Paramount Group, Inc.
Form 10-Q
May 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended: March 31, 2015

OR

o 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)

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

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

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

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

As of April 30, 2015, there were 212,106,718 shares of the registrant’s common stock outstanding.

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PART I – FINANCIAL INFORMATION - ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	The Company	
ASSETS	March 31, 2015	December 31, 2014
Rental property, at cost		
Land	$ 2,042,071	$ 2,042,071
Buildings and improvements	5,503,475	5,488,168
	7,545,546	7,530,239
Accumulated depreciation and amortization	(121,165)	(81,050)
Rental property, net	7,424,381	7,449,189
Real estate fund investments at fair value	324,282	323,387
Investments in partially owned entities	6,370	5,749
Cash and cash equivalents	380,889	438,599
Restricted cash	53,864	55,728
Marketable securities	21,386	20,159
Deferred rent receivable	24,261	8,267
Accounts and other receivables, net of allowance of $333 in 2015 and 2014, respectively	12,863	7,692
Deferred charges, net of accumulated amortization of $11,853 and $10,859 in 2015 and 2014, respectively	43,713	39,165
Intangible assets, net of accumulated amortization of $57,397 and $20,509 in 2015 and 2014, respectively	629,021	669,385
Other assets	31,948	13,121
Total assets	$ 8,952,978	$ 9,030,441
LIABILITIES AND EQUITY		
Mortgages and notes payable	$ 2,852,754	$ 2,852,287
Credit facility	-	-
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	43,188	42,195
Accounts payable and accrued expenses	78,282	93,472
Deferred income taxes	3,183	2,861
Interest rate swap liabilities	182,218	194,196
Intangible liabilities, net of accumulated amortization of $11,939 and $3,757 in 2015 and 2014, respectively	210,964	219,228
Other liabilities	45,742	43,950
Total liabilities	3,443,630	3,475,488
Commitments and contingencies		
Paramount Group, Inc. equity:		

Common stock $0.01 par value per share; authorized 900,000,000 shares; issued and outstanding 212,106,718 shares in 2015 and 2014, respectively	2,122	2,122
Additional paid-in-capital	3,808,193	3,851,432
Retained earnings	19,058	57,308
Paramount Group, Inc. equity	3,829,373	3,910,862
Noncontrolling interests in:		
Consolidated joint ventures and funds	685,176	685,888
Operating Partnership (51,543,993 units outstanding in 2015 and 2014, respectively)	994,799	958,203
Total equity	5,509,348	5,554,953
Total liabilities and equity	$8,952,978	$9,030,441

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	The Company Three months ended March 31, 2015
REVENUES:	
Rental income	$ 143,243
Tenant reimbursement income	13,488
Fee and other income	4,495
Total revenues	161,226
EXPENSES:	
Operating	61,884
Depreciation and amortization	73,583
General and administrative	12,613
Total expenses	148,080
Operating income	13,146
Income from real estate fund investments	5,221
Income from partially owned entities	975
Unrealized gains on interest rate swaps	11,978
Interest and other income, net	854
Interest and debt expense	(41,888)
Acquisition and transaction related costs	(1,139)
Net loss before income taxes	(10,853)
Income tax expense	(574)
Net loss	(11,427)
Less net (income) loss attributable to noncontrolling interests in:	
Consolidated joint ventures and funds	(668)
Operating Partnership	2,364
Net loss attributable to Paramount Group, Inc.	$ (9,731)
LOSS PER COMMON SHARE - BASIC:	
Loss per common share	$ (0.05)
Weighted average shares outstanding	212,106,718
LOSS PER COMMON SHARE - DILUTED:	
Loss per common share	$ (0.05)
Weighted average shares outstanding	212,106,718

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(Amounts in thousands)	The Predecessor Three months ended March 31, 2014
REVENUES:	
Rental income	$ 7,813
Tenant reimbursement income	455
Distributions from real estate fund investments	6,503
Realized and unrealized gains, net	46,167
Fee and other income	5,182
Total revenues	66,120
EXPENSES:	
Operating	3,539
Depreciation and amortization	2,667
General and administrative	8,085
Profit sharing compensation	4,794
Other	1,267
Total expenses	20,352
Operating income	45,768
Income from partially owned entities	1,132
Unrealized gains on interest rate swaps	158
Interest and other income, net	709
Interest and debt expense	(7,799)
Net income before income taxes	39,968
Income tax expense	(3,263)
Net income	36,705
Net income attributable to noncontrolling interests	(27,310)
Net income attributable to the Predecessor	$ 9,395

