

Paramount Group, Inc.
Form 10-Q
November 06, 2017
fma

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: September 30, 2017

OR

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

For the transition period from to

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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 October 13, 2017, there were 240,073,742 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 September 30, 2017 and December 31, 2016</u>	3
<u>Consolidated Statements of Income (Unaudited) for the three and nine months</u> <u>– ended September 30, 2017 and 2016</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine</u> <u>months</u> <u>– ended September 30, 2017 and 2016</u>	5
<u>Consolidated Statements of Changes in Equity (Unaudited) for the nine months</u> <u>– ended September 30, 2017 and 2016</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months</u> <u>– ended September 30, 2017 and 2016</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>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	65
Item 4. <u>Controls and Procedures</u>	67
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	68
Item 1A. <u>Risk Factors</u>	68
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	68
Item 3. <u>Defaults Upon Senior Securities</u>	68
Item 4. <u>Mine Safety Disclosures</u>	68
Item 5. <u>Other Information</u>	68

Item 6. <u>Exhibits</u>	68
-------------------------	----

<u>Signatures</u>	69
-------------------	----

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)

ASSETS	September 30, 2017	December 31, 2016
Real estate, at cost		
Land	\$2,209,506	\$2,091,535
Buildings and improvements	6,097,220	5,757,558
	8,306,726	7,849,093
Accumulated depreciation and amortization	(443,555)	(318,161)
Real estate, net	7,863,171	7,530,932
Cash and cash equivalents	185,028	162,965
Restricted cash	32,320	29,374
Investments in unconsolidated joint ventures	46,014	6,411
Investments in unconsolidated real estate funds	8,146	28,173
Preferred equity investments, net of allowance of \$19,588 and \$0	35,763	55,051
Marketable securities	27,867	22,393
Accounts and other receivables, net of allowance of \$324 and \$202	13,822	15,251
Deferred rent receivable	209,226	163,695
Deferred charges, net of accumulated amortization of \$16,628 and \$9,832	88,846	71,184
Intangible assets, net of accumulated amortization of \$189,209 and \$166,841	373,053	412,225
Assets held for sale	-	346,685
Other assets	40,752	22,829
Total assets ⁽¹⁾	\$8,924,008	\$8,867,168
LIABILITIES AND EQUITY		
Notes and mortgages payable, net of deferred financing costs of \$44,029 and \$43,281	\$3,539,071	\$3,364,898
Revolving credit facility	-	230,000
Due to affiliates	27,299	27,299
Accounts payable and accrued expenses	97,679	103,896
Dividends and distributions payable	25,211	25,151
Intangible liabilities, net of accumulated amortization of \$71,453 and \$55,349	138,563	153,018
Other liabilities	54,029	76,959
Total liabilities ⁽¹⁾	3,881,852	3,981,221
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued	2,400	2,300

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

and outstanding 240,073,742 and 230,015,356 shares in 2017 and 2016, respectively		
Additional paid-in-capital	4,286,265	4,116,987
Earnings less than distributions	(104,059)	(129,654)
Accumulated other comprehensive income	1,014	372
Paramount Group, Inc. equity	4,185,620	3,990,005
Noncontrolling interests in:		
Consolidated joint ventures	408,035	253,788
Consolidated real estate fund	14,947	64,793
Operating Partnership (24,977,743 and 34,511,214 units outstanding)	433,554	577,361
Total equity	5,042,156	4,885,947
Total liabilities and equity	\$8,924,008	\$8,867,168

- (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 90.6% as of September 30, 2017. The assets and liabilities of the Operating Partnership, as of September 30, 2017, include \$1,970,149 and \$1,272,907 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 13, Variable Interest Entities.

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Amounts in thousands, except share and per share amounts)	2017	2016	2017	2016
REVENUES:				
Rental income	\$156,384	\$149,019	\$469,961	\$445,452
Tenant reimbursement income	14,053	11,978	38,761	33,101
Fee and other income	9,333	10,321	29,988	37,986
Total revenues	179,770	171,318	538,710	516,539
EXPENSES:				
Operating	68,264	64,025	197,696	186,964
Depreciation and amortization	66,515	66,376	198,143	208,475
General and administrative	14,470	13,235	44,624	39,335
Transaction related costs	274	282	1,051	1,725
Total expenses	149,523	143,918	441,514	436,499
Operating income	30,247	27,400	97,196	80,040
Income from unconsolidated joint ventures	671	1,792	19,143	5,291
Loss from unconsolidated real estate funds	(3,930)	(1,254)	(6,053)	(2,540)
Interest and other (loss) income, net	(17,668)	2,299	(11,982)	5,029
Interest and debt expense	(35,733)	(38,278)	(107,568)	(113,406)
Loss on early extinguishment of debt	-	-	(7,877)	-
Gain on sale of real estate	-	-	133,989	-
Unrealized gain on interest rate swaps	-	12,728	1,802	29,661
Net (loss) income before income taxes	(26,413)	4,687	118,650	4,075
Income tax benefit (expense)	1,010	(218)	(4,242)	817
Net (loss) income	(25,403)	4,469	114,408	4,892
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	14,217	(4,703)	11,029	(10,062)
Consolidated real estate fund	(114)	67	(20,195)	819
Operating Partnership	1,086	28	(12,068)	906
Net (loss) income attributable to common stockholders	\$(10,214)	\$(139)	\$93,174	\$(3,445)

(LOSS) INCOME PER COMMON SHARE -
BASIC:

(Loss) income per common share	\$(0.04)	\$(0.00)	\$0.40	\$(0.02)
Weighted average shares outstanding	239,445,810	219,394,245	235,151,398	216,317,746

(LOSS) INCOME PER COMMON SHARE -
DILUTED:

(Loss) income per common share	\$ (0.04)	\$ (0.00)	\$ 0.40	\$ (0.02)
Weighted average shares outstanding	239,445,810	219,394,245	235,177,683	216,317,746
DIVIDENDS PER COMMON SHARE	\$0.095	\$0.095	\$0.285	\$0.285

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Amounts in thousands)	2017	2016	2017	2016
Net (loss) income	\$(25,403)	\$4,469	\$114,408	\$4,892
Other comprehensive income (loss):				
Change in value of interest rate swaps	738	7,802	729	(33,812)
Pro rata share of other comprehensive income (loss) of				
unconsolidated joint ventures	226	(82)	39	(19)
Comprehensive (loss) income	(24,439)	12,189	115,176	(28,939)
Less comprehensive (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	14,217	(4,703)	11,029	(10,062)
Consolidated real estate fund	(114)	67	(20,195)	819
Operating Partnership	993	(1,286)	(12,194)	7,488
Comprehensive (loss) income attributable to				
common stockholders	\$(9,343)	\$6,267	\$93,816	\$(30,694)

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 Investment Ventures	Consolidated Real Estate Funds	Consolidated Operating Partnership	Total Equity
Balance as of December 31, 2015	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843)	\$236,849	\$414,637	\$898,047	\$5,310,550
Deconsolidation of real estate fund investments upon adoption of ASU 2015-02	-	-	-	-	-	-	(351,035)	-	(351,035)
Balance as of January 1, 2016	212,112	2,122	3,802,858	(36,120)	(7,843)	236,849	63,602	898,047	4,959,515
Net income (loss)	-	-	-	(3,445)	-	10,062	(819)	(906)	4,892
Common shares issued upon redemption of common units	7,403	74	126,068	-	-	-	-	(126,142)	-
Common shares issued under Omnibus share plan	97	-	-	-	-	-	-	-	-
Dividends and distributions (\$0.285 per share and unit)	-	-	-	(61,953)	-	-	-	(13,496)	(75,449)
Distributions to noncontrolling	-	-	-	-	-	(2,692)	-	-	(2,692)

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

interests									
Change in value of interest rate swaps	-	-	-	-	(27,231)	-	-	(6,581)	(33,812)
Pro rata share of other comprehensive									
loss of unconsolidated joint ventures	-	-	-	-	(18)	-	-	(1)	(19)
Amortization of equity awards	-	-	1,605	-	-	-	-	8,019	9,624
Other	-	-	18	191	-	15	7	-	231
Balance as of September 30, 2016	219,612	\$2,196	\$3,930,549	\$(101,327)	\$(35,092)	\$244,234	\$62,790	\$758,940	\$4,862,290
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 (loss)	-	-	-	93,174	-	(11,029)	20,195	12,068	114,408
Common shares issued upon redemption of									
common units	10,001	100	166,424	-	-	-	-	(166,524)	-
Common shares issued under Omnibus									
share plan, net of shares withheld for taxes	58	-	-	(154)	-	-	-	-	(154)
Dividends and distributions (\$0.285 per share									
and unit)	-	-	-	(67,425)	-	-	-	(8,204)	(75,629)
Contributions from noncontrolling interests	-	-	-	-	-	96,472	4,305	-	100,777
Distributions to noncontrolling interests	-	-	-	-	-	(41,203)	(74,346)	-	(115,549)
Consolidation of 50 Beale	-	-	-	-	-	110,007	-	-	110,007

Street									
Change in value of interest rate swaps	-	-	-	-	600	-	-	129	729
Pro rata share of other comprehensive income									
(loss) of unconsolidated joint ventures	-	-	-	-	42	-	-	(3)	39
Amortization of equity awards	-	-	2,244	-	-	-	-	10,882	13,126
Other	-	-	610	-	-	-	-	7,845	8,455
Balance as of September 30, 2017	240,074	\$2,400	\$4,286,265	\$(104,059)	\$1,014	\$408,035	\$14,947	\$433,554	\$5,042,156

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 114,408	\$ 4,892
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	198,143	208,475
Amortization of deferred financing costs	8,367	4,121
Gain on sale of real estate	(133,989)	-
Straight-lining of rental income	(43,529)	(67,843)
Amortization of above and below-market leases, net	(14,164)	(6,593)
Loss on early extinguishment of debt	7,877	-
Unrealized gain on interest rate swaps	(1,802)	(29,661)
Realized and unrealized gains on marketable securities	(3,198)	(341)
Valuation allowance on preferred equity investment	19,588	-
Income from unconsolidated joint ventures	(19,143)	(5,291)
Distributions of earnings from unconsolidated joint ventures	3,380	5,824
Loss from unconsolidated real estate funds	6,053	2,540
Distributions of earnings from unconsolidated real estate funds	275	308
Amortization of stock-based compensation expense	11,692	8,766
Other non-cash adjustments	395	1,981
Changes in operating assets and liabilities:		
Accounts and other receivables	2,260	(1,455)
Deferred charges	(25,429)	(11,266)
Other assets	(18,094)	(39,338)
Accounts payable and accrued expenses	(10,710)	(3,335)
Deferred income taxes	(1,499)	(2,979)
Other liabilities	4,190	1,343
Net cash provided by operating activities	105,071	70,148
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of real estate	540,333	-
Acquisitions of real estate	(161,184)	-
Additions to real estate	(59,255)	(107,445)
Investments in unconsolidated joint ventures	(28,886)	-
Distributions of capital from unconsolidated joint ventures	20,000	-
Deposits on real estate	-	(50,000)
Changes in restricted cash	(8,224)	11,380
Distributions of capital from unconsolidated real estate funds	13,849	-

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

Contributions of capital to unconsolidated real estate funds	(790)	(1,084)
Net cash provided by (used in) investing activities	315,843	(147,149)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes and mortgages payable	\$(1,044,821)	\$(414,564)
Proceeds from notes and mortgages payable	991,556	509,578
Repayment of borrowings under revolving credit facility	(290,000)	(80,000)
Borrowings under revolving credit facility	60,000	110,000
Distributions to noncontrolling interests	(115,549)	(2,692)
Contributions from noncontrolling interests	100,777	-
Dividends paid to common stockholders	(66,469)	(61,241)
Settlement of interest rate swap liabilities	(19,425)	(16,040)
Loss on early extinguishment of debt	(7,877)	-
Debt issuance costs	(7,344)	(6,532)
Transfer tax refund in connection with the acquisition of noncontrolling interests	9,555	-
Distributions paid to common unitholders	(9,100)	(14,124)
Repurchase of shares related to stock compensation agreements		
and related tax withholdings	(154)	-
Net cash (used in) provided by financing activities	(398,851)	24,385
Net increase (decrease) in cash and cash equivalents	22,063	(52,616)
Cash and cash equivalents at beginning of period	162,965	143,884
Decrease in cash due to deconsolidation of real estate fund investments	-	(7,987)
Cash and cash equivalents at end of period	\$ 185,028	\$ 83,281
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 106,731	\$ 106,015
Cash payments for income taxes, net of refunds	5,042	1,524
NON-CASH TRANSACTIONS:		
Common shares issued upon redemption of common units	\$ 166,524	\$ 126,142
Dividends and distributions declared but not yet paid	25,211	25,151
Write-off of fully amortized and/or depreciated assets	5,958	8,475
Additions to real estate included in accounts payable and accrued expenses	10,986	6,609
Purchases of marketable securities resulting in a decrease to restricted cash	2,278	139
Change in fair value of interest rate swaps	(729)	33,812
Consolidation (deconsolidation) of real estate and real estate fund investments	102,512	(396,697)
Assumption of notes and mortgages payable	228,000	-

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 September 30, 2017, 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 90.6% of, the Operating Partnership as of September 30, 2017.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. All significant inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and 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, 2016, as filed with the SEC.

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 from those estimates. The results of operations for the three and nine months ended September 30, 2017, are not necessarily indicative of the operating results for the full year.

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, 2016.

Recently Issued Accounting Pronouncements Not Impacting Our Financial Statements

In March 2016, the FASB issued ASU 2016-09, an update to ASC Topic 718, Compensation – Stock Compensation. ASU 2016-09 improves the accounting for share-based payments including income tax consequences and the classification of awards as either equity awards or liability awards. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016, with early adoption permitted. We adopted the provisions of ASU 2016-09 on January 1, 2017. This adoption did not have any impact on our consolidated financial statements.

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

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In August 2016, the FASB issued ASU 2016-15, an update to ASC Topic 230, Statement of Cash Flows to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We adopted the provisions of ASU 2016-15 retrospectively on January 1, 2017. This adoption did not have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, an update to ASC Topic 810, Consolidation. ASU 2016-17 requires a reporting entity to consider only its proportionate indirect interest in the VIE held through a common control party in evaluating whether it is the primary beneficiary of a VIE. Currently, ASU 2015-02 requires the reporting entity to treat the common control party's interest in the VIE as if the reporting entity held the interest itself. ASU 2016-17 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We adopted the provisions of ASU 2016-17 on January 1, 2017. This adoption did not have any 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 will adopt the provisions of ASU 2017-09 on January 1, 2018 and do not believe that the adoption of ASU 2017-09 will 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 financing 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.

