,747	33,725
Interest and other income, net	512	1,366
Interest and debt expense	(42,236)	(84,124)
Net income (loss) before income taxes	4,491	(6,362)
Income tax expense	(1,343)	(1,917)
Net income (loss)	3,148	(8,279)
Less net (income) loss attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	(9,004)	(9,672)
Operating Partnership	1,147	3,511
Net loss attributable to common shareholders	\$(4,709)	\$(14,440)
LOSS PER COMMON SHARE - BASIC:		
Loss per common share	\$(0.02)	\$(0.07)
Weighted average shares outstanding	212,106,718	212,106,718
LOSS PER COMMON SHARE - DILUTED:		
Loss per common share	\$(0.02)	\$(0.07)
Weighted average shares outstanding	212,106,718	212,106,718
DIVIDENDS PER COMMON SHARE	\$0.095	\$0.190

(1)

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

See notes to combined consolidated financial statements (unaudited).

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PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands)	The Predecessor	
	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
REVENUES:		
Rental income	\$8,499	\$16,312
Tenant reimbursement income	441	896
Distributions from real estate fund investments	4,744	11,247
Realized and unrealized gains, net	33,750	79,917
Fee and other income	6,400	11,582
Total revenues	53,834	119,954
EXPENSES:		
Operating	4,214	7,753
Depreciation and amortization	2,899	5,566
General and administrative	4,363	12,448
Profit sharing compensation	3,438	8,232
Other	2,634	3,901
Total expenses	17,548	37,900
Operating income	36,286	82,054
Income from unconsolidated joint ventures	903	2,035
Unrealized loss on interest rate swaps	(354)	(196)
Interest and other income, net	997	1,706
Interest and debt expense	(7,988)	(15,787)
Net income before income taxes	29,844	69,812
Income tax expense	(3,842)	(7,105)
Net income	26,002	62,707
Net income attributable to noncontrolling interests	(25,823)	(53,133)
Net income attributable to the Predecessor	\$179	\$9,574

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	The Company	
	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
(Amounts in thousands)		
Net income (loss)	\$3,148	\$(8,279)
Other comprehensive loss:		
Pro rata share of other comprehensive loss of unconsolidated joint ventures	(613)	(613)
Comprehensive income (loss)	2,535	(8,892)
Less comprehensive (income) loss attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	(9,004)	(9,672)
Operating Partnership	1,267	3,631
Comprehensive loss attributable to Paramount Group, Inc.	\$(5,202)	\$(14,933)

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands)	Common Shares		Additional Paid in Capital	Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Loss	Predecessor Shareholders' Equity	Noncontrolling Interests in Consolidated Joint Ventures and Funds		Operating Partnership	Total Equity
	Shares	Amount					Ventures	Operating Partnership		
The Predecessor Balance as of December 31, 2013	-	\$-	\$-	\$-	\$-	\$321,769	\$1,703,675	\$-		\$2,025,444
Net income	-	-	-	-	-	9,574	53,133	-		62,707
Contributions	-	-	-	-	-	1,253	88,804	-		90,057
Distributions	-	-	-	-	-	(22,323)	(2,183)	-		(24,506)
Balance as of June 30, 2014	-	\$-	\$-	\$-	\$-	\$310,273	\$1,843,429	\$-		\$2,153,702
The Company Balance as of December 31, 2014	212,107	\$2,122	\$3,851,432	\$57,308	\$-	\$-	\$685,888	\$958,203		\$5,554,953
Net (loss) income	-	-	-	(14,440)	-	-	9,672	(3,511)		(8,279)
Common shares and units issued under										
Omnibus share plan	5	-	(2,131)	-	-	-	-	2,131		-
Dividends and distributions	-	-	-	(48,573)	-	-	-	(11,819)		(60,392)
Contributions from noncontrolling interests	-	-	-	-	-	-	14,031	-		14,031
	-	-	-	-	-	-	(5,673)	-		(5,673)

Distributions to
noncontrolling

interests									
Pro rata share of other comprehensive									
loss of unconsolidated joint ventures	-	-	-	-	(493)	-		(120)	(613)
Adjustments to noncontrolling interests	-	-	43,981	-	-	-	-	(43,981)	-
Amortization of equity awards	-	-	885	-	-	-	-	3,780	4,665
Other	-	-	(411)	(138)	-	-	(322)	-	(871)
Balance as of June 30, 2015	212,112	\$2,122	\$3,893,756	\$(5,843)	\$(493)	\$-	\$703,596	\$904,683	\$5,497,821