See notes to combined consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands)	Common Shares Shares	Amount	Additional paid in capital	Retained Earnings	Predecessor Shareholders' Equity	Noncontrolling interests in Consolidated joint ventures and funds	Operating Partnership	Total Equity
The Predecessor								
Balance as of December 31, 2013	-	$ -	$ -	$ -	$ 321,769	$ 1,703,675	$ -	$ 2,025,444
Net income	-	-	-	-	9,395	27,310	-	36,705
Contributions	-	-	-	-	399	77,929	-	78,328
Distributions	-	-	-	-	(22,671)	-	-	(22,671)
Balance as of March 31, 2014	-	$ -	$ -	$ -	$ 308,892	$ 1,808,914	$ -	$ 2,117,806
The Company								
Balance as of December 31, 2014	212,107	$ 2,122	$ 3,851,432	$ 57,308	$ -	$ 685,888	$ 958,203	$ 5,554,953
Net (loss) income	-	-	-	(9,731)	-	668	(2,364)	(11,427)
Dividends	-	-	-	(28,422)	-	-	(6,903)	(35,325)
Contributions from noncontrolling interest	-	-	-	-	-	2,430	-	2,430
Distributions to noncontrolling interests	-	-	-	-	-	(3,488)	-	(3,488)
Adjustments to carry common units at redemption value	-	-	(43,409)	-	-	-	43,409	-
Amortization of equity awards	-	-	581	-	-	-	2,454	3,035
Other	-	-	(411)	(97)	-	(322)	-	(830)

Balance as of March 31, 2015	212,107	$ 2,122	$ 3,808,193	$ 19,058	$ -	$ 685,176	$ 994,799	$ 5,509,348

See notes to combined consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	The Company Three months ended March 31, 2015	The Predecessor 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(11,427)	$ 36,705
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	73,583	2,667
Unrealized gains on interest rate swaps	(11,978)	(158)
Straight-lining of rental income	(15,994)	45
Other non-cash adjustments	4,834	1,096
Realized and unrealized gains, net on real estate fund investments	(873)	(46,167)
Income from partially owned entities	(975)	(1,132)
Distributions of income from partially owned entities	353	167
Amortization of below-market leases, net	(890)	-
Amortization of deferred financing costs	584	108
Realized and unrealized gains from marketable securities	(672)	(584)
Changes in operating assets and liabilities:		
Real estate fund investments	(22)	(157,687)
Accounts and other receivables	(5,171)	(1,055)
Deferred charges	(5,545)	-
Other assets	(19,657)	(3,983)
Accounts and other payables	(8,928)	(1,562)
Profit sharing payables	-	4,794
Deferred income taxes	322	6,396
Other liabilities	1,792	1,801
Net cash used in operating activities	(664)	(158,549)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of, and additions to, rental properties	(21,636)	(65,079)
Change in restricted cash	1,309	(2)
Distributions of capital from partially owned entities	1	84
Net cash used in investing activities	(20,326)	(64,997)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to common shareholders and unitholders	(35,325)	-
Contributions from noncontrolling interests	2,430	77,929
Distributions to noncontrolling interests	(3,488)	-
Contributions from Predecessor shareholders	-	399
Distributions to Predecessor shareholders	-	(22,671)

Proceeds from loans payable to noncontrolling interests	-	39,075
Repayment of borrowings	(337)	-
Offering costs	-	(2,799)
Net cash (used in) provided by financing activities	(36,720)	91,933
Net decrease in cash and cash equivalents	(57,710)	(131,613)
Cash and cash equivalents at beginning of period	438,599	307,161
Cash and cash equivalents at end of period	$380,889	$ 175,548
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$37,186	$ 4,753
Cash payments for income taxes	$32	$ 1,183
NON-CASH TRANSACTIONS:		
Adjustment to carry noncontrolling interests in the operating partnership at redemption value	$43,409	$ -
(Purchases) sale of marketable securities	(555)	6,354

See notes to combined consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Business

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

We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of March 31, 2015, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 94.6% leased and 91.3% occupied.