Recently Issued Accounting Pronouncements Potentially Impacting Our Financial Statements

In May 2014, the Financial Accounting Standard's Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, an update to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. We plan to implement ASU 2014-09 on January 1, 2018, using the modified retrospective approach. While we do not believe the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements, it will result in additional disclosures on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, Leases. ASU 2016-02 amends the existing guidance for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either financing or operating and recording a right-of-use asset and a lease liability for all leases with a term greater than 12 months. ASU 2016-02 requires lessors to account for leases using an approach that is substantially similar to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We plan to adopt the provisions of ASU 2016-02 on January 1, 2019 using the modified retrospective approach. While we believe that the key changes in ASU 2016-02 relate to the separation of and allocation of consideration to, lease component (rental income) and non-lease components (revenue related to various services we provide), we continue to evaluate the other potential implications that this update will have on our consolidated financial statements.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 will adopt the provisions of ASU 2016-18 on January 1, 2018. This adoption will impact the presentation of our consolidated statements of cash flows, as well as require additional disclosures to reconcile cash and cash equivalents and restricted cash on our consolidated balance sheets to our consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01, an update to ASC Topic 805, Business Combinations. ASU 2017-01 narrows the definition of a business and provides a framework for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 clarifies that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 also requires that a set cannot be considered a business unless it includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. We adopted the provisions of ASU 2017-01 on October 1, 2016 and concluded that the acquisition of our One Front Street property in December 2016 and 50 Beale in July 2017 did not meet the definition of a business and therefore were treated as asset acquisitions.

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 plan to adopt the provisions of ASU 2017-05 on January 1, 2018, using the modified retrospective approach. Upon adoption, we expect to record 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 75 Howard Street, a fully-entitled residential condominium land parcel ("75 Howard") at fair value. See Note 5, Investments in Unconsolidated Joint Ventures.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. Acquisitions

50 Beale Street

Prior to July 17, 2017, we owned a 3.1% economic interest in 50 Beale Street, a 660,625 square foot Class A office building in San Francisco, California ("50 Beale") through two real estate funds that owned 42.8% of the property (See Note 6, Real Estate Fund Investments). The remaining 57.2% was owned by third party investors. On July 17, 2017, we and a new joint venture in which we have a 36.6% interest, completed the acquisition of 62.2% of the property from our two funds and the third party investors. Subsequent to the acquisition, we own a direct 13.2% interest in the property and the new joint venture owns the remaining 49.0% interest. Accordingly, our economic interest in the property is 31.1%. We began consolidating the accounts of 50 Beale into our consolidated financial statements from the date of acquisition because the property is held through a VIE and we are deemed to be the primary beneficiary of the VIE.

The acquisition valued the property at \$517,500,000 and included the assumption of \$228,000,000 of existing debt that bears interest at a fixed rate of 3.65% and is scheduled to mature in October 2021. The following table summarizes the allocation of purchase price between the assets acquired and liabilities assumed on the date of acquisition.

(Amounts in thousands)

Purchase price allocation:

Land	\$141,097
Building and improvements	343,819
In-place lease intangible assets	27,965
Above-market lease intangible assets	2,976
Accounts receivable and other assets	1,338
Below-market lease intangible liabilities	(11,472)
Accounts payable and other liabilities	(6,532)
Notes and mortgages payable	(228,000)
Net assets acquired	\$271,191

4. 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 statement of income for the nine months ended September 30, 2017.

The following table sets forth the details of the assets of Waterview that were classified as held-for-sale as of December 31, 2016.

(Amounts in thousands)

Land	\$78,300
Building and improvements, net	251,671
Deferred charges	14,512
Deferred rent receivable	2,202
Assets held for sale	\$346,685

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. Investments in Unconsolidated Joint Ventures

On January 24, 2017, a joint venture in which we have a 5.0% ownership interest, acquired 60 Wall Street, a 1.6 million square foot office tower in Manhattan, for \$1.04 billion from certain of our real estate funds and the other investors (see Note 6, Real Estate Fund Investments). In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property. We began accounting for our investment in 60 Wall Street under the equity method, from the date of the acquisition.

Prior to May 5, 2017, our consolidated Residential Development Fund ("RDF"), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel ("75 Howard") in San Francisco, California. On May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net gain on sale, of which our share, net of income taxes, was \$1,661,000. Subsequent to the sale, RDF deconsolidated its investment in 75 Howard and began accounting for the remaining 20.0% under the equity method of accounting, however, we continue to consolidate our interest in RDF. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

The following tables summarize our investments in unconsolidated joint ventures as of September 30, 2017 and December 31, 2016 and income from these investments for the three and nine months ended September 30, 2017 and 2016.

(Amounts in thousands) Our Share of Investments:	Paramount Ownership	As of	
		September 30, 2017	December 31, 2016
712 Fifth Avenue	50.0%	\$-	(1) \$ 2,912
60 Wall Street	5.0%	26,406	-
75 Howard	20.0% (2)	16,077	-
Oder-Center, Germany	9.5%	3,531	3,499
Investments in unconsolidated joint ventures		\$46,014	\$ 6,411

(Amounts in thousands)	Paramount Ownership	For the Three Months Ended		For the Nine Months Ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Our Share of Net Income (Loss):					
712 Fifth Avenue	50.0%	\$596	(1) \$1,772	\$19,030	(1) \$5,233
60 Wall Street	5.0%	(45)	-	(81)	-
75 Howard	20.0%	(2) 100	-	133	-
Oder-Center, Germany	9.5%	20	20	61	58
Income from unconsolidated joint ventures		\$671	\$1,792	\$19,143	\$5,291

⁽¹⁾ Prior to June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of net proceeds from refinancing the property. Because the distributions resulted in our basis becoming negative and because we have no further obligation to fund additional capital to the venture, in accordance with GAAP, we can no longer recognize our proportionate share of earnings from the venture until our basis is above zero. Accordingly, we are only recognizing income to the extent we receive cash distributions from the venture.

⁽²⁾ Represents RDF's ownership interest in the property. We own a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

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:	September 30, 2017	December 31, 2016
Real estate, net	\$204,083	\$207,632
Other assets	56,710	40,701
Total assets	\$260,793	\$248,333
Notes and mortgages payable, net	\$296,051	\$245,990
Other liabilities	5,765	8,783
Total liabilities	301,816	254,773
Equity ⁽¹⁾	(41,023)	(6,440)
Total liabilities and equity	\$260,793	\$248,333

⁽¹⁾As of September 30, 2017, the carrying amount of our investment is greater than our share of the equity by \$20,512. This basis difference resulted from distributions in excess of the equity in net earnings of the property.

(Amounts in thousands)	For the Three Months Ended		For the Nine Months Ended	
Income Statements:	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Rental income	\$12,626	\$12,107	\$38,284	\$37,501
Tenant reimbursement income	1,338	1,342	3,855	3,351
Fee and other income	507	418	1,101	1,613
Total revenues	14,471	13,867	43,240	42,465
Operating expenses	6,197	6,081	18,265	17,073

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

Depreciation and amortization	3,067	3,193	9,062	9,244
Total expenses	9,264	9,274	27,327	26,317
Operating income	5,207	4,593	15,913	16,148
Interest and other income, net	68	16	140	49
Interest and debt expense	(2,700)	(2,787)	(8,651)	(8,287)
Unrealized gain on interest rate				
swaps	-	1,722	1,896	2,556
Net income	\$2,575	\$3,544	\$9,298	\$10,466

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6. Real Estate Fund Investments

Unconsolidated Real Estate Funds

We manage four Property Funds comprised of (i) Paramount Group Real Estate Fund II, L.P. (“Fund II”), (ii) Paramount Group Real Estate Fund III, L.P. (“Fund III”), (iii) Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and (iv) Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”). We also manage Paramount Group Real Estate Fund VIII L.P. (“Fund VIII”), our Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments.

As of December 31, 2016, Fund II and Fund III collectively owned a 62.3% interest in 60 Wall Street, a 1.6 million square foot office tower in Manhattan. On January 24, 2017, Fund II and Fund III, together with the other investors that owned the remaining 37.7% interest, sold their interests in 60 Wall Street to a newly formed joint venture, in which we have a 5.0% ownership interest. Accordingly, beginning on January 24, 2017, we began accounting for our investment in 60 Wall Street under the equity method. See Note 5, Investments in Unconsolidated Joint Ventures.

We own a 7.2% interest in Fund VII and Fund VII-H that, prior to July 17, 2017, owned 42.8% of 50 Beale. On July 17, 2017, Fund VII and Fund VII-H completed the sale of their interests to us and a new joint venture, in which we have a 36.6% ownership interest (see Note 3, Acquisitions).

The following tables summarize our investments in these unconsolidated real estate funds as of September 30, 2017 and December 31, 2016, and income or loss recognized from these investments for the three and nine months ended September 30, 2017 and 2016.

(Amounts in thousands)	As of	September	30,	December
	2017	31, 2016		
Our Share of Investments:				
Property funds	\$2,673	\$ 22,811		

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

Alternative investment fund	5,473	5,362
Investments in unconsolidated real estate funds	\$8,146	\$ 28,173

	For the Three Months Ended		For the Nine Months Ended	
(Amounts in thousands)	September 30,		September 30,	
Our Share of Net Loss:	2017	2016	2017	2016
Net investment income (loss)	\$ 104	\$ 170	\$ 228	\$(437)
Net realized loss	(839)	-	(665)	-
Net unrealized gain (loss)	202	(361)	(26)	(2,939)
Carried interest	(3,397)	(1,063)	(5,590)	836
Loss from unconsolidated real estate funds ⁽¹⁾	\$(3,930)	\$(1,254)	\$(6,053)	\$(2,540)

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

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of September 30, 2017, we own a 10.0% interest in Fund II, a 3.1% interest in Fund III, and a 7.5% interest in Fund VII, all of which are accounted for under the equity method. The following tables provide summarized financial information for Fund II, Fund III and Fund VII as of the dates and for the periods set forth below.

(Amounts in thousands)	As of September 30, 2017			As of December 31, 2016		
	Fund II	Fund III	Fund VII	Fund II	Fund III	Fund VII
Balance Sheets:						
Real estate investments	\$51	\$15,701	\$33,259	\$64,989	\$39,376	\$165,556 ⁽¹⁾
Cash and cash equivalents	826	2,305	762	1,297	2,221	741
Other assets	115	-	2	127	-	-
Total assets	\$992	\$18,006	\$34,023	\$66,413	\$41,597	\$166,297
Other liabilities	\$45	\$29	\$618	\$60	\$49	\$1,483
Total liabilities	45	29	618	60	49	1,483
Equity	947	17,977	33,405	66,353	41,548	164,814
Total liabilities and equity	\$992	\$18,006	\$34,023	\$66,413	\$41,597	\$166,297

⁽¹⁾Includes \$123,105 attributable to 50 Beale that was sold July 17, 2017.

(Amounts in thousands)	For the Three Months Ended September 30,					
	2017	2016				
Income Statements:		Fund III	Fund VII	Fund II	Fund III	Fund VII
Investment income	\$2	\$303	\$479	\$1,389	\$480	\$1,233
Investment expenses	13	54	120	668	55	501
Net investment (loss) income	(11)	249	359	721	425	732
Net realized losses	(5,020)	(1,735)	(3,809)	-	-	-
Net unrealized gains (losses)	5,031	1,607	(4,871)	(40)	177	(4,815)
Income (loss) from real estate						
fund investments	\$-	\$121	\$(8,321)	\$681	\$602	\$(4,083)

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

(Amounts in thousands)	For the Nine Months Ended September 30,					
	2017			2016		
Income Statements:	Fund			Fund		
	Fund II	III	Fund VII	Fund II	Fund III	VII
Investment income	\$3	\$1,444	\$1,441	\$1,391	\$480	\$1,233
Investment expenses	291	171	1,156	2,051	193	1,512
Net investment (loss) income	(288)	1,273	285	(660)	287	(279)
Net realized losses	(20,221)	(6,988)	(3,875)	-	-	-
Net unrealized gains (losses)	51	(1,411)	(9,192)	(31,918)	(10,551)	7,929
(Loss) income from real estate						
fund investments	\$(20,458)	\$(7,126)	\$(12,782)	\$(32,578)	\$(10,264)	\$7,650

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7. Preferred Equity Investments

As of September 30, 2017, 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 and summarized in the table below.

Preferred equity investments are recorded at cost. We evaluate the collectability of preferred equity investments each quarter in determining whether they are impaired. Preferred equity investments are impaired when changes in events or circumstances, including delinquencies, loss experience and collateral quality, indicate that it is probable we will be unable to collect all amounts due under the contractual terms. If a preferred equity investment is considered impaired, an impairment loss is measured based on the excess of the carrying amount of the investment over the net realizable value of the collateral. On April 11, 2017, the partnership that owns 2 Herald Square defaulted on the obligation to extend the maturity date or redeem the preferred equity investment, together with accrued and unpaid dividends. We believe, based on current facts and circumstances, that the redemption of our preferred equity investment, is not probable. Accordingly, we have recorded a \$19,588,000 valuation allowance, which is included in “interest and other (loss) income” on our consolidated statements of income for the three and nine months ended September 30, 2017.

The following is a summary of the preferred equity investments.

(Amounts in thousands, except square feet)	Paramount	Dividend	Initial	As of	
	Ownership	Rate	Maturity	September 30, 2017	December 31, 2016
Preferred Equity Investment					
470 Vanderbilt Avenue ⁽¹⁾	24.4%	10.3%	Feb-2019	\$35,763	\$ 35,613
2 Herald Square ⁽²⁾	24.4%	10.3%	Apr-2017	19,588	19,438
				55,351	55,051
Less: valuation allowance ⁽²⁾				(19,588)	-
Preferred equity investments, net				\$35,763	\$ 55,051

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

investment. Subsequent to February 2016, the entire 10.3% dividend is being paid in cash.

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

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

8. 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) as of September 30, 2017 and December 31, 2016.

	As of	
	September	December
(Amounts in thousands)	30, 2017	31, 2016
Intangible assets:		
Gross amount	\$562,262	\$579,066
Accumulated amortization	(189,209)	(166,841)
	\$373,053	\$412,225
Intangible liabilities:		
Gross amount	\$210,016	\$208,367
Accumulated amortization	(71,453)	(55,349)
	\$138,563	\$153,018

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to “rental income” of \$3,175,000 and \$3,112,000 for the three months ended September 30, 2017 and 2016, respectively, and \$14,164,000 and \$6,593,000 for the nine months ended September 30, 2017 and 2016, respectively. The three and nine months ended September 30, 2016 included \$1,743,000 and \$11,577,000 of expense, respectively, from the write-off of above-market lease assets in connection with lease terminations. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2018 is as follows.

