Paramount Group, Inc.
Form 10-K
February 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 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

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x	Accelerated Filer	o
Non-Accelerated Filer ¨ (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 Act). YES ¨ NO x

As of February 15, 2016, there were 212,112,137 shares of the registrant's common stock outstanding.

As of June 30, 2015, the aggregate market value of the 178,596,340 shares of common stock held by non-affiliates of the Registrant was $3,064,713,000 based on the June 30, 2015 closing share price of our common stock of $17.16 per share on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Stockholders' Meeting (which is scheduled to be held on May 19, 2016) to be filed within 120 days after the end of the registrant's fiscal year are incorporated by reference in Part III of this Annual Report on Form 10-K.

This Annual Report on Form 10-K includes financial statements required under Rule 3-09 of Regulation S-X, for 712 Fifth Avenue, L.P.

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[1]

These items are omitted in whole or in part because the registrant will file a definitive Proxy Statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with the Securities and Exchange Commission no later than 120 days after December 31, 2015, portions of which are incorporated by reference herein.

Forward-Looking Statements

We make statements in this Annual Report on Form 10-K that are considered “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are usually identified by the use of words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” “will,” and v such words or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation:

- unfavorable market and economic conditions in the United States and globally and in New York City, Washington, D.C. and San Francisco;
- risks associated with our high concentrations of properties in New York City, Washington, D.C. and San Francisco;
- risks associated with ownership of real estate;
- decreased rental rates or increased vacancy rates;
- the risk we may lose a major tenant;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments;
- intense competition in the real estate market that may limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities;
- insufficient amounts of insurance;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- risks associated with actual or threatened terrorist attacks;
- exposure to liability relating to environmental and health and safety matters;
- high costs associated with compliance with the Americans with Disabilities Act;
- failure of acquisitions to yield anticipated results;
- risks associated with real estate activity through our joint ventures and private equity real estate funds;
- general volatility of the capital and credit markets and the market price of our common stock;
- exposure to litigation or other claims;
- loss of key personnel;
- risks associated with security breaches through cyber attacks or cyber intrusions and other significant disruptions of our information technology (IT) networks and related systems;
- risks associated with our substantial indebtedness;
- failure to refinance current or future indebtedness on favorable terms, or at all;
- failure to meet the restrictive covenants and requirements in our existing debt agreements;

- fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with variable rate debt, derivatives or hedging activity;
- risks associated with future sales of our common stock by our continuing investors or the perception that our continuing investors intend to sell substantially all of the shares of our common stock that they hold;
- risks associated with the market for our common stock;
- failure to qualify as a REIT;
- compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
- any of the other risks included in this Annual Report on Form 10-K, including those set forth under the heading “Risk Factors.”

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our financial statements and the notes thereto, as well as Item 1A entitled “Risk Factors” in this report.

PART I

ITEM 1. BUSINESS

General

Paramount Group, Inc. (“Paramount”) is a fully-integrated 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. We conduct our business through, and substantially all 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 December 31, 2015. As of December 31, 2015, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 95.3% leased and 90.3% occupied. All references to “we,” “us,” “our,” the “Company” and “Paramount” refer to Paramount Group, Inc. and its consolidated subsidiaries, including the Operating Partnership.

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

Our Competitive Strengths

We believe that we distinguish ourselves from other owners and operators of office properties through the following competitive strengths:

- Premier Portfolio of High-Quality Office Properties in the Most Desirable Submarkets. We have assembled a premier portfolio of Class A office properties located exclusively in carefully selected submarkets of New York City, Washington, D.C. and San Francisco. Our submarkets are among the strongest commercial real estate submarkets in the United States for office properties due to a combination of their high barriers to entry, constrained supply, strong economic characteristics and a deep pool of prospective tenants in various industries that have demonstrated a strong demand for high-quality office space. Our markets are international business centers, characterized by a broad tenant base with a highly educated workforce, a mature and functional transportation infrastructure and an overall amenity rich environment. These markets are home to a diverse range of large and growing enterprises in a variety of industries, including financial services, media and entertainment, consulting, legal and other professional services, technology, as well as federal government agencies. As a result of the above factors, the submarkets in which we are invested have generally outperformed the broader markets in which they are located.

- Deep Relationships with Diverse, High Credit-Quality Tenant Base. We have long-standing relationships with high-quality tenants, including Allianz Global Investors, LP, Barclays Capital, Inc., Clifford Chance LLP, Commerzbank AG, Credit Agricole Corporate & Investment Bank, The Corporate Executive Board Company, Deloitte & Touche, LLP, Showtime Networks Inc., TD Bank, N.A., Warner Music Group, Google Inc. and the U.S. Federal Government.