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

We conduct our business through, and substantially all of our interests are held by, Paramount Group Operating Partnership LP, a Delaware limited partnership (the “Operating Partnership”). We are the sole general partner of, and owned approximately 80.4% of, the Operating Partnership as of March 31, 2015.

Our Predecessor

Our Predecessor is not a legal entity but a combination of entities under common control as they were entities controlled by members of the Otto family that held various assets, including interests in (i) 15 private equity real estate funds controlled by our Predecessor (which included nine primary funds and six parallel funds) (collectively, the “Funds”) that owned interests in 12 properties, (ii) a wholly-owned property, Waterview, in Rosslyn, Virginia and (iii) three partially owned properties in New York, NY (See note 4, Investments in Partially Owned Entities).

Below is a summary of the 15 private equity real estate funds controlled by our Predecessor.

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

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

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

- Paramount Group Residential Development Fund, LP ("Residential Fund")

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

The Property Funds and Residential Fund owned interests in the following properties:

- 1633 Broadway, New York, NY
- 60 Wall Street, New York, NY
- 900 Third Avenue, New York, NY
- 31 West 52nd Street, New York, NY
- 1301 Avenue of the Americas, New York, NY
- One Market Plaza, San Francisco, CA
- 50 Beale Street, San Francisco, CA
- 75 Howard Street, San Francisco, CA
- Liberty Place, Washington, D.C.
- 1899 Pennsylvania Avenue, Washington, D.C.
- 2099 Pennsylvania Avenue, Washington, D.C.
- 425 Eye Street, Washington, D.C.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated and combined 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, result of operations and changes in the 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 and combined 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 and combined financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014, 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 months ended March 31, 2015 are not necessarily indicative of the operating results for the full year.

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

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor and all of the assets of the Property Funds that it controlled, other than their interests in 60 Wall Street, 50 Beale Street, and a residual 2.0% interest in One Market Plaza. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control. However, since the assets that we acquired from our Predecessor are no longer held by funds which qualify for investment company accounting, we account for these assets following the Formation Transactions using historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions, differ significantly from, and are not comparable with, the historical financial position and results of operations of our Predecessor.

Significant Accounting Policies

There were no material changes to our significant accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Segment Reporting

Upon completion of the Offering and Formation Transactions, we acquired substantially all of the assets of our Predecessor and substantially all of the assets of the Property Funds that it controlled. Our business, post the Formation Transactions, is comprised of one reportable segment. We have determined that our properties have similar economic characteristics to be aggregated into one reportable segment (operating, leasing and managing office properties). Our determination was based primarily on our method of internal reporting. Our Predecessor historically operated an integrated business that consisted of three reportable segments, (i) Owned Properties, (ii) Managed Funds and (iii) a Management Company. The Owned Properties segment consisted of properties in which our Predecessor had a direct or indirect ownership interest, other than properties that it owned through its private equity real estate funds. The Managed Funds segment consisted of the private equity real estate funds. In addition, our Predecessor included a Management Company that performed property management and asset management services and certain general and administrative level functions, including legal and accounting, as a separate reportable segment.

Recently Issued Accounting Literature

In May 2014, the FASB issued an update ("ASU 2014-09") Revenue from Contracts with Customers. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued an update (“ASU 2014-12”) to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2014-12 on our consolidated financial statements.

In February 2015, the FASB issued an update (“ASU 2015-02”) Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In April 2015, the FASB issued an update (“ASU 2015-03”) Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835, Interest – Imputation of Interest. ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The adoption of this update on January 1, 2016 will not have a material impact on our consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. Real Estate Fund Investments

Real estate fund investments that are presented at fair value on our consolidated balance sheets are comprised of (i) Property Funds and (ii) Alternative Investment Funds.

The Company

Below is a summary of the fair value of fund investments on our consolidated balance sheet.