(Amounts in thousands)	
2018	\$16,281
2019	14,355
2020	8,750
2021	4,491
2022	1,091

Amortization of acquired in-place leases (a component of “depreciation and amortization” expense) was \$17,929,000 and \$21,917,000 for the three months ended September 30, 2017 and 2016, respectively, and \$58,352,000 and

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

\$76,072,000 for the nine months ended September 30, 2017 and 2016, respectively. Estimated annual amortization of acquired in-place leases for each of the five succeeding years commencing January 1, 2018 is as follows.

(Amounts in thousands)

2018	\$60,896
2019	54,639
2020	42,316
2021	30,123
2022	24,009

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

9. Debt

On January 19, 2017, we completed a \$975,000,000 refinancing of One Market Plaza, a 1.6 million square foot Class A office and retail property in San Francisco, California. The new seven-year interest-only loan matures in February 2024 and has a fixed rate of 4.03%. In connection therewith, we incurred \$2,715,000 of prepayment costs, which is included in “loss on early extinguishment of debt” on our consolidated statements of income for the nine months ended September 30, 2017.

The following is a summary of our outstanding debt as of September 30, 2017 and December 31, 2016.

(Amounts in thousands)	Maturity Date	Fixed/ Variable Rate	Interest Rate as of September 30, 2017		As of September 30, 2017	December 31, 2016
Notes and mortgages payable:						
1633 Broadway						
	Dec-2022	Fixed ⁽¹⁾	3.54	%	\$ 1,000,000	\$ 1,000,000
	Dec-2022	L + 175 bps	3.00	%	30,100 ⁽²⁾	13,544 ⁽²⁾
			3.52	%	1,030,100	1,013,544
One Market Plaza (49.0%						
interest)						
	Feb-2024	Fixed	4.03	%	975,000	860,546
	n/a	n/a	n/a		-	12,414
			4.03	%	975,000	872,960
1301 Avenue of the Americas						
	Nov-2021	Fixed	3.05	%	500,000	500,000
	Nov-2021	L + 180 bps	3.05	%	350,000	350,000
			3.05	%	850,000	850,000
31 West 52nd Street						
	May-2026	Fixed	3.80	%	500,000	500,000
50 Beale (31.1% interest) ⁽³⁾						
	Oct-2021	Fixed	3.65	%	228,000	-
1899 Pennsylvania Avenue ⁽⁴⁾						
	n/a	n/a	n/a		-	87,675
Liberty Place ⁽⁴⁾						
	n/a	n/a	n/a		-	84,000

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

Total notes and mortgages payable	3.60	%	3,583,100	3,408,179
Less: deferred financing costs			(44,029)	(43,281)
Total notes and mortgages payable, net			\$3,539,071	\$3,364,898

Revolving Credit Facility	Nov-2018	L + 125 bps	n/a	\$-	\$230,000
---------------------------	----------	-------------	-----	-----	-----------

- ⁽¹⁾Represents loans with variable interest rates that have been fixed by interest rate swaps. See Note 10, Derivative Instruments and Hedging Activities.
- ⁽²⁾Represents amounts outstanding under an option to increase the loan balance up to \$250,000, at LIBOR plus 175 basis points, if certain performance hurdles relating to the property are satisfied.
- ⁽³⁾Assumed in connection with the acquisition of 50 Beale on July 17, 2017. See Note 3, Acquisitions.
- ⁽⁴⁾These loans were repaid on May 3, 2017. In connection with the repayment, we incurred an aggregate of \$5,162 of prepayment costs, which are included in "loss on early extinguishment of debt" on our consolidated statement of income for the nine months ended September 30, 2017.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

10. Derivative Instruments and Hedging Activities

We manage our market risk on variable rate debt by entering into interest rate swaps to fix the rate on all or a portion of the debt for varying periods through maturity. These interest rate swaps are accounted for as derivative instruments and, pursuant to ASC Topic 815, are recorded on our consolidated balance sheets at fair value. Changes in the fair value of interest rate swaps are accounted for based on the hedging relationship and their designation and qualification. 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 September 30, 2017, the fair value of the derivative obligations with such provisions aggregated \$1,138,000.

Interest Rate Swaps – Designated as Cash Flow Hedges

As of September 30, 2017, 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 a 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 \$738,000 and \$7,802,000 for the three months ended September 30, 2017 and 2016, respectively and other comprehensive income of \$729,000 and other comprehensive loss of \$33,812,000 for the nine months ended September 30, 2017 and 2016, respectively, from the changes in the fair value of these interest rate swaps. During the next twelve months, we estimate that \$3,315,000 of the amounts recognized in accumulated other comprehensive income will be reclassified as an increase to interest expense. The tables below provide additional details on our interest rate swaps that are designated as cash flow hedges.

	Notional			Strike	Fair Value
Property	Amount	Effective Date	Maturity Date	Rate	as of September 30, 2017
(Amounts in thousands)					
1633 Broadway	\$ 400,000	Dec-2015	Dec-2020	1.65 %	\$ 1,233
1633 Broadway	300,000	Dec-2015	Dec-2021	1.82 %	142

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

Total interest rate swap assets designated as cash flow hedges (included in "other assets")	\$ 1,375
--	----------

1633 Broadway	\$400,000	Dec-2020	Dec-2021	2.35 %	\$ 921
1633 Broadway	300,000	Dec-2015	Dec-2022	1.95 %	805

Total interest rate swap liabilities designated as cash flow hedges (included in "other liabilities")	\$ 1,726
--	----------

	Notional			Strike	Fair Value as of December 31, 2016
Property	Amount	Effective Date	Maturity Date	Rate	
(Amounts in thousands)					

1633 Broadway	\$400,000	Dec-2020	Dec-2021	2.35 %	\$ 139
---------------	-----------	----------	----------	--------	--------

Total interest rate swap assets designated as cash flow hedges (included in "other assets")	\$ 139
--	--------

1633 Broadway	\$300,000	Dec-2015	Dec-2022	1.95 %	\$ 828
---------------	-----------	----------	----------	--------	--------

1633 Broadway	300,000	Dec-2015	Dec-2021	1.82 %	379
---------------	---------	----------	----------	--------	-----

1633 Broadway	400,000	Dec-2015	Dec-2020	1.65 %	12
---------------	---------	----------	----------	--------	----

Total interest rate swap liabilities designated as cash flow hedges (included in "other liabilities")	\$ 1,219
--	----------

Interest Rate Swaps – Non-designated Hedges

As of September 30, 2017, we did not have any interest rate swaps that were not designated as hedges. As of December 31, 2016, we had interest rate swap liabilities that had a fair value of \$21,227,000, which were terminated on January 19, 2017 in connection with the refinancing of One Market Plaza. See Note 9, Debt for additional details. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. We recognized unrealized gains of \$1,802,000 for the nine months ended September 30, 2017 and \$12,728,000 and \$29,661,000 for the three and nine months ended September 30, 2016, respectively, from the changes in the fair value of these interest rate swaps.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

11. Accumulated Other Comprehensive Income

The following table sets forth changes in accumulated other comprehensive income, by component, for the three and nine months ended September 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Amount of (loss) income related to the effective portion of cash				
flow hedges recognized in other comprehensive income ⁽¹⁾	\$(630)	\$3,727	\$(4,669)	\$(35,554)
Amounts reclassified from accumulated other				
comprehensive income into interest expense ⁽¹⁾	1,297	2,747	5,269	8,323
Amount of income (loss) related to unconsolidated joint				
ventures recognized in other comprehensive income ⁽¹⁾⁽²⁾	204	(68)	42	(18)
Amount of gain (loss) related to the ineffective portion of cash				
flow hedges and amount excluded from effectiveness testing	-	-	-	-

⁽¹⁾Net of amount attributable to the noncontrolling interests in the Operating Partnership.

⁽²⁾Balance held in accumulated other comprehensive income relates to foreign currency translation adjustments. No amounts were reclassified from accumulated other comprehensive income during any of the periods set forth above.

12. 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 September 30, 2017 and December 31, 2016, noncontrolling interests in our consolidated joint ventures aggregated \$408,035,000 and \$253,788,000, respectively.

Consolidated Real Estate Fund

Noncontrolling interests in our consolidated real estate fund consists of equity interests held by third parties in RDF. As of September 30, 2017 and December 31, 2016, the noncontrolling interest in our consolidated real estate fund aggregated \$14,947,000 and \$64,793,000, 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 September 30, 2017 and December 31, 2016, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of \$433,554,000 and \$577,361,000, respectively, and a redemption value of \$399,644,000 and \$551,834,000, respectively.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

13. Variable Interest Entities (“VIEs”)

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 determined to be the primary beneficiary.

Consolidated VIEs

We are the sole general partner of, and own approximately 90.6% of, the Operating Partnership as of September 30, 2017. 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 September 30, 2017 and December 31, 2016, the Operating Partnership held variable interests in the entities owning properties, a real estate fund and preferred equity investments that were determined to be VIEs. The Operating Partnership is required to consolidate its interest in these entities because it is deemed to be the primary beneficiary and has the power to direct the activities of these entities that most significantly affect economic performance and the obligation to absorb losses and rights to receive benefits that could potentially be significant to the entity. 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.

	As of	
	September	December
(Amounts in thousands)	30, 2017	31, 2016
Real estate, net	\$1,733,361	\$1,336,810
Cash and restricted cash	60,725	17,054
Investments in unconsolidated joint venture	16,077	-
Preferred equity investments	35,763	55,051
Accounts and other receivables	2,208	5,966

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

Deferred rent receivable	42,533	32,103
Deferred charges, net	7,569	695
Intangible assets, net	71,316	52,139
Other assets	597	14,474
Total VIE assets	\$1,970,149	\$1,514,292
Notes and mortgages payable, net	\$1,196,348	\$872,960
Accounts payable and other accrued expenses	26,095	21,077
Intangible liabilities, net	50,289	48,654
Other liabilities	175	27,782
Total VIE liabilities	\$1,272,907	\$970,473

Unconsolidated VIEs

As of September 30, 2017, the Operating Partnership held variable interests in entities that own certain real estate funds that were deemed to be VIEs. The table below summarizes our investments in these unconsolidated real estate funds.

As of September 30, 2017			
(Amounts in thousands)	Investment	Asset Management Fees and Other	Maximum Risk of Loss
		Receivables	
Unconsolidated real estate funds	\$8,146	\$ 617	\$ 8,763

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

14. Fair Value Measurements

ASC Topic 820, Fair Value Measurement and Disclosures, defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). ASC Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value. Considerable judgment is necessary to interpret Level 2 and 3 inputs in determining the fair value of our financial and non-financial assets and liabilities. Accordingly, our fair value estimates, which are made at the end of each reporting period, may be different than the amounts that may ultimately be realized upon sale or disposition of these assets or settlement of these liabilities.

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 (which represent the assets in our deferred compensation plan, for which there is a corresponding liability on our consolidated balance sheets) and interest rate swaps. The tables below aggregate the fair values of these financial assets and liabilities as of September 30, 2017 and December 31, 2016, based on their levels in the fair value hierarchy.

(Amounts in thousands)	As of September 30, 2017			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$27,867	\$27,867	\$-	\$ -
Interest rate swap assets (included in "other assets")	1,375	-	1,375	-

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

Total assets	\$29,242	\$27,867	\$1,375	\$ -
Interest rate swap liabilities (included in "other liabilities")	\$1,726	\$-	\$1,726	\$ -
Total liabilities	\$1,726	\$-	\$1,726	\$ -

As of December 31, 2016				
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Marketable securities	\$22,393	\$22,393	\$-	\$ -
Interest rate swap assets (included in "other assets")	139	-	139	-
Total assets	\$22,532	\$22,393	\$139	\$ -
Interest rate swap liabilities (included in "other liabilities")	\$22,446	\$-	\$22,446	\$ -
Total liabilities	\$22,446	\$-	\$22,446	\$ -

Interest Rate Swaps

Interest rate swaps are valued by a third-party specialist. The valuation of these interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the interest rate swaps and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. Interest rate swaps are classified as Level 2.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Financial Assets and Liabilities Not Measured at Fair Value

Financial assets not measured at fair value on our consolidated balance sheets consists of preferred equity investments. Estimates of the fair value of these investments are determined by the standard practice of modeling the contractual cash flows required under the investment and discounting it back to its present value at the appropriate current risk adjusted interest rate. The preferred equity investments are classified as Level 3. Financial liabilities not measured at fair value include notes and mortgages payable and the revolving credit facility. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash payments we would be required to make under the instrument. These instruments would be classified as Level 2.

The following is a summary of the carrying amounts and fair value of these financial instruments as of September 30, 2017 and December 31, 2016.

(Amounts in thousands)	As of September 30, 2017		As of December 31, 2016	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
Preferred equity investments	\$35,763	\$36,048	\$55,051	\$55,300
Total assets	\$35,763	\$36,048	\$55,051	\$55,300

(Amounts in thousands)	As of September 30, 2017		As of December 31, 2016	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
Notes and mortgages payable	\$3,583,100	\$3,575,843	\$3,408,179	\$3,371,262
Revolving credit facility	-	-	230,000	230,018
Total liabilities	\$3,583,100	\$3,575,843	\$3,638,179	\$3,601,280

15. Fee and Other Income

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Fee income				
Property management	\$1,673	\$1,404	\$4,815	\$4,464
Asset management	1,997	2,003	6,622	5,500
Acquisition and disposition	1,475	187	7,045	777
Other	689	382	1,356	827
Total fee income	5,834	3,976	19,838	11,568
Lease termination income	954	3,460	1,915	14,508 ⁽¹⁾
Other income ⁽²⁾	2,545	2,885	8,235	11,910
Total fee and other income	\$9,333	\$10,321	\$29,988	\$37,986

⁽¹⁾Includes \$10,861 from the termination of a lease with a tenant at 1633 Broadway.

⁽²⁾Primarily comprised of income from tenant requested services, including overtime heating and cooling.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

16. Interest and Other (Loss) Income, net

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Valuation allowance on preferred equity				
investment ⁽¹⁾	\$(19,588)	\$-	\$(19,588)	\$-
Preferred equity investment income ⁽²⁾	961	1,460	3,327	4,299
Interest and other income	147	103	743	533
Mark-to-market of investments in our				
deferred compensation plans ⁽³⁾	812	736	3,536	197
Total interest and other (loss) income, net	\$(17,668)	\$2,299	\$(11,982)	\$5,029

⁽¹⁾Represents the valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share is \$4,780 and \$14,808 was attributable to the noncontrolling interests.

⁽²⁾Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$243 and \$355 for the three months ended September 30, 2017 and 2016, respectively, and \$819 and \$1,047 for the nine months ended September 30, 2017 and 2016, respectively. See Note 7, Preferred Equity Investments

⁽³⁾The change resulting from the mark-to-market of the deferred compensation plan assets is entirely offset by the change in the deferred compensation plan liabilities, which is included in “general and administrative” expenses.