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	The Company Six Months Ended 30, 2015	The Predecessor Six Months Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$(8,279)	\$ 62,707
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	153,004	5,566
Unrealized (gains) losses on interest rate swaps	(33,725)	196
Straight-lining of rental income	(32,042)	90
Realized and unrealized gains, net, on real estate fund investments	(12,136)	(79,917)
Income from unconsolidated joint ventures	(2,986)	(2,035)
Distributions of income from unconsolidated joint ventures	1,993	1,768
Amortization of above and below-market leases, net	(1,762)	-
Amortization of deferred financing costs	1,170	216
Transfer taxes due in connection with the sale of shares by a former joint venture partner	5,872	-
Realized and unrealized gains on marketable securities	(924)	(1,228)
Other non-cash adjustments	8,091	3,756
Changes in operating assets and liabilities:		
Restricted cash	-	2,481
Real estate fund investments	(22)	(164,181)
Accounts and other receivables	(261)	(2,669)
Deferred charges	(12,523)	-
Other assets	2,721	(3,456)
Accounts payable and accrued expenses	(7,635)	(2,945)
Profit sharing payables	-	5,414
Deferred income taxes	(202)	10,043
Other liabilities	1,972	1,693
Net cash provided by (used in) operating activities	62,326	(162,501)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of, and additions to, rental properties	(41,914)	(65,451)
Changes in restricted cash	9,550	253
Distributions of capital from unconsolidated joint ventures	-	1,123
Net cash used in investing activities	(32,364)	(64,075)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to common shareholders and unitholders	(35,325)	-
Contributions from noncontrolling interests	11,203	88,804
Distributions to noncontrolling interests	(5,673)	(2,183)
Contributions from Predecessor shareholders	-	1,253

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Distributions to Predecessor shareholders	-	(22,323)
Proceeds from loans payable to noncontrolling interests	-	39,075
Repayment of mortgage notes and loans payable	(678)	(1,877)
Offering costs	-	(9,577)
Net cash (used in) provided by financing activities	(30,473)	93,172
Net decrease in cash and cash equivalents	(511)	(133,404)
Cash and cash equivalents at beginning of period	438,599	307,161
Cash and cash equivalents at end of period	\$438,088	\$ 173,757

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash payments for interest	\$78,860	\$ 10,665
Cash payments for income taxes	\$1,213	\$ 5,168

NON-CASH TRANSACTIONS:

Dividends and distributions declared but not yet paid	\$25,066	\$ -
Contributions from non controlling interests called but not yet received	2,828	-
(Purchases) sale of marketable securities	(441)	6,946

See notes to combined consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Business

As used in these consolidated and combined financial statements, unless indicated otherwise, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc. and its consolidated subsidiaries, including Paramount Group Operating Partnership LP, upon completion of the Formation Transactions (as more fully described below) and the initial public offering of common stock.

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, 2015, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that had an occupancy rate of 92.9%.

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

We conduct our business through, and substantially all of our interests 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 80.4% of, the Operating Partnership as of June 30, 2015.

Our Predecessor

Our Predecessor is not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) (collectively,

the “Funds”) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia and (iii) three partially owned properties in New York, NY (See note 4, Investments in Unconsolidated Joint Ventures).

Below is a summary of the 15 private equity real estate funds that were controlled by our Predecessor prior to the completion of the Formation Transactions.

The following funds are collectively referred to herein as the “Property Funds”:

- ¶Paramount Group Real Estate Fund I, L.P. (“Fund I”)
- ¶Paramount Group Real Estate Fund II, L.P. (“Fund II”)
- ¶Paramount Group Real Estate Fund III, L.P. (“Fund III”)
- ¶Paramount Group Real Estate Fund IV, L.P. (“Fund IV”)
- ¶PGREF IV Parallel Fund (Cayman), L.P. (“Fund IV Cayman”)
- ¶Paramount Group Real Estate Fund V (CIP), L.P. (“Fund V CIP”)
- ¶Paramount Group Real Estate Fund V (Core), L.P. (“Fund V Core”)
- ¶PGREF V (Core) Parallel Fund (Cayman), L.P. (“Fund V Cayman”)
- ¶Paramount Group Real Estate Fund VII, LP (“Fund VII”)
- ¶Paramount Group Real Estate Fund VII-H, LP (“Fund VII-H”)

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following fund was formed to acquire, develop and manage the residential development project at 75 Howard Street:

Paramount Group Residential Development Fund, LP (“Residential Fund”)

The following funds are collectively referred to herein as the “Alternative Investment Funds”:

Paramount Group Real Estate Special Situations Fund, L.P. (“PGRESS”)

Paramount Group Real Estate Special Situations Fund–H, L.P. (“PGRESS-H”)

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