(Amounts in thousands)	As of	
Balance Sheet	March 31, 2015	December 31, 2014
Real Estate Fund Investments:		
Property Funds	$ 182,610	$ 183,216
Alternative Investment Funds	141,672	140,171
Total	$ 324,282	$ 323,387

Below is a summary of the fair value of fund investments on our consolidated statement of income.

(Amounts in thousands)	
Income Statement	Three months ended March 31, 2015
Investment income	$ 4,495
Investment expenses	147
Net investment income	4,348
Net unrealized gains	873
Income from real estate fund investments	$ 5,221

Property Funds

The purpose of the Property Funds is to invest in office buildings and related facilities primarily in New York City, Washington, D.C. and San Francisco. As of March 31, 2015, the Property Funds were comprised of (i) Fund II, (ii) Fund III, (iii) Fund VII and (iv) Fund VII-H. The following is a summary of the investments of our Property Funds.

	As of March 31, 2015		
	60 Wall Street	One Market Plaza	50 Beale Street
Fund II	46.3 %	-	-
Fund III	16.0 %	2.0 %	-
Fund VII [1]	-	-	41.1 %
Fund VII-H [1]	-	-	1.7 %
Total Property Funds	62.3 %	2.0 %	42.8 %
Other Investors	37.7 %	98.0 % [2]	57.2 %
Total	100.0 %	100.0 %	100.0 %

[1] As of March 31, 2015, Fund VII and Fund VII-H had an aggregate of $57.6 million of committed capital that had not yet been invested.
[2] Includes a 49% direct ownership interest held by us.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Alternative Investment Funds

The purpose of the Alternative Investment Funds is to invest primarily in real estate related debt and preferred equity investments. As of March 31, 2015, the Alternative Investment Funds were comprised of (i) PGRESS, (ii) PGRESS-H, (iii) PGRESS-A and (iv) Fund VIII, which had an aggregate of $434,000,000 of committed capital that had not yet been invested. The following is a summary of the investments of our Alternative Investment Funds.

(Amounts in thousands)		%	Interest/		As of	
			Dividend		March	December
Fund	Investment Type	Ownership	Rate	Initial Maturity	31, 2015	31, 2014
Fund VIII	Mezzanine Loan	2.1%	8.3%	Jan-2022	$46,750	$45,947
PGRESS Funds	Preferred Equity Investments	4.9% - 5.4%	10.3% - 15.0%	Sep-2015 - Feb-2019	94,922	94,224
					$141,672	$140,171

The Predecessor

Below is a summary of realized and unrealized gains from real estate fund investments on our consolidated statement of income.

(Amounts in thousands)	Three months ended March 31, 2014
Income Statement	
Realized gains on real estate fund investments	$-
Unrealized gains on real estate fund investments	46,167

Realized and unrealized gains, net	$46,167

Asset Management Fees

Our predecessor earned asset management fees from the Funds it managed. Asset management fees and expenses related to Funds included in the combined consolidated statement of income are eliminated in combination and consolidation. The limited partners' share of such fees are reflected as a reduction of net income attributable to noncontrolling interests, which results in a corresponding increase in net income attributable to our Predecessor.

Below is a summary of the asset management fees earned by our Predecessor.

(Amounts in thousands) Income Statement	Three months ended March 31, 2014
Gross asset management fees	$ 7,410
Eliminated fees[1]	(390)
Net asset management fees	$ 7,020

[1] Eliminated fees reflect a reduction in asset management fees from the general partner interest in each of the Funds.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table summarizes the income statements for the three months ended March 31, 2014 for each of the Property Funds' underlying investments.