17. Interest and Debt Expense

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

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest expense	\$32,914	\$36,820	\$99,201	\$109,285
Amortization of deferred financing costs	2,819	1,458	8,367	4,121
Total interest and debt expense	\$35,733	\$38,278	\$107,568	\$113,406

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

18. Incentive Compensation

Stock-Based Compensation

We account for all stock-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation. As of September 30, 2017, we have 10,369,943 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 \$3,825,000 and \$2,583,000 for the three months ended September 30, 2017 and 2016, respectively, and \$11,692,000 and \$8,766,000 for the nine months ended September 30, 2017 and 2016, respectively. Stock-based compensation expense for the nine months ended September 30, 2016 includes \$1,855,000 of expense related to the acceleration of vesting of stock awards in connection with a separation agreement.

2017 Performance Program

On January 30, 2017, the Compensation Committee approved the 2017 Performance Program, a multiyear performance-based long-term equity (“LTE”) 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, 2017 and continuing through December 31, 2019, on both an absolute basis and relative basis. 25.0% of the award is earned if we outperform a predetermined absolute TSR and the remaining 75.0% is earned if we outperform a predetermined relative TSR. Specifically, participants begin to earn awards under the 2017 Performance Program if our TSR for the performance measurement period equals or exceeds 18.0% on an absolute basis and is in the 30th percentile of the performance of the SNL Office REIT Index constituents on a relative basis, and awards will be fully earned if our TSR for the performance measurement period equals or exceeds 30.0% on an absolute basis and exceeds the 80th percentile of the performance of the SNL Office REIT Index constituents on a relative basis. Participants will not earn any awards under the 2017 Performance Program if our TSR during the performance measurement period does not meet either of these minimum thresholds. The number of LTIP units that are earned if performance is above the minimum thresholds, but below the maximum thresholds, will be determined based on linear interpolation between

the percentages earned at the minimum and maximum thresholds. During the performance measurement period, participants will receive per unit distributions equal to one-tenth of the per share dividends otherwise payable to our common stockholders with respect to their LTIP units. If the LTIP units are ultimately earned based on the achievement of the designated performance objectives, participants will receive cash or additional LTIP units based on the additional amount the participants would have received if per unit distributions during the performance measurement periods for the earned LTIP units had equaled per share dividends paid to our common stockholders less the amount of distributions participants actually received during the performance measurement period.

If the designated performance objectives are achieved, awards earned under the 2017 Performance Program will also be subject to vesting based on continued employment with us through December 31, 2020, with 50.0% of each award vesting following the conclusion of the performance measurement period, and the remaining 50.0% vesting on December 31, 2020. The Company's named executive officers, as defined, are required to hold earned awards for an additional one-year following vesting. The fair value of the awards granted under the 2017 Performance Program on the date of the grant was \$10,520,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

19. Earnings Per Share

The following table provides a summary of net income (loss) and the number of common shares used in the computation of basic and diluted income (loss) 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 September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net (loss) income attributable to common stockholders	\$(10,214)	\$(139)	\$93,174	\$(3,445)
Earnings allocated to unvested participating securities	(13)	(9)	(86)	(28)
Numerator for (loss) income per common share - basic				
and diluted	\$(10,227)	\$(148)	\$93,088	\$(3,473)
Denominator:				
Denominator for basic (loss) income per common share -				
weighted average shares	239,446	219,394	235,151	216,318
Effect of dilutive employee stock options and				
restricted share awards ⁽¹⁾	-	-	27	-
Denominator for diluted (loss) income per common				
share - weighted average shares	239,446	219,394	235,178	216,318
(Loss) income per common share - basic and diluted	\$(0.04)	\$(0.00)	\$0.40	\$(0.02)

⁽¹⁾The effect of dilutive securities for the three months ended September 30, 2017 and 2016 excludes 27,911 and 46,930 weighted average share equivalents, respectively, and 32,036 and 49,854 weighted average share equivalents for the nine months ended September 30, 2017 and 2016, respectively, as their effect was anti-dilutive.

20. Related Party

Due to Affiliates

As of September 30, 2017 and December 31, 2016, 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, which bore interest at a fixed rate of 0.50%, were due in October 2017. We amended the agreements to extend the maturity of these notes to November 2018. The notes bear interest at a fixed rate of 1.40% during the extended term. For the three months ended September 30, 2017 and 2016, we recognized \$34,000 and \$43,000, respectively, of interest expense and for the nine months ended September 30, 2017 and 2016, we recognized \$103,000 and \$112,000, respectively, of interest expense in connection with these notes.

Management Agreements

We provide property management, leasing and other related services to certain properties owned by members of the Otto Family. We recognized an aggregate of \$207,000 and \$195,000 for the three months ended September 30, 2017 and 2016, respectively, and \$619,000 and \$594,000, for the nine months ended September 30, 2017 and 2016, respectively, of fee income, in connection with these agreements, which is included as a component of “fee and other income” on our consolidated statements of income. As of September 30, 2017, there were no amounts owed to us under these agreements.

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. For the three months ended September 30, 2017 and 2016, we recognized \$4,616,000 and \$3,227,000, respectively, and for the nine months ended September 30, 2017 and 2016, we recognized \$16,391,000 and \$7,826,000, respectively, of fee income in connection with these agreements. As of September 30, 2017, amounts owed to us under these agreements aggregated \$1,815,000, which are included as a component of “accounts and other receivables, net” on our consolidated balance sheet.

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. For the three months ended September 30, 2017 and 2016, we incurred \$50,000 and \$137,000 of expense, respectively, and \$220,000 and \$694,000, respectively, for the nine months ended in September 30, 2017 and 2016, in connection with these agreements, which is included as a component of “transaction related costs” on our consolidated statements of income. As of September 30, 2017, we owed \$95,000 to HTC under this agreement, which is included as a component of “accounts payable and other accrued expenses” on our consolidated balance sheet.

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 is for the benefit of Dr. Bussmann’s children. Prior to December 5, 2016, the Mannheim Trust leased 6,790 square feet. On December 5, 2016, the joint venture entered into a new lease agreement for 5,593 square feet, which became effective in January 2017. The new lease expires in April 2023. For the three months ended September 30, 2017 and 2016, we recognized \$96,000 and \$101,000, respectively, and \$274,000 and \$305,000 for the nine

months ended September 30, 2017 and 2016, respectively, for our share of rental income from this lease.

Acquisitions from Unconsolidated Real Estate Funds

On January 24, 2017, Fund II and Fund III sold their 62.3% interest in 60 Wall Street to a newly formed joint venture, in which we have a 5.0% ownership interest. See Note 5, Investments in Unconsolidated Joint Ventures.

On July 17, 2017, Fund VII and Fund VII-H completed the sale of their 42.8% interest in 50 Beale to us and a newly formed joint venture, in which we have a 36.6% ownership interest. See Note 3, Acquisitions.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

21. 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.

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 September 30, 2017, 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 partner in the joint venture that owns 712 Fifth Avenue, New York, New York. In connection with this sale, we granted our joint venture partner a put right, pursuant to which the 712 Fifth Avenue joint venture would be required to purchase the entire direct or indirect interests held by our joint venture partner or its affiliates in 718 Fifth Avenue at a purchase price equal to the fair market value of such interests. The put right may be exercised at any time after September 10, 2018 with 12 months written notice and the actual purchase occurring no earlier than September 10, 2019. If the put right is exercised and the 712 Fifth Avenue joint venture acquires the 50.0% tenancy-in-common interest in the property that will be held by our joint venture partner following the sale of its interest to our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

22. 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 NOI for each reportable segment for the three and nine months ended September 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$173,936	\$109,493	\$ 14,986	\$49,758	\$(301)
Property-related operating expenses	(68,264)	(46,609)	(5,887)	(14,164)	(1,604)
NOI from unconsolidated joint ventures	4,993	4,815	-	-	178
NOI ⁽¹⁾	\$110,665	\$67,699	\$ 9,099	\$35,594	\$(1,727)

(Amounts in thousands)	For the Three Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$167,342	\$113,029	\$ 22,229	\$31,441	\$643
Property-related operating expenses	(64,025)	(45,748)	(8,322)	(7,994)	(1,961)
NOI from unconsolidated joint ventures	3,974	3,893	-	-	81
NOI ⁽¹⁾	\$107,291	\$71,174	\$ 13,907	\$23,447	\$(1,237)

(Amounts in thousands)	For the Nine Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$518,872	\$321,419	\$ 56,911	\$139,898	\$644
Property-related operating expenses	(197,696)	(134,657)	(21,376)	(35,889)	(5,774)
NOI from unconsolidated joint ventures	14,774	14,406	-	-	368
NOI ⁽¹⁾	\$335,950	\$201,168	\$ 35,535	\$104,009	\$(4,762)

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

(Amounts in thousands)	For the Nine Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$504,971	\$346,683	\$ 63,689	\$92,762	\$1,837
Property-related operating expenses	(186,964)	(132,428)	(24,691)	(22,426)	(7,419)
NOI from unconsolidated joint ventures	12,938	12,696	-	-	242
NOI ⁽¹⁾	\$330,945	\$226,951	\$ 38,998	\$70,336	\$(5,340)

⁽¹⁾Net Operating Income (“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 three and nine months ended September 30, 2017 and 2016.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Amounts in thousands)	2017	2016	2017	2016
NOI	\$ 110,665	\$ 107,291	\$ 335,950	\$ 330,945
Add (subtract) adjustments to arrive to net (loss) income:				
Fee income	5,834	3,976	19,838	11,568
Depreciation and amortization expense	(66,515)	(66,376)	(198,143)	(208,475)
General and administrative expenses	(14,470)	(13,235)	(44,624)	(39,335)
Transaction related costs	(274)	(282)	(1,051)	(1,725)
NOI from unconsolidated joint ventures	(4,993)	(3,974)	(14,774)	(12,938)
Income from unconsolidated joint ventures	671	1,792	19,143	5,291
Loss from unconsolidated real estate funds	(3,930)	(1,254)	(6,053)	(2,540)
Interest and other (loss) income, net	(17,668)	2,299	(11,982)	5,029
Interest and debt expense	(35,733)	(38,278)	(107,568)	(113,406)
Loss on early extinguishment of debt	-	-	(7,877)	-
Gain on sale of real estate	-	-	133,989	-
Unrealized gain on interest rate swaps	-	12,728	1,802	29,661
Net (loss) income before income taxes	(26,413)	4,687	118,650	4,075
Income tax benefit (expense)	1,010	(218)	(4,242)	817
Net (loss) income	(25,403)	4,469	114,408	4,892
Less: net (income) loss attributable to				
noncontrolling interests in:				
Consolidated joint ventures	14,217	(4,703)	11,029	(10,062)
Consolidated real estate fund	(114)	67	(20,195)	819
Operating Partnership	1,086	28	(12,068)	906
Net (loss) income attributable to common stockholders	\$(10,214)	\$(139)	\$ 93,174	\$(3,445)

The following table provides the selected balance sheet data for each of our reportable segments as of September 30, 2017.

(Amounts in thousands) As of September 30, 2017

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

Balance Sheet Data:			Washington, San		
	Total	New York	D.C.	Francisco	Other
Total assets	\$8,924,008	\$5,557,850	\$ 701,624	\$2,438,720	\$225,814
Total liabilities	3,881,852	2,445,559	26,829	1,289,218	120,246
Total equity	5,042,156	3,112,291	674,795	1,149,502	105,568

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;

32

fluctuations in interest rates and increased costs to refinance or issue new debt;
risks associated with variable rate debt, derivatives or hedging activity;
risks associated with future sales of our common stock by our continuing investors or the perception that our continuing investors intend to sell substantially all of the shares of our common stock that they hold;
risks associated with the market for our common stock;
failure to qualify as a real estate investment trust ("REIT");
compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
any of the other risks included in this Quarterly Report on Form 10-Q or in our Annual Report on Form 10-K for the year ended December 31, 2016, including those set forth in Item 1A entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our 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, 2016.

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, 2016.

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 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 90.6% of the Operating Partnership as of September 30, 2017.

Acquisitions

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

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

Dispositions

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

Prior to May 5, 2017, our consolidated Residential Development Fund (“RDF”), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) in San Francisco, California. On May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net

gain on sale, of which our share, net of income taxes, was \$1,661,000. Subsequent to the sale, RDF deconsolidated its investment in 75 Howard and began accounting for the remaining 20.0% under the equity method of accounting, however, we continue to consolidate our interest in RDF. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

Financings

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

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

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

Leasing Results - Three Months Ended September 30, 2017

In the three months ended September 30, 2017, we leased 369,136 square feet, of which our share was 356,413 square feet that was leased at a weighted average initial rent of \$80.98 per square foot. This leasing activity, partially offset by lease expirations during the three months and including the impact of the acquisition of 50 Beale in July 2017 (a 78.2% leased asset), increased our leased occupancy by 140 basis points to 92.3% at September 30, 2017 from 90.9% at June 30, 2017. Our same store leased occupancy (properties owned by us during both reporting periods) increased by 170 basis points to 92.6% at September 30, 2017 from 90.9% at June 30, 2017. Of the 369,136 square feet leased in the three months, 163,298 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 9.5% on a GAAP basis and 9.8% on a cash basis. The weighted average lease term for leases signed during the three months was 10.8 years and weighted average tenant improvements and leasing commissions on these leases were \$9.77 per square foot per annum, or 12.1% of initial rent.

New York:

In the three months ended September 30, 2017, we leased 305,351 square feet in our New York portfolio, of which our share was 294,377 square feet that was leased at a weighted average initial rent of \$82.84 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 200 basis points to 90.9% at September 30, 2017 from 88.9% at June 30, 2017. Of the 305,351 square feet leased in the three months, 109,008 square feet represented our share of second generation space for which rental rates increased by 12.6% on a GAAP basis and 1.3% on a cash basis. The weighted average lease term for leases signed during the three months was 11.7 years and weighted average tenant improvements and leasing commissions on these leases were \$9.40 per square foot per annum, or 11.4% of initial rent.

Washington, D.C.:

In the three months ended September 30, 2017, we leased 7,070 square feet of previously vacant space in our Washington, D.C. portfolio, at a weighted average initial rent of \$74.53 per square foot. This leasing activity increased our leased occupancy and same store leased occupancy by 90 basis points to 95.5% at September 30, 2017 from 94.6% at June 30, 2017. The weighted average lease term for leases signed during the three months was 5.5 years and weighted average tenant improvements and leasing commissions on these leases were \$4.78 per square foot per annum, or 6.4% of initial rent.

San Francisco:

In the three months ended September 30, 2017, we leased 56,715 square feet in our San Francisco portfolio, of which our share was 54,966 square feet that was leased at a weighted average initial rent of \$71.70 per square foot. Notwithstanding this leasing activity, which was partially offset by lease expirations during the three months, our leased occupancy decreased by 210 basis points to 96.1% at September 30, 2017 from 98.2% at June 30, 2017 due to our acquisition of 50 Beale in July 2017 (a 78.2% leased asset). Our same store leased occupancy (which excludes 50 Beale) increased by 40 basis points to 98.6% at September 30, 2017 from 98.2% at June 30, 2017. Of the 56,715 square feet leased in the three months, 54,290 square feet represented our share of second generation space for which we achieved rental rate increases of 2.8% on GAAP basis and 39.0% on a cash basis. The weighted average lease term for leases signed during the year was 7.1 years and weighted average tenant improvements and leasing commissions on these leases were \$13.53 per square foot per annum, or 18.9% of initial rent.

The following is a tabular disclosure of leasing statistics for leases signed during the three months ended September 30, 2017. 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").

Three Months Ended September 30, 2017	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	369,136	305,351	7,070	56,715
Pro rata share of total square feet leased:	356,413	294,377	7,070	54,966
Initial rent ⁽¹⁾	\$80.98	\$82.84	\$ 74.53	\$ 71.70
Weighted average lease term (in years)	10.8	11.7	5.5	7.1
Tenant improvements and leasing commissions:				
Per square foot	\$105.94	\$109.68	\$ 26.26	\$ 96.02
Per square foot per annum	\$9.77	\$9.40	\$ 4.78	\$ 13.53
Percentage of initial rent	12.1 %	11.4 %	6.4 %	18.9 %
Rent concessions:				
Average free rent period (in months)	9.4	10.6	6.0	3.0
Average free rent period per annum (in months)	0.9	0.9	1.1	0.4
Second generation space: ⁽²⁾				
Square feet	163,298	109,008	-	54,290

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

GAAP basis:

Straight-line rent	\$81.33		\$85.02		\$ -		\$ 73.92
Prior straight-line rent	\$74.30		\$75.51		\$ -		\$ 71.87
Percentage increase	9.5	%	12.6	%	-		2.8 %

Cash basis:

Initial rent (1)	\$83.68		\$89.65		\$ -		\$ 71.70
Prior escalated rent (3)	\$76.25		\$88.53		\$ -		\$ 51.59
Percentage increase	9.8	%	1.3	%	-		39.0 %

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

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

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

Leasing Results - Nine Months Ended September 30, 2017

In the nine months ended September 30, 2017, we leased 946,880 square feet, of which our share was 859,432 square feet that was leased at a weighted average initial rent of \$78.50 per square foot. Notwithstanding this leasing activity, our leased occupancy decreased by 40 basis points in the nine months to 92.3% at September 30, 2017 from 92.7% at December 31, 2016. This decrease was primarily attributable to our acquisition of 50 Beale in July 2017 (a 78.2% leased asset) and the sale of Waterview in May 2017 (a 98.7% leased asset). Our same store leased occupancy (which excludes 50 Beale and Waterview) increased by 20 basis points to 92.5% from 92.3% at December 31, 2016. Of the 946,880 square feet leased in the nine months, 594,418 square feet represented our share of second generation space for which we achieved rental rate increases of 11.3% on a GAAP basis and 16.1% on a cash basis. The weighted average lease term for leases signed during the nine months was 9.4 years and weighted average tenant improvements and leasing commissions on these leases were \$9.23 per square foot per annum, or 11.8% of initial rent.

New York:

In the nine months ended September 30, 2017, we leased 524,378 square feet in our New York portfolio, of which our share was 498,610 square feet that was leased at a weighted average initial rent of \$80.77 per square foot. This leasing activity, offset by lease expirations during the nine months, increased our leased occupancy by 20 basis points to 90.9% at September 30, 2017 from 90.7% at December 31, 2016. Our same store leased occupancy increased by 10 basis points to 90.8% from 90.7% at December 31, 2016. Of the 524,378 square feet leased in the nine months, 257,631 square feet represented our share of second generation space for which rental rates increased by 4.9% on a GAAP basis and decreased by 0.5% on a cash basis. The weighted average lease term for leases signed during the nine months was 10.5 years and weighted average tenant improvements and leasing commissions on these leases were \$9.59 per square foot per annum, or 11.9% of initial rent.

Washington, D.C.:

In the nine months ended September 30, 2017, we leased 19,602 square feet of previously vacant space in our Washington, D.C. portfolio, at a weighted average initial rent of \$70.95 per square foot. Notwithstanding this leasing activity, our leased occupancy remained unchanged at 95.5% at September 30, 2017 from December 31, 2016 due to the sale of Waterview (a 98.7% leased asset) in May 2017. Same store leased occupancy, which excludes Waterview, increased by 220 basis points to 95.5% from 93.3% at December 31, 2016. The weighted average lease term for leases signed during the nine months was 8.3 years and weighted average tenant improvements and leasing commissions on

these leases were \$7.85 per square foot per annum, or 11.1% of initial rent.

San Francisco:

In the nine months ended September 30, 2017, we leased 402,900 square feet in our San Francisco portfolio, of which our share was 341,220 square feet that was leased at a weighted average initial rent of \$75.62 per square foot. Notwithstanding this leasing activity, our leased occupancy decreased by 290 basis points to 96.1% at September 30, 2017 from 99.0% at December 31, 2016 due to expiration of leases during the nine months and the acquisition of 50 Beale in July 2017 (a 78.2% leased asset). Excluding 50 Beale, same store leased occupancy decreased by 40 basis points to 98.6% from 99.0% at December 31, 2016. Of the 402,900 square feet leased during the year, 336,787 square feet represented our share of second generation space for which we achieved rental rate increases of 17.1% on GAAP basis and 34.6% on a cash basis. The weighted average lease term for leases signed during the year was 7.9 years and weighted average tenant improvements and leasing commissions on these leases were \$8.61 per square foot per annum, or 11.4% of initial rent.

The following is a tabular disclosure of leasing statistics for leases signed during the nine months ended September 30, 2017. It is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Nine Months Ended September 30, 2017	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	946,880	524,378	19,602	402,900
Pro rata share of total square feet leased:	859,432	498,610	19,602	341,220
Initial rent ⁽¹⁾	\$78.50	\$80.77	\$ 70.95	\$75.62
Weighted average lease term (in years)	9.4	10.5	8.3	7.9
Tenant improvements and leasing commissions:				
Per square foot	\$86.74	\$100.27	\$ 65.22	\$68.17
Per square foot per annum	\$9.23	\$9.59	\$ 7.85	\$8.61
Percentage of initial rent	11.8 %	11.9 %	11.1 %	11.4 %
Rent concessions:				
Average free rent period (in months)	6.9	9.4	8.8	3.1
Average free rent period per annum (in months)	0.7	0.9	1.1	0.4
Second generation space: ⁽²⁾				
Square feet	594,418	257,631	-	336,787
GAAP basis:				
Straight-line rent	\$76.31	\$79.64	\$ -	\$73.86

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

Prior straight-line rent	\$68.54		\$75.92		\$ -		\$63.09
Percentage increase	11.3	%	4.9	%	-		17.1 %
Cash basis:							
Initial rent (1)	\$79.24		\$84.16		\$ -		\$75.62
Prior escalated rent (3)	\$68.23		\$84.59		\$ -		\$56.17
Percentage increase (decrease)	16.1	%	(0.5	%)	-		34.6 %

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

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

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

Financial Results - Three Months Ended September 30, 2017 and 2016

Net Loss, FFO and Core FFO

Net loss attributable to common stockholders was \$10,214,000, or \$0.04 per diluted share, for the three months ended September 30, 2017, compared to \$139,000, or \$0.00 per diluted share, for the three months ended September 30, 2016. Funds from Operations (“FFO”) attributable to common stockholders was \$43,530,000, or \$0.18 per diluted share, for the three months ended September 30, 2017, compared to \$50,615,000, or \$0.23 per diluted share, for the three months ended September 30, 2016. FFO attributable to common stockholders for the three months ended September 30, 2017 and 2016 includes the impact of non-core items, which are listed in the table on page 63. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common stockholders for the three months ended September 30, 2017 by \$8,839,000, or \$0.04 per diluted share, and increased FFO attributable to common stockholders for the three months ended September 30, 2016 by \$5,379,000, or \$0.02 per diluted share. Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of the non-core items listed on page 63, was \$52,369,000 and \$45,236,000, or \$0.22 and \$0.21 per diluted share, for the three months ended September 30, 2017 and 2016, respectively.

See page 63 “Non-GAAP Financial Measures – FFO and Core FFO” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

Same Store NOI

The table below summarizes the percentage increase (decrease) in our share of Same Store NOI and Same Store Cash NOI, by segment, for the three months ended September 30, 2017 versus September 30, 2016.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	0.2 %	(2.2 %)	19.2 %	2.1 %
Same Store Cash NOI	21.3 %	17.4 %	54.3 %	18.8 %

See page 56 “Non-GAAP Financial Measures – NOI” and page 60 “Non-GAAP Financial Measures – Same Store NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

Financial Results - Nine Months Ended September 30, 2017 and 2016

Net Income (Loss), FFO and Core FFO

Net income attributable to common stockholders was \$93,174,000, or \$0.40 per diluted share, for the nine months ended September 30, 2017, compared to a net loss of \$3,445,000, or \$0.02 per diluted share, for the nine months ended September 30, 2016. FFO attributable to common stockholders was \$157,437,000, or \$0.67 per diluted share, for the nine months ended September 30, 2017, compared to \$154,106,000, or \$0.71 per diluted share, for the nine months ended September 30, 2016. FFO attributable to common stockholders for the nine months ended September 30, 2017 and 2016 includes the impact of non-core items, which are listed in the table on page 63. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common stockholders for the nine months ended September 30, 2017 by \$1,002,000, or \$0.00 per diluted share, and increased FFO attributable to common stockholders for the nine months ended September 30, 2016 by \$9,557,000, or \$0.04 per diluted share. Core FFO attributable to common stockholders, which excludes the impact of the non-core items listed on page 63, was \$158,439,000 and \$144,549,000, or \$0.67 and \$0.67 per diluted share, for the nine months ended September 30, 2017 and 2016, respectively.

See page 63 “Non-GAAP Financial Measures – FFO and Core FFO” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

Same Store NOI

The table below summarizes the percentage (decrease) increase in our share of Same Store NOI and Same Store Cash NOI, by segment, for the nine months ended September 30, 2017 versus September 30, 2016.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	(3.3 %)	(8.0 %)	23.9 %	2.4 %
Same Store Cash NOI	9.2 %	4.3 %	41.1 %	8.6 %

See page 56 “Non-GAAP Financial Measures – NOI” and page 60 “Non-GAAP Financial Measures – Same Store NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

Results of Operations - Three Months Ended September 30, 2017

The following pages summarize our consolidated results of operations for the three months ended September 30, 2017 and 2016.

	For the Three Months Ended September 30,		
(Amounts in thousands)	2017	2016	Change
REVENUES:			
Rental income	\$ 156,384	\$ 149,019	\$ 7,365
Tenant reimbursement income	14,053	11,978	2,075
Fee and other income	9,333	10,321	(988)
Total revenues	179,770	171,318	8,452
EXPENSES:			
Operating	68,264	64,025	4,239
Depreciation and amortization	66,515	66,376	139
General and administrative	14,470	13,235	1,235
Transaction related costs	274	282	(8)
Total expenses	149,523	143,918	5,605
Operating income	30,247	27,400	2,847
Income from unconsolidated joint ventures	671	1,792	(1,121)
Loss from unconsolidated real estate funds	(3,930)	(1,254)	(2,676)
Interest and other (loss) income, net	(17,668)	2,299	(19,967)

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

Interest and debt expense	(35,733)	(38,278)	2,545
Unrealized gain on interest rate swaps	-	12,728	(12,728)
Net (loss) income before income taxes	(26,413)	4,687	(31,100)
Income tax benefit (expense)	1,010	(218)	1,228
Net (loss) income	(25,403)	4,469	(29,872)
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	14,217	(4,703)	18,920
Consolidated real estate fund	(114)	67	(181)
Operating Partnership	1,086	28	1,058
Net loss attributable to common stockholders	\$(10,214)	\$(139)	\$(10,075)

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$179,770,000 for the three months ended September 30, 2017, compared to \$171,318,000 for the three months ended September 30, 2016, an increase of \$8,452,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$15,574	\$-	\$ -	\$ 15,574	\$-
Dispositions ⁽²⁾	(8,325)	-	(8,325)	-	-
Same store operations	(188)	(765)	901	537	(861)
Other, net	304	175	-	129	-
Increase (decrease) in rental income	\$7,365	\$(590)	\$ (7,424)	\$ 16,240	\$(861)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	\$1,769	\$-	\$ -	\$ 1,769	\$-
Dispositions ⁽²⁾	(646)	-	(646)	-	-
Same store operations	952	182	1,003	(233)	-
Increase in tenant reimbursement income	\$2,075	\$182	\$ 357	\$ 1,536	\$-
Fee and other income					
Property management	\$269	\$-	\$ -	\$ -	\$269
Asset management	(6)	-	-	-	(6)
Acquisition and disposition	1,288	-	-	-	1,288
Other	307	-	-	-	307
	1,858	-	-	-	1,858

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

Increase in fee income					
Acquisitions ⁽¹⁾	241	-	-	241	-
Dispositions ⁽²⁾	(84)	-	(84)	-	-
Lease termination income					
	(2,506)	(2,782)	-	276	-
Other income	(497)	(346)	(92)	24	(83)
(Decrease) increase in other income					
	(2,846)	(3,128)	(176)	541	(83)
(Decrease) increase in fee and other income					
	\$(988)	\$(3,128)	\$ (176)	\$ 541	\$1,775
Total increase (decrease) in revenues					
	\$8,452	\$(3,536)	\$ (7,243)	\$ 18,317	\$914

⁽¹⁾Represents revenues for the three months ended September 30, 2017 from One Front Street and 50 Beale, which were acquired in December 2016 and July 2017, respectively.

⁽²⁾Represents revenues for the three months ended September 30, 2016 from Waterview, which was sold in May 2017.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$149,523,000 for the three months ended September 30, 2017, compared to \$143,918,000 for the three months ended September 30, 2016, an increase of \$5,605,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Operating					
Acquisitions ⁽¹⁾	\$6,352	\$-	\$ -	\$ 6,352	\$-
Dispositions ⁽²⁾	(2,778)	-	(2,778)	-	-
Same store operations	493	685	347	(182)	(357)
Bad debt expense	172	176	(4)	-	-
Increase (decrease) in operating	\$4,239	\$861	\$ (2,435)	\$ 6,170	\$(357)
Depreciation and amortization					
Acquisitions ⁽¹⁾	\$10,391	\$-	\$ -	\$ 10,391	\$-
Dispositions ⁽²⁾	(2,604)	-	(2,604)	-	-
Operations	(7,648)	(6,918)	95	(776)	(49)
Increase (decrease) in depreciation and amortization	\$139	\$(6,918)	\$ (2,509)	\$ 9,615	\$(49)
General and administrative					
Operations	\$(83)	\$-	\$ -	\$ -	\$(83)
Stock-based compensation	1,242	-	-	-	1,242
Mark-to-market of investments in our deferred compensation plan	76	-	-	-	76
Increase in general					(3)

and
administrative \$1,235 \$- \$ - \$ - \$1,235

Decrease in
transaction
related costs \$(8) \$- \$ - \$ - \$(8)

Total increase
(decrease) in
expenses \$5,605 \$(6,057) \$ (4,944) \$ 15,785 \$821

⁽¹⁾Represents expenses for the three months ended September 30, 2017 from One Front Street and 50 Beale, which were acquired in December 2016 and July 2017, respectively.