(Amounts in thousands)	Property Funds' underlying investments for the period ended March 31, 2014								
Statement of Income	1633 Broadway	900 Third Ave	31 West 52nd St	1301 Ave of the Americas	One Market Plaza	Liberty Place	1899 Penn. Ave	2099 Penn. Ave	425 Eye St
Rental income	$35,719	$8,782	$18,099	$26,610	$18,213	$2,039	$2,104	$33	$2,658
Tenant reimbursement income	2,817	763	1,189	2,116	388	621	1,140	2	744
Fee and other income	522	444	1,282	570	1,363	14	28	3	179
Total revenue	39,058	9,989	20,570	29,296	19,964	2,674	3,272	38	3,581
Building operating	13,611	4,045	5,743	12,680	7,165	1,082	1,257	1,080	1,514
Related party management fees	701	264	326	410	217	71	75	1	105
Operating	14,312	4,309	6,069	13,090	7,382	1,153	1,332	1,081	1,619
Depreciation and amortization	2,787	1,587	5,529	9,214	9,004	-	983	-	1,395
General and administrative	-	7	27	27	13	5	5	387	7
Total expenses	17,099	5,903	11,625	22,331	16,399	1,158	2,320	1,468	3,021
Operating income (loss)	21,959	4,086	8,945	6,965	3,565	1,516	952	(1,430)	560
Unrealized gain on interest rate swaps	7,280	1,766	2,602	3,253	6,915	-	-	-	-
Interest and debt expense	(12,731)	(3,657)	(5,505)	(15,170)	(13,738)	(945)	(1,128)	(828)	(1,219)
Unrealized depreciation on investment in real estate	-	-	-	-	-	(30)	-	(10)	-
Net income (loss) before taxes	16,508	2,195	6,042	(4,952)	(3,258)	541	(176)	(2,268)	(659)
Income tax benefit (expense)	-	-	-	-	-	3	68	-	(2,339)
Net income (loss)	$16,508	$2,195	$6,042	$(4,952)	$(3,258)	$544	$(108)	$(2,268)	$(2,998)

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4. Investments in Partially Owned Entities

The following table summarizes our investments in partially owned entities as of March 31, 2015 and December 31, 2014.

(Amounts in thousands)	Percentage ownership at March 31, 2015		As of March 31, 2015	December 31, 2014
Investments:				
712 Fifth Avenue	50.0	%	$2,319	$ 1,697
Other [1]	9.5	%	4,051	4,052
			$6,370	$ 5,749

[1] Represents our interest in Oder-Center, a shopping center in Brandenburg, Germany.

The following table summarizes income from partially owned entities for the three months ended March 31, 2015 and 2014.

(Amounts in thousands)	Percentage ownership at March 31, 2015		The Company Three months ended March 31, 2015	The Predecessor 2014
Our share of Net Income:				
712 Fifth Avenue	50.0	%	$940	$ 1,090
1325 Avenue of the Americas	n/a		-	42
900 Third Avenue [1]	n/a		-	-
Other [2]	9.5	%	35	-
			$975	$ 1,132

(1)

As of March 31, 2014, our Predecessor's investment in 900 Third Avenue had a deficit balance and since our Predecessor had no obligations to fund operating losses, it did not recognize any losses in excess of its investment balance. All unrecognized losses were aggregated to offset future net income until all unrecognized losses were utilized.

(2) We account for our interest in Oder-Center on a one quarter lag basis. The three months ended March 31, 2015 includes our share of income for the 38 day period during the fourth quarter ended December 31, 2014.

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5. Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily acquired above-market leases and acquired in-place leases) and liabilities (primarily acquired below-market leases) as of March 31, 2015 and December 31, 2014.

(Amounts in thousands)	As of March 31, 2015	December 31, 2014
Intangible assets:		
Gross amount	$686,418	$689,894
Accumulated amortization	(57,397)	(20,509)
	$629,021	$669,385
Intangible liabilities:		
Gross amount	$222,903	$222,985
Accumulated amortization	(11,939)	(3,757)
	$210,964	$219,228

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $890,000 for the three months ended March 31, 2015. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2016 is as follows.

(Amounts in thousands)	
2016	$9,387
2017	7,791
2018	9,906
2019	9,328
2020	8,021

Amortization of acquired in-place leases (a component of depreciation and amortization expense) was $32,992,000 for the three months ended March 31, 2015. Estimated annual amortization of acquired in-place leases for each of the five succeeding years commencing January 1, 2016 is as follows.

(Amounts in thousands)	
2016	$80,797
2017	56,388
2018	49,483

2019	45,147
2020	40,202

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NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

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6. Debt

The following is a summary of our outstanding debt.