⁽²⁾Represents expenses for the three months ended September 30, 2016 from Waterview, which was sold in May 2017.

⁽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 (loss) income, net”.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$671,000 for the three months ended September 30, 2017, compared to \$1,792,000 for the three months ended September 30, 2016, a decrease of \$1,121,000. This decrease resulted from:

(Amounts in thousands)

712 Fifth Avenue (\$596 in 2017, compared to \$1,772 in 2016)	\$(1,176) ⁽¹⁾
60 Wall Street (acquired in January 2017)	(45)
75 Howard (acquired in May 2017)	100 ⁽²⁾
Oder-Center, Germany (\$20 in 2017 and 2016)	-
Total decrease	\$(1,121)

⁽¹⁾Prior to June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of net proceeds from refinancing the property. Because the distributions resulted in our basis becoming negative and because we have no further obligation to fund additional capital to the venture, in accordance with GAAP, we can no longer recognize our proportionate share of earnings from the venture until our basis is above zero. Accordingly, we are only recognizing income to the extent we receive cash distributions from the venture.

⁽²⁾Represents RDF's 20% share of income from the property, of which our 7.4% share is \$7.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$3,930,000 for the three months ended September 30, 2017, compared to \$1,254,000 for the three months ended September 30, 2016, an increase in loss of \$2,676,000. This increase resulted primarily from a decrease in carried interest of \$2,334,000.

Interest and Other (Loss) Income, net

Interest and other loss was \$17,668,000 for the three months ended September 30, 2017, compared to income of \$2,299,000 for the three months ended September 30, 2016, a decrease in income of \$19,967,000. This decrease resulted from:

(Amounts in thousands)	
Valuation allowance on preferred equity investment in 2017 ⁽¹⁾	\$(19,588)
Decrease in preferred equity investment income (\$961 in 2017, compared	
to \$1,460 in 2016) ⁽²⁾	(499)
Increase in the value of investments in our deferred compensation plan (which	
is offset by an increase in “general and administrative”)	76
Other, net	44
Total decrease	\$(19,967)

⁽¹⁾Represents a valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share is \$4,780 and \$14,808 was attributable to noncontrolling interests.

⁽²⁾Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$243 and \$355 for the three months ended September 30, 2017 and 2016, respectively.

Interest and Debt Expense

Interest and debt expense was \$35,733,000 for the three months ended September 30, 2017, compared to \$38,278,000 for the three months ended September 30, 2016, a decrease of \$2,545,000. This decrease resulted from:

(Amounts in thousands)

\$445 million of debt repayments (\$274 million at 900 Third Avenue in	
October 2016 and \$171 million at 1899 Pennsylvania Avenue and	
Liberty Place in May 2017)	\$(4,921)
\$975 million refinancing of One Market Plaza in January 2017	(4,020)
\$210 million defeasance of Waterview in October 2016	(3,131)
\$850 million financing of 1301 Avenue of the Americas in October 2016	6,541
\$228 million assumption of existing debt at 50 Beale upon acquisition in	
July 2017	1,723
Amortization of deferred financing costs	1,361
Other, net	(98)
Total decrease	\$(2,545)

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$12,728,000 for the three months ended September 30, 2016 and was comprised of (i) \$10,678,000 of unrealized gains in 2016 relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017 and (ii) \$2,050,000 of unrealized gains in 2016 relating to swaps aggregating \$162,000,000 on 900 Third Avenue that were settled upon the repayment in October 2016.

Income Tax Benefit (Expense)

Income tax benefit was \$1,010,000 for the three months ended September 30, 2017, compared to an expense of \$218,000 for the three months ended September 30, 2016, a decrease in expense of \$1,228,000. The decrease in expense was primarily due to lower taxable income on our taxable REIT subsidiaries.

Net (Loss) Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net loss attributable to noncontrolling interest in consolidated joint ventures was \$14,217,000 for the three months ended September 30, 2017, compared to income of \$4,703,000 for the three months ended September 30, 2016, a decrease in income allocated to noncontrolling interests in consolidated joint ventures of \$18,920,000. This decrease resulted from:

(Amounts in thousands)

Valuation allowance on preferred equity investment in 2017	\$(14,808)
Lower preferred equity investment income (\$718 in 2017,	
compared to \$1,105 in 2016)	(387)
Lower income attributable to One Market Plaza	
(\$853 in 2017, compared to \$3,598 in 2016)	(2,745)
Loss attributable to 50 Beale Street (acquired in July 2017)	(980)
Total decrease	\$(18,920)

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

Net income attributable to noncontrolling interests in consolidated real estate fund was \$114,000 for the three months ended September 30, 2017, compared to a loss of \$67,000 for the three months ended September 30, 2016, an increase in income attributable to the noncontrolling interests of \$181,000. This increase resulted from a higher net income subject to allocation to the noncontrolling interests for the three months ended September 30, 2017.

Net Loss Attributable to Noncontrolling Interests in Operating Partnership

Net loss attributable to noncontrolling interests in Operating Partnership was \$1,086,000 for the three months ended September 30, 2017, compared to \$28,000 for the three months ended September 30, 2016, an increase in loss attributable to noncontrolling interests of \$1,058,000. This increase resulted from a higher net loss subject to allocation to the unitholders of the Operating Partnership for the three months ended September 30, 2017.

Results of Operations - Nine Months Ended September 30, 2017

The following pages summarize our consolidated results of operations for the nine months ended September 30, 2017 and 2016.

	For the Nine Months Ended September 30,		
(Amounts in thousands)	2017	2016	Change
REVENUES:			
Rental income	\$469,961	\$445,452	\$24,509
Tenant reimbursement income	38,761	33,101	5,660
Fee and other income	29,988	37,986	(7,998)
Total revenues	538,710	516,539	22,171
EXPENSES:			
Operating	197,696	186,964	10,732
Depreciation and amortization	198,143	208,475	(10,332)
General and administrative	44,624	39,335	5,289
Transaction related costs	1,051	1,725	(674)
Total expenses	441,514	436,499	5,015
Operating income	97,196	80,040	17,156
Income from unconsolidated joint ventures	19,143	5,291	13,852
Loss from unconsolidated real estate funds	(6,053)	(2,540)	(3,513)
Interest and other (loss) income, net	(11,982)	5,029	(17,011)
Interest and debt expense	(107,568)	(113,406)	5,838
Loss on early extinguishment	(7,877)	-	(7,877)

of debt			
Gain on sale of real estate	133,989	-	133,989
Unrealized gain on interest rate swaps	1,802	29,661	(27,859)
Net income before income taxes	118,650	4,075	114,575
Income tax (expense) benefit	(4,242)	817	(5,059)
Net income	114,408	4,892	109,516
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	11,029	(10,062)	21,091
Consolidated real estate fund	(20,195)	819	(21,014)
Operating Partnership	(12,068)	906	(12,974)
Net income (loss) attributable to common stockholders	\$93,174	\$(3,445)	\$96,619

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$538,710,000 for the nine months ended September 30, 2017, compared to \$516,539,000 for the nine months ended September 30, 2016, an increase of \$22,171,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$38,709	\$-	\$ -	\$ 38,709	\$-
Dispositions ⁽²⁾	(13,637)	-	(13,637)	-	-
Same store operations	(3,434)	(10,014) ⁽³⁾	4,187	3,630	(1,237)
Other, net	2,871	2,742 ⁽⁴⁾	-	129	-
Increase (decrease) in rental income	\$24,509	\$(7,272)	\$ (9,450)	\$ 42,468	\$(1,237)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	\$4,652	\$-	\$ -	\$ 4,652	\$-
Dispositions ⁽²⁾	(1,031)	-	(1,031)	-	-
Same store operations	2,039	(1,011) ⁽⁴⁾	3,083	(33)	-
Increase (decrease) in tenant reimbursement income	\$5,660	\$(1,011)	\$ 2,052	\$ 4,619	\$-
Fee and other income					
Property management	\$351	\$-	\$ -	\$ -	\$351
Asset management	1,122	-	-	-	1,122
Acquisition and disposition	6,268	-	-	-	6,268
Other	529	-	-	-	529
Increase in fee income	8,270	-	-	-	8,270
Acquisitions ⁽¹⁾	1,351	-	-	1,351	-

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

Dispositions ⁽²⁾	(119)	-	(119)	-	-
Lease termination income	(13,459)	(13,605)	⁽⁵⁾ -	146	-
Other income	(4,041)	(3,376)	739	(1,448)	44
(Decrease) increase in other income	(16,268)	(16,981)	620	49	44
(Decrease) increase in fee and other income	\$(7,998)	\$(16,981)	\$ 620	\$ 49	\$8,314
Total increase (decrease) in revenues	\$22,171	\$(25,264)	\$ (6,778)	\$ 47,136	\$7,077

⁽¹⁾Represents revenues for the nine months ended September 30, 2017 from One Front Street and 50 Beale, which were acquired in December 2016 and July 2017, respectively.

⁽²⁾ Represents 2016 revenues from Waterview, which was sold in May 2017, for the months in which it was not owned in both reporting periods.

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

⁽⁴⁾Primarily due to an \$11,800 of non-cash write-off, in the nine months ended September 30, 2016, related to the termination of a tenant's above-market lease at 1633 Broadway, partially offset by \$10,315 of income, in the nine months ended September 30, 2016, from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

⁽⁵⁾Decrease primarily due to \$10,861 of income for the nine months ended September 30, 2016, in connection with a tenant's lease termination at 1633 Broadway.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$441,514,000 for the nine months ended September 30, 2017, compared to \$436,499,000 for the nine months ended September 30, 2016, an increase of \$5,015,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Operating					
Acquisitions ⁽¹⁾	\$ 13,091	\$ -	\$ -	\$ 13,091	\$ -
Dispositions ⁽²⁾	(4,459)	-	(4,459)	-	-
Same store operations	2,371	2,496	1,148	372	(1,645)
Bad debt expense	(271)	(267)	(4)	-	-
Increase (decrease) in operating	\$ 10,732	\$ 2,229	\$ (3,315)	\$ 13,463	\$ (1,645)
Depreciation and amortization					
Acquisitions ⁽¹⁾	\$ 30,129	\$ -	\$ -	\$ 30,129	\$ -
Dispositions ⁽²⁾	(4,256)	-	(4,256)	-	-
Operations	(36,205)	(29,294) ⁽³⁾	(3,250)	(3,904)	243
(Decrease) increase in depreciation and amortization	\$ (10,332)	\$ (29,294)	\$ (7,506)	\$ 26,225	\$ 243
General and administrative					
Operations	\$ 43	\$ -	\$ -	\$ -	\$ 43
Stock-based Compensation	4,781	-	-	-	4,781
Mark-to-market of investments in our deferred compensation plan	3,339	-	-	-	3,339
Severance costs	(2,874)	-	-	-	(2,874) ⁽⁵⁾
Increase in general					

and administrative	\$5,289	\$-	\$ -	\$ -	\$5,289
Decrease in transaction related					
costs	\$(674)	\$-	\$ -	\$ -	\$(674)
Total increase (decrease) in					
expenses	\$5,015	\$(27,065)	\$ (10,821)	\$ 39,688	\$3,213

- (1) Represents expenses for the nine months ended September 30, 2017 from One Front Street and 50 Beale, which were acquired in December 2016 and July 2017, respectively.
- (2) Represents expenses for Waterview, which was sold in May 2017, for the months in which it was not owned in both reporting periods.
- (3) Decrease primarily due to lower amortization of in-place lease assets due to the expiration of such leases and acceleration of amortization of tenant improvements and in-place lease assets in the nine months ended September 30, 2016, in connection with a tenant's lease modification.
- (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 (loss) income, net".
- (5) Represents severance costs in the nine months ended September 30, 2016 in connection with a separation agreement.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$19,143,000 for the nine months ended September 30, 2017, compared to \$5,291,000 for the nine months ended September 30, 2016, an increase of \$13,852,000. This increase resulted from:

(Amounts in thousands)

712 Fifth Avenue (\$19,030 in 2017, compared to \$5,233 in 2016)	\$ 13,797	(1)
60 Wall Street (acquired in January 2017)	(81)	
75 Howard (acquired in May 2017)	133	(2)
Oder-Center, Germany (\$61 in 2017, compared to \$58 in 2016)	3	
Total increase	\$ 13,852	

(1) Prior to June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of net proceeds from refinancing the property. Because the distributions resulted in our basis becoming negative and because we have no further obligation to fund additional capital to the venture, in accordance with GAAP, we can no longer recognize our proportionate share of earnings from the venture until our basis is above zero. Accordingly, we are only recognizing income to the extent we receive cash distributions from the venture.

(2) Represents RDF's 20% share of income from the property, of which our 7.4% share is \$9.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$6,053,000 for the nine months ended September 30, 2017, compared to \$2,540,000 for the nine months ended September 30, 2016, an increase in loss of \$3,513,000. This increase resulted primarily from a decrease in carried interest of \$6,426,000, partially offset by a decrease in unrealized loss of \$2,913,000.

Interest and Other (Loss) Income, net

Interest and other loss was \$11,982,000 for the nine months ended September 30, 2017, compared to income of \$5,029,000 for the nine months ended September 30, 2016, a decrease in income of \$17,011,000. This decrease resulted from:

(Amounts in thousands)	
Valuation allowance on preferred equity investment in 2017 ⁽¹⁾	\$(19,588)
Decrease in preferred equity investment income (\$3,327 in 2017, compared	(972)
to \$4,299 in 2016) ⁽²⁾	
Increase in the value of investments in our deferred compensation plan (which	
is offset by an increase in “general and administrative”)	3,339
Other, net	210
Total decrease	\$(17,011)

⁽¹⁾Represents a valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share is \$4,780 and \$14,808 was attributable to noncontrolling interests.

⁽²⁾Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$819 and \$1,047 for the nine months ended September 30, 2017 and 2016, respectively.

Interest and Debt Expense

Interest and debt expense was \$107,568,000 for the nine months ended September 30, 2017, compared to \$113,406,000 for the nine months ended September 30, 2016, a decrease of \$5,838,000. This decrease resulted from:

(Amounts in thousands)	
\$445 million of debt repayments (\$274 million at 900 Third Avenue in	
October 2016 and \$171 million at 1899 Pennsylvania Avenue and	
Liberty Place in May 2017)	\$(12,150)
\$975 million refinancing of One Market Plaza in January 2017	(11,123)
\$210 million defeasance of Waterview in October 2016	(9,246)
\$850 million financing of 1301 Avenue of the Americas in October 2016	19,127
\$228 million assumption of existing debt at 50 Beale upon acquisition in	
July 2017	1,723
Amortization of deferred financing costs	4,246
Other, net	1,585
Total decrease	\$(5,838)

Loss on Early Extinguishment of Debt

In the nine months ended September 30, 2017, we incurred \$7,877,000 of costs in connection with the early refinancing of One Market Plaza and the early repayment of debt at 1899 Pennsylvania Avenue and Liberty Place in May 2017.

Gain on Sale of Real Estate

In the nine months ended September 30, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of a \$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 75 Howard in May 2017.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$1,802,000 for the nine months ended September 30, 2017, compared to an unrealized gain of \$29,661,000 for the nine months ended September 30, 2016, a decrease of \$27,859,000. This decrease was primarily due to (i) \$22,219,000 of lower unrealized gains in 2017 relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017, (ii) \$4,020,000 of unrealized gains in 2016 relating to swaps aggregating \$162,000,000 on 900 Third Avenue that were settled upon the repayment in October 2016 and (iii) \$1,620,000 of unrealized gains in 2016 relating to swaps aggregating \$237,600,000 on 31 West 52nd Street that were settled upon the refinancing in May 2016.

Income Tax (Expense) Benefit

Income tax expense was \$4,242,000 for the nine months ended September 30, 2017, compared to a benefit of \$817,000 for the nine months ended September 30, 2016, an increase in expense of \$5,059,000. This increase in expense was primarily due to higher fee income on our taxable REIT subsidiaries and \$1,838,000 of tax on the gain on the sale of an 80.0% equity interest in 75 Howard.

Net (Loss) Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net loss attributable to noncontrolling interest in consolidated joint ventures was \$11,029,000 for the nine months ended September 30, 2017, compared to income of \$10,062,000 for the nine months ended September 30, 2016, a decrease in income attributable to noncontrolling interests in consolidated joint ventures of \$21,091,000. This decrease resulted from:

(Amounts in thousands)

Valuation allowance on preferred equity investment in 2017	\$(14,808)
Lower preferred equity investment income (\$2,508 in 2017,	
compared to income of \$3,252 in 2016)	(744)
Lower income attributable to One Market Plaza	
(\$2,251 in 2017, compared to \$6,810 in 2016)	(4,559)
Loss attributable to 50 Beale Street (acquired in July 2017)	(980)
Total decrease	\$(21,091)

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

Net income attributable to noncontrolling interests in consolidated real estate fund was \$20,195,000 for the nine months ended September 30, 2017, compared to a loss of \$819,000 for the nine months ended September 30, 2016, an increase in income attributable to the noncontrolling interests of \$21,014,000. This increase was primarily due to noncontrolling interests share of the gain on the sale of an 80.0% equity interest in 75 Howard.

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

Net income attributable to noncontrolling interests in Operating Partnership was \$12,068,000 for the nine months ended September 30, 2017, compared to a loss of \$906,000 for the nine months ended September 30, 2016, an increase in income attributable to noncontrolling interests of \$12,974,000. This increase resulted from higher income subject to allocation to the unitholders of the Operating Partnership for the nine months ended September 30, 2017.

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 September 30, 2017, we had \$1.017 billion of liquidity comprised of \$185,028,000 of cash and cash equivalents, \$32,320,000 of restricted cash and \$800,000,000 of borrowing capacity under our revolving credit facility. As of September 30, 2017, our outstanding consolidated debt (including amounts outstanding under our revolving credit facility) aggregated \$3.583 billion. 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.

Dividend Policy

On September 15, 2017, we declared a regular quarterly cash dividend of \$0.095 per share of common stock for the third quarter ending September 30, 2017, which was paid on October 13, 2017 to stockholders of record as of the close of business on September 29, 2017. This dividend policy, if continued, would require us to pay out approximately \$25,211,000 each quarter to common stockholders and unitholders.

Off Balance Sheet Arrangements

As of September 30, 2017, our unconsolidated joint ventures had \$897,535,000 of outstanding indebtedness, of which our share was \$180,949,000. We do not guarantee the indebtedness of unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carveouts 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 the 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.

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 September 30, 2017, we believe we are in compliance with all of our covenants.

Inflation

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

Cash Flows

Cash and cash equivalents were \$185,028,000 and \$162,965,000 as of September 30, 2017 and December 31, 2016, respectively. The following table sets forth the changes in cash flow.

	For the Nine Months Ended September 30,	
(Amounts in thousands)	2017	2016
Net cash provided by (used in):		
Operating activities	\$ 105,071	\$ 70,148
Investing activities	315,843	(147,149)
Financing activities	(398,851)	24,385

Operating Activities

Nine months ended September 30, 2017 – We generated \$105,071,000 of cash from operating activities for the nine months ended September 30, 2017, primarily from (i) \$150,698,000 of net income (before \$170,279,000 of noncash adjustments and \$133,989,000 of gain on sale of real estate) and (ii) \$3,655,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$49,282,000 of net changes in operating assets and liabilities. Noncash adjustments of \$170,279,000 were primarily comprised of depreciation and amortization, income from unconsolidated joint ventures, straight-lining of rental income, amortization of above and below market leases, impairment loss on preferred equity investment and amortization of stock based compensation. The changes in operating assets and liabilities were primarily due to prepaid real estate taxes and additions to deferred charges.

Nine months ended September 30, 2016 – We generated \$70,148,000 of cash from operating activities for the nine months ended September 30, 2016, primarily from (i) \$121,046,000 of net income (before \$116,154,000 of noncash adjustments) and (ii) \$6,132,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$57,030,000 of net changes in operating assets and liabilities. Noncash adjustments of \$116,154,000 were primarily comprised of depreciation and amortization, straight-lining of rental income and unrealized gain on interest rate swaps. The net changes in operating assets and liabilities were primarily due to prepaid real estate taxes and additions to deferred charges.

Investing Activities

Nine months ended September 30, 2017 – We generated \$315,843,000 of cash from investing activities for the nine months ended September 30, 2017, primarily from (i) \$540,333,000 of proceeds from the sales of real estate and (ii) \$33,849,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$161,184,000 for acquisition of real estate; (iv) \$59,255,000 for additions to real estate, which was comprised of spending for tenant improvements and other building improvements, (v) \$28,886,000 for the investments in unconsolidated joint ventures and (vi) \$8,224,000 increase in restricted cash.

Nine months ended September 30, 2016 – We used \$147,149,000 of cash for investing activities for the nine months ended September 30, 2016, primarily due to (i) \$107,445,000 of additions to rental properties, which was comprised of spending for tenant improvements and other building improvements, (ii) \$50,000,000 deposit on rental property, (iii) \$1,084,000 of contributions to unconsolidated real estate funds, partially offset by (iv) \$11,380,000 decrease in restricted cash.

Financing Activities

Nine months ended September 30, 2017 – We used \$398,851,000 of cash for financing activities for the nine months ended September 30, 2017, primarily due to (i) \$1,044,821,000 for repayments of notes and mortgages payable and \$7,877,000 for 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) \$115,549,000 for distributions to noncontrolling interests, (iv) 75,569,000 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, partially offset by (vii) \$991,556,000 of proceeds from notes and mortgages payable, primarily from the refinancing of One Market Plaza, (viii) \$100,777,000 of contributions from noncontrolling interests, primarily from the acquisition of 50 Beale, (ix) \$60,000,000 of borrowings under the revolving credit facility and (x) \$9,555,000 from the refund of transfer taxes.

Nine months ended September 30, 2016 – We generated \$24,385,000 of cash from financing activities for the nine months ended September 30, 2016, primarily from (i) \$509,578,000 of proceeds from notes and mortgages payable, primarily from the refinancing of 31 West 52nd Street and (ii) \$110,000,000 of borrowings under the revolving credit facility, partially offset by (iii) \$414,564,000 of repayments of notes and mortgages payable, primarily for the repayment of 31 West 52nd Street loan, (iv) \$80,000,000 of repayments of the amounts borrowed under the revolving credit facility, (v) \$75,365,000 of dividends and distributions paid to common stockholders and unitholders, (vi) \$16,040,000 for the settlement of swap liabilities and (vii) \$6,532,000 for the payment of debt issuance costs.

Non-GAAP Financial Measures

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

NOI

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

The following tables present reconciliations of net (loss) income to NOI and Cash NOI for the three and nine months ended September 30, 2017 and 2016.

(Amounts in thousands)	For the Three Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net (loss) income to NOI and Cash NOI:					
Net (loss) income	\$(25,403)	\$2,870	\$ 3,698	\$ 1,114	\$(33,085)
Add (subtract) adjustments to arrive at NOI					
and Cash NOI:					
Depreciation and amortization	66,515	38,040	5,417	22,586	472
General and administrative	14,470	-	-	-	14,470
Interest and debt expense	35,733	22,562	-	12,026	1,145
Transaction related costs	274	-	-	-	274
Income tax (benefit) expense	(1,010)	-	-	1	(1,011)
NOI from unconsolidated joint ventures	4,993	4,815	-	-	178

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

Income from unconsolidated joint ventures	(671)	(551)	-	-	(120)
Loss from unconsolidated real estate funds	3,930	-	-	-	3,930
Fee income	(5,834)	-	-	-	(5,834)
Interest and other loss (income), net	17,668	(37)	(16)	(133)	17,854
NOI	110,665	67,699	9,099	35,594	(1,727)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(15,307)	-	-	(15,307)	-
Consolidated real estate fund	(21)	-	-	-	(21)
Paramount's share of NOI	\$95,337	\$67,699	\$ 9,099	\$ 20,287	\$(1,748)
NOI	\$ 110,665	\$67,699	\$ 9,099	\$ 35,594	\$(1,727)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(11,402)	(8,455)	106	(3,025)	(28)
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(3,017)	1,060	(547)	(3,530)	-
Cash NOI	96,246	60,304	8,658	29,039	(1,755)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(12,412)	-	-	(12,412)	-
Consolidated real estate fund	(21)	-	-	-	(21)
Paramount's share of Cash NOI	\$83,813	\$60,304	\$ 8,658	\$ 16,627	\$(1,776)

For the Three Months Ended September 30, 2016					
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$4,469	\$8,562	\$ 797	\$ 7,091	\$(11,981)
Add (subtract) adjustments to arrive at NOI					
and Cash NOI:					
Depreciation and amortization	66,376	44,959	7,925	12,971	521
General and administrative	13,235	-	-	-	13,235
Interest and debt expense	38,278	17,630	5,198	14,064	1,386
Transaction related costs	282	-	-	-	282
Income tax expense (benefit)	218	-	(1)	4	215
NOI from unconsolidated joint ventures	3,974	3,893	-	-	81
Income from unconsolidated joint ventures	(1,792)	(1,772)	-	-	(20)
Loss from unconsolidated real estate funds	1,254	-	-	-	1,254
Fee income	(3,976)	-	-	-	(3,976)
Interest and other income, net	(2,299)	(48)	(12)	(5)	(2,234)
Unrealized gain on interest rate swaps	(12,728)	(2,050)	-	(10,678)	-
NOI	107,291	71,174	13,907	23,447	(1,237)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(11,819)	-	-	(11,819)	-
Consolidated real estate fund	(157)	-	-	-	(157)
Paramount's share of NOI	\$95,315	\$71,174	\$ 13,907	\$ 11,628	\$(1,394)
NOI	\$107,291	\$71,174	\$ 13,907	\$ 23,447	\$(1,237)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(23,234)	(18,754)	(1,425)	(3,027)	(28)
Amortization of above and below-market leases, net	(3,112)	1,201	(549)	(3,764)	-
Cash NOI	80,945	53,621	11,933	16,656	(1,265)
Less Cash NOI attributable to noncontrolling					
interests in:					
Consolidated joint ventures	(8,356)	-	-	(8,356)	-
Consolidated real estate fund	(157)	-	-	-	(157)
Paramount's share of Cash NOI	\$72,432	\$53,621	\$ 11,933	\$ 8,300	\$(1,422)

(Amounts in thousands)	For the Nine Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$ 114,408	\$ 23,921	\$ 122,237	\$ 4,942	\$(36,692)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	198,143	115,134	16,031	65,364	1,614
General and administrative	44,624	-	-	-	44,624
Interest and debt expense	107,568	66,754	2,724	32,983	5,107
Loss on early extinguishment of debt	7,877	-	5,162	2,715	-
Transaction related costs	1,051	-	-	-	1,051
Income tax expense	4,242	-	-	9	4,233
NOI from unconsolidated joint ventures	14,774	14,406	-	-	368
Income from unconsolidated joint ventures	(19,143)	(18,949)	-	-	(194)
Loss from unconsolidated real estate funds	6,053	-	-	-	6,053
Fee income	(19,838)	-	-	-	(19,838)
Interest and other loss (income), net	11,982	(98)	(36)	(202)	12,318
Gain on sale of real estate	(133,989)	-	(110,583)	-	(23,406)
Unrealized gain on interest rate swaps	(1,802)	-	-	(1,802)	-
NOI	335,950	201,168	35,535	104,009	(4,762)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(39,536)	-	-	(39,536)	-
Consolidated real estate fund	(507)	-	-	-	(507)
Paramount's share of NOI	\$ 295,907	\$ 201,168	\$ 35,535	\$ 64,473	\$(5,269)
NOI	\$ 335,950	\$ 201,168	\$ 35,535	\$ 104,009	\$(4,762)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(44,121)	(29,968)	(1,290)	(12,868)	5
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(13,716)	4,017	(1,644)	(16,089)	-
Cash NOI	278,113	175,217	32,601	75,052	(4,757)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(29,240)	-	-	(29,240)	-
Consolidated real estate fund	(507)	-	-	-	(507)
Paramount's share of Cash NOI	\$ 248,366	\$ 175,217	\$ 32,601	\$ 45,812	\$(5,264)

(Amounts in thousands)	For the Nine Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$4,892	\$28,679	\$ 2,582	\$ 13,508	\$(39,877)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	208,475	144,429	23,536	39,139	1,371
General and administrative	39,335	-	-	-	39,335
Interest and debt expense	113,406	52,186	15,460	41,693	4,067
Transaction related costs	1,725	-	-	-	1,725
Income tax (benefit) expense	(817)	-	(2,537)	37	1,683
NOI from unconsolidated joint ventures	12,938	12,696	-	-	242
Income from unconsolidated joint ventures	(5,291)	(5,233)	-	-	(58)
Loss from unconsolidated real estate funds	2,540	-	-	-	2,540
Fee income	(11,568)	-	-	-	(11,568)
Interest and other income, net	(5,029)	(166)	(43)	(20)	(4,800)
Unrealized gain on interest rate swaps	(29,661)	(5,640)	-	(24,021)	-
NOI	330,945	226,951	38,998	70,336	(5,340)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(35,436)	-	-	(35,436)	-
Consolidated real estate fund	146	-	-	-	146
Paramount's share of NOI	\$295,655	\$226,951	\$ 38,998	\$ 34,900	\$(5,194)
NOI	\$330,945	\$226,951	\$ 38,998	\$ 70,336	\$(5,340)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(67,968)	(54,723)	(3,839)	(9,409)	3
Amortization of above and below-market leases, net	(6,593)	6,889	(1,655)	(11,827)	-
Cash NOI	256,384	179,117	33,504	49,100	(5,337)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(24,606)	-	-	(24,606)	-
Consolidated real estate fund	146	-	-	-	146
Paramount's share of Cash NOI	\$231,924	\$179,117	\$ 33,504	\$ 24,494	\$(5,191)

Same Store NOI

The tables below set forth the reconciliations of our share of NOI to Same Store NOI and Same Store Cash NOI for the three and nine months ended September 30, 2017 and 2016. These metrics are used to measure the operating performance of our properties that were owned by us in a similar manner during both the current and prior reporting periods, and represents our share of Same Store NOI and Same Store Cash NOI from consolidated and unconsolidated joint ventures based on our percentage ownership in the underlying assets. Same Store Cash NOI excludes the effect of non-cash items such as the straight-lining of rental revenue and the amortization of above and below-market leases.