(Amounts in thousands)	Maturity Date	Fixed/Variable Rate	Interest Rate at March 31, 2015		Balance at March 31, 2015	Balance at December 31, 2014
Mortgages and notes payable						
1633 Broadway						
	Dec-2016	Fixed	6.11	%	$772,100	$772,100
	Dec-2016	Variable	1.56	%	154,160	154,160
			5.35	%	926,260	926,260
900 Third Avenue						
	Nov-2017	Fixed	5.35	%	255,000	255,000
	Nov-2017	Variable	1.76	%	19,337	19,337
			5.09	%	274,337	274,337
31 West 52nd Street (64.2% interest)						
	Dec-2017	Fixed	5.74	%	337,500	337,500
	Dec-2017	Variable	1.66	%	75,990	75,990
			4.99	%	413,490	413,490
One Market Plaza (49.0% interest)						
	Dec-2019	Fixed	6.16	%	840,000	840,000
	Dec-2019	Variable	5.00	%	14,515	13,711
			6.14	%	854,515	853,711
Waterview	June-2017	Fixed	5.76	%	210,000	210,000
1899 Pennsylvania Avenue	Nov-2020	Fixed	4.88	%	90,152	90,489
Liberty Place	June-2018	Fixed	4.50	%	84,000	84,000
Total mortgages and notes payable			5.50	%	$2,852,754	$2,852,287

Revolving Credit Facility

As of March 31, 2015, there were no amounts outstanding under our senior unsecured revolving credit facility and $200,000,000 was reserved under a letter of credit.

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7. Noncontrolling Interests

Consolidated Joint Ventures and Funds

Noncontrolling interests in consolidated joint ventures and funds consist of (i) equity interests in properties that are not wholly owned by us but are consolidated into our financial results because we exercise control over the entities that own such properties and (ii) equity interests in funds that are consolidated into our financial results because we are the sole general partner of such Funds. As of March 31, 2015 and December 31, 2014, noncontrolling interests in consolidated joint ventures and funds on our consolidated balance sheets aggregated $685,176,000 and $685,888,000, respectively.

Operating Partnership

Noncontrolling interests in the Operating Partnership represents common units of the Operating Partnership that are held by third parties, including management. 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. Accordingly, common units are recorded at their redemption value at the end of each reporting period. Changes in the value from period to period are charged to “additional paid-in-capital” in our consolidated statements of changes in equity. As of March 31, 2015 and December 31, 2014, noncontrolling interests in the Operating Partnership on our consolidated balance sheets aggregated $994,799,000 and $958,203,000, respectively.

8. Variable Interest Entities (“VIEs”)

As of March 31, 2015 and December 31, 2014, we held variable interests in PGRESS-A, PGRESS-H, Residential Fund Feeder and Fund VII-H which were determined to be VIEs. We are required to consolidate our interests in these entities because we are deemed to be the primary beneficiary and have the power to direct the activities of the entity that most significantly affect economic performance and the obligation to absorb losses and right to receive benefits that could potentially be significant to the entity. The table below summarizes the assets and liabilities of these entities. The liabilities are secured only by the assets of the entities, and are non-recourse to us.

(Amounts in thousands)	Balance as of March 31, 2015	December 31, 2014
Investments, at fair value	$17,109	$ 17,136
Investments, at cost	63,542	63,550
Cash and restricted cash	4,823	4,976
Total VIE assets	$85,474	$ 85,662
Loans payable to non-controlling interests	$43,188	$ 42,195
Other liabilities	102	131
Total VIE liabilities	$43,290	$ 42,326

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NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

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9. Fair Value Measurements
ASC 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 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.

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 (i) real estate fund investments, (ii) marketable securities (which represent the assets in our deferred compensation plan for which there is a corresponding liability on our consolidated balance sheets) and (iii) interest rate swaps. The table below aggregates the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at March 31, 2015 and December 31, 2014.

	As of March 31, 2015			
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Real estate fund investments:				
Investments in Property Funds	$182,610	$-	$ -	$182,610
Investments in Alternative Investment Funds	141,672	-	-	141,672
Total real estate fund investments	324,282	-	-	324,282
Marketable securities	21,386	21,386	-	-
Total assets	$345,668	$21,386	$ -	$324,282
Interest rate swap liabilities	$182,218			