(Amounts in thousands)	For the Three Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended September 30, 2017 ⁽¹⁾	\$95,337	\$67,699	\$ 9,099	\$ 20,287	\$(1,748)
Acquisitions ⁽²⁾	(8,916)	(678)	-	(8,238)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(886)	(665)	-	(221)	-
Other, net	241	208	-	39	(6)
Paramount's share of Same Store NOI for the three months ended September 30, 2017	\$85,776	\$66,564	\$ 9,099	\$ 11,867	\$(1,754)
(Amounts in thousands)	For the Three Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the three months ended September 30, 2016 ⁽¹⁾	\$95,315	\$71,174	\$ 13,907	\$ 11,628	\$(1,394)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(6,277)	-	(6,277)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(3,433)	(3,348)	-	(85)	-
Other, net	(18)	207	4	78	(307)
Paramount's share of Same Store NOI for the three months ended September 30, 2016	\$85,587	\$68,033	\$ 7,634	\$ 11,621	\$(1,701)
Increase (decrease) in Same Store NOI	\$189	\$(1,469)	\$ 1,465	\$ 246	\$(53)
% Increase (decrease)	0.2	% (2.2 %)	19.2	% 2.1	%

- ⁽¹⁾ See page 56 “Non-GAAP Financial Measures – 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 for the three months ended September 30, 2017 attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street and 50 Beale in San Francisco, which were acquired in December 2016 and July 2017, respectively.
- ⁽³⁾ Represents our share of NOI for the three months ended September 30, 2016 attributable to Waterview, which was sold in May 2017.

(Amounts in thousands)	For the Three Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended September 30, 2017 ⁽¹⁾	\$83,813	\$60,304	\$ 8,658	\$ 16,627	\$(1,776)
Acquisitions ⁽²⁾	(7,510)	(842)	-	(6,668)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(886)	(665)	-	(221)	-
Other, net	32	14	-	24	(6)
Paramount's share of Same Store Cash NOI for the three months ended September 30, 2017	\$75,449	\$58,811	\$ 8,658	\$ 9,762	\$(1,782)
(Amounts in thousands)	For the Three Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the three months ended September 30, 2016 ⁽¹⁾	\$72,432	\$53,621	\$ 11,933	\$ 8,300	\$(1,422)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(6,327)	-	(6,327)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(3,433)	(3,348)	-	(85)	-
Other, net	(465)	(162)	4	-	(307)
Paramount's share of Same Store Cash NOI for the three months ended September 30, 2016	\$62,207	\$50,111	\$ 5,610	\$ 8,215	\$(1,729)
Increase (decrease) in Same Store Cash NOI	\$13,242	\$8,700	\$ 3,048	\$ 1,547	\$(53)
% Increase	21.3 %	17.4 %	54.3 %	18.8 %	

⁽¹⁾ See page 56 “Non-GAAP Financial Measures – 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 Cash NOI for the three months ended September 30, 2017 attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street and 50 Beale in San Francisco, which were acquired in December 2016 and July 2017, respectively.

⁽³⁾ Represents our share of Cash NOI for the three months ended September 30, 2016 attributable to Waterview, which was sold in May 2017.

(Amounts in thousands)	For the Nine Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the nine months ended September 30, 2017 ⁽¹⁾	\$295,907	\$201,168	\$35,535	\$64,473	\$(5,269)
Acquisitions ⁽²⁾	(28,981)	(1,918)	-	(27,063)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,993)	(906)	-	(1,087)	-
Other, net	(544)	238	-	(659)	(123)
Paramount's share of Same Store NOI for the nine months ended September 30, 2017	\$264,389	\$198,582	\$35,535	\$35,664	\$(5,392)
(Amounts in thousands)	For the Nine Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the nine months ended September 30, 2016 ⁽¹⁾	\$295,655	\$226,951	\$38,998	\$34,900	\$(5,194)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(10,328)	-	(10,328)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(14,571)	(14,422)	⁽⁴⁾ -	(149)	-
Other, net	2,721	3,247	⁽⁵⁾ 4	78	(608)
Paramount's share of Same Store NOI for the nine months ended September 30, 2016	\$273,477	\$215,776	\$28,674	\$34,829	\$(5,802)
(Decrease) increase in Same Store NOI	\$(9,088)	\$(17,194)	\$6,861	\$835	\$410
% (Decrease) increase	(3.3 %)	(8.0 %)	23.9 %	2.4 %	

⁽¹⁾ See page 56 "Non-GAAP Financial Measures – 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 for the nine months ended September 30, 2017 attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street and 50 Beale in San Francisco, which were acquired in December 2016 and July 2017, respectively.

⁽³⁾ Represents our share of NOI attributable to Waterview, which was sold in May 2017.

⁽⁴⁾ Includes \$10,861 from the termination of a tenant's lease at 1633 Broadway.

⁽⁵⁾ Includes an aggregate of \$11,800 of non-cash write-offs primarily related to above-market lease asset from the termination of a tenant's lease at 1633 Broadway, partially offset by \$10,315 of income from the accelerated amortization of a below-market lease liability in connection with a tenant's lease modification.

(Amounts in thousands)	For the Nine Months Ended September 30, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the nine months ended September 30, 2017 ⁽¹⁾	\$248,366	\$175,217	\$ 32,601	\$45,812	\$(5,264)
Acquisitions ⁽²⁾	(20,561)	(2,260)	-	(18,301)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(1,993)	(906)	-	(1,087)	-
Other, net	(55)	44	-	24	(123)
Paramount's share of Same Store Cash NOI for the nine months ended September 30, 2017	\$225,757	\$172,095	\$ 32,601	\$ 26,448	\$(5,387)
(Amounts in thousands)	For the Nine Months Ended September 30, 2016				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the nine months ended September 30, 2016 ⁽¹⁾	\$231,924	\$179,117	\$ 33,504	\$ 24,494	\$(5,191)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(10,408)	-	(10,408)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(14,571)	(14,422) ⁽⁴⁾	-	(149)	-
Other, net	(293)	311	4	-	(608)
Paramount's share of Same Store Cash NOI for the nine months ended September 30, 2016	\$206,652	\$165,006	\$ 23,100	\$ 24,345	\$(5,799)
Increase in Same Store Cash NOI	\$19,105	\$7,089	\$ 9,501	\$ 2,103	\$412
% Increase	9.2	% 4.3	% 41.1	% 8.6	%

⁽¹⁾ See page 56 “Non-GAAP Financial Measures – 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 Cash NOI for the nine months ended September 30, 2017 attributable to (i) 60 Wall Street, in New York, which was acquired in January 2017 and (ii) One Front Street and 50 Beale in San Francisco, which were acquired in December 2016 and July 2017, respectively.

⁽³⁾ Represents our share of Cash NOI attributable to Waterview, which was sold in May 2017.

⁽⁴⁾ Includes \$10,861 from the termination of a tenant’s lease at 1633 Broadway.

FFO and 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 gain or losses on real estate fund investments, unrealized gains or losses on interest rate swaps, severance costs and loss 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.

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Amounts in thousands, except share and per share amounts)	2017	2016	2017	2016
Reconciliation of net (loss) income to FFO and Core FFO:				
Net (loss) income	\$(25,403)	\$4,469	\$114,408	\$4,892
Real estate depreciation and amortization (including our share of unconsolidated joint ventures)	68,523	68,008	204,023	213,202
Gain on sale of Waterview	-	-	(110,583)	-
FFO	43,120	72,477	207,848	218,094
Less FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	5,152	(11,319)	(9,783)	(30,026)
Consolidated real estate fund	(114)	(157)	(20,530)	147
Operating Partnership	(4,628)	(10,386)	(20,098)	(34,109)
FFO attributable to common stockholders	\$43,530	\$50,615	\$157,437	\$154,106
Per diluted share	\$0.18	\$0.23	\$0.67	\$0.71
FFO	\$43,120	\$72,477	\$207,848	\$218,094
Non-core items:				

Valuation allowance on preferred equity investment	19,588	-	19,588	-
Realized and unrealized loss from unconsolidated				
real estate funds	4,034	1,379	6,281	2,518
Our share of earnings from 712 Fifth Avenue in excess of				
distributions received and (distributions in excess of basis)	691	-	(14,381)	) -
Transaction related costs	274	282	1,051	1,725
After-tax net gain on sale of residential condominium				
land parcel	-	-	(21,568)	) -
Loss on early extinguishment of debt	-	-	7,877	-
Unrealized gain on interest rate swaps (including our share of unconsolidated joint ventures)	-	(13,589)	) (2,750)	) (30,939)
Severance costs	-	-	-	2,874
Core FFO	67,707	60,549	203,946	194,272
Less Core FFO attributable to noncontrolling interests in:				
Consolidated joint ventures	(9,656)	) (5,874)	) (25,057)	) (17,776)
Consolidated real estate fund	(114)	) (157)	) (242)	) 147
Operating Partnership	(5,568)	) (9,282)	) (20,208)	) (32,094)
Core FFO attributable to common	\$52,369	\$45,236	\$158,439	\$144,549

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

stockholders

Per diluted share	\$0.22	\$0.21	\$0.67	\$0.67
-------------------	--------	--------	--------	--------

Reconciliation of
weighted average
shares outstanding:

Weighted average shares outstanding	239,445,810	219,394,245	235,151,398	216,317,746
Effect of dilutive securities	24,653	24,385	26,285	-
Denominator for FFO and Core FFO per diluted share	239,470,463	219,418,630	235,177,683	216,317,746

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 September 30, 2017.

Property (Amounts in thousands)	Rate	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed Rate Debt:									
1633 Broadway ⁽¹⁾	3.54%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,001,383
1301 Avenue of the Americas	3.05%	-	-	-	-	500,000	-	500,000	488,411
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	486,606
One Market Plaza	4.03%	-	-	-	-	-	975,000	975,000	989,941
50 Beale	3.65%	-	-	-	-	228,000	-	228,000	228,073
Total Fixed Rate Debt	3.66%	\$ -	\$ -	\$ -	\$ -	\$ 728,000	\$ 2,475,000	\$ 3,203,000	\$ 3,194,414
Variable Rate Debt:									
1633 Broadway	2.99%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,100	\$ 30,100	\$ 30,142
1301 Avenue of the Americas	3.05%	-	-	-	-	350,000	-	350,000	351,287
Revolving Credit Facility	n/a	-	-	-	-	-	-	-	-
Total Variable Rate Debt	3.05%	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 30,100	\$ 380,100	\$ 381,429
Total Consolidated Debt	3.60%	\$ -	\$ -	\$ -	\$ -	\$ 1,078,000	\$ 2,505,100	\$ 3,583,100	\$ 3,575,843

⁽¹⁾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 \$897,535,000 of outstanding indebtedness as of September 30, 2017, of which our share was \$180,949,000.

The following table summarized our fixed rate debt that has been swapped from floating rate to fixed as of September 30, 2017.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of September 30, 2017
(Amounts in thousands)					
1633 Broadway ⁽¹⁾	\$400,000	Dec-2015	Dec-2020	1.65 %	\$ 1,233
1633 Broadway ⁽¹⁾	300,000	Dec-2015	Dec-2021	1.82 %	142
Total interest rate swap assets designated as cash flow hedges (included in "other assets")					\$ 1,375
1633 Broadway ⁽¹⁾	\$400,000	Dec-2020	Dec-2021	2.35 %	\$ 921
1633 Broadway ⁽¹⁾	300,000	Dec-2015	Dec-2022	1.95 %	805
Total interest rate swap liabilities designated as cash flow hedges (included in "other liabilities")					\$ 1,726

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

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

	September 30, 2017			December 31, 2016		
		Weighted Average Interest Rate	Effect of 1% Increase in Base Rates		Weighted Average Interest Rate	
(Amounts in thousands, except per share amount)	Balance			Balance		
Paramount's share of consolidated debt:						
Variable rate	\$380,100	3.05	% \$ 3,801	\$599,627	2.29	%
Fixed rate ⁽¹⁾	2,548,658	3.59	% -	2,593,343	3.99	%
	\$2,928,758	3.52	% \$ 3,801	\$3,192,970	3.67	%

Paramount's share of debt of non-consolidated entities

(non-recourse):						
Variable rate	\$28,808	3.69	% \$ 288	\$55,750	2.72	%
Fixed rate ⁽¹⁾	152,141	3.41	% -	69,692	5.74	%
	\$180,949	3.45	% \$ 288	\$125,442	4.40	%
Noncontrolling interests' in the Operating Partnership share of above			\$ (393)			
Total change in annual net income			\$ 3,696			
Per diluted share			\$ 0.02			

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

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. 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, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2017, 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 at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, 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.

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 September 30, 2017, 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, 2016.

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

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. The amount of timing of repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading

volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time. During the three months ended September 30, 2017, we did not repurchase any of our common stock.

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
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 Act of 2002.</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to</u>

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

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: November 6, 2017 By: /s/ Wilbur Paes
Wilbur Paes
Executive Vice President, Chief Financial Officer and Treasurer

(duly authorized officer and principal financial and accounting officer)