- Strong Internal Growth Prospects. We have substantial embedded rent growth within our portfolio as a result of the strong historical and projected future rental rate growth within our submarkets, contractual fixed rental rate increases included in our leases and incremental rent from the lease-up of our portfolio. Our portfolio occupancy was 90.3% as of December 31, 2015; we believe this presents us with a meaningful growth opportunity as we lease-up our portfolio given the strong office market fundamentals in our target markets.

- Demonstrated Acquisition and Operational Expertise. Over the past nearly 20 years, we have developed and refined our highly successful real estate investment strategy. We have a proven reputation as a value-enhancing, hands-on operator of Class A office properties. We target opportunities with a value-add component, where we can leverage our operating expertise, deep tenant relationships, and proactive approach to asset and property management. In certain instances, we may acquire properties with existing or expected future vacancy or with significant value embedded in existing below-market leases, which we will be able to mark-to-market over time. Even fully leased properties from time to time present us with value-enhancing opportunities which we have been able to capitalize on in the past.

- Value-Add Renovation and Repositioning and Development Capabilities. We have expertise in renovating, repositioning and developing office properties. We have historically acquired well-located assets that have either suffered from a need for physical improvement to upgrade the property to Class A space, have been underperforming due to a lack of a coherent leasing and branding strategy or have been under-managed and could be immediately enhanced by our hands-on approach. We are experienced in upgrading, renovating and modernizing building lobbies, corridors, bathrooms, elevator cabs and base building systems and updating antiquated spaces to include new ceilings, lighting and other amenities. We have also successfully aggregated and are continuing to combine smaller spaces to offer larger blocks of space, including multiple floors, which are attractive to larger, high credit-quality tenants. We believe that the post-renovation quality of our buildings and our hands-on asset and property management approach attract high credit-quality tenants and allow us to increase our cash flow.

- Seasoned and Committed Management Team with Proven Track Record. Our senior management team, led by Albert Behler, our Chairman, Chief Executive Officer and President, has been in the commercial real estate industry for an average of 27 years, and has worked at our company for an average of 14 years. Our senior management team is highly regarded in the real estate community and has extensive relationships with a broad range of brokers, owners, tenants and lenders. We have developed relationships that enable us to secure high credit-quality tenants on attractive terms and provide us with potential off-market acquisition opportunities. We believe that our proven acquisition and operating expertise enables us to gain advantages over our competitors through superior acquisition sourcing, focused leasing programs, active asset and property management and first-class tenant service.

- Conservative Balance Sheet. Over the past several decades, we have built strong relationships with numerous lenders, investors and other capital providers. Our financing track record and depth of relationships provide us with significant financial flexibility and capacity to fund future growth in both good and bad economic environments. We have a strong capital structure that supports this flexibility and growth. As of December 31, 2015, our pro rata net debt to enterprise value was 34.5% and we had $143.9 million of cash and cash equivalents and a $1.0 billion revolving credit facility, with $20 million drawn as of December 31, 2015.

- Proven Investment Management Business. We have a successful investment management business, where we serve as the general partner and property manager of certain private equity real estate funds for institutional investors and high-net-worth individuals. We have also entered into a number of joint ventures with institutional investors, high-net-worth individuals and other sophisticated real estate investors through which we and our funds have invested in real estate properties. We expect our investment management business to be a complementary part of our overall real estate investment business.

Objectives and Strategy

Our primary business objective is to enhance shareholder value by increasing cash flow from operations. The strategies we intend to execute to achieve this objective include:

- Leasing available vacant space;
- Releasing expiring space;

- Maintaining a disciplined acquisition strategy focused on owning and operating Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco;
- Redeveloping and repositioning properties to increase returns;
- Proactively manage our portfolio to increase occupancy and rental rates; and
- Refinancing existing above market debt.

Significant Tenants

None of our tenants accounted for more than 10% of total revenues in the year ended December 31, 2015.

Segments

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, following 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, in part, 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. See Note 25, Segments to our combined consolidated financial statements for further information on our and our Predecessor's reportable segments.

Employees

As of December 31, 2015, we had 319 employees, including 83 corporate employees and 236 on-site building and property management personnel. Certain of our employees are covered by collective bargaining agreements.

Insurance

We carry commercial general liability coverage on our properties, with limits of liability customary within the industry. Similarly, we are insured against the risk of direct and indirect physical damage to our properties including coverage for the perils of floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

Competition

The leasing of real estate is highly competitive in markets in which we operate. We compete with numerous acquirers, developers, owners and operators of commercial real estate, many of which own or may seek to acquire or develop properties similar to ours in the same markets in which our properties are located. The principal means of competition are rent charged, location, services provided and the nature and condition of the facility to be leased. In addition, we face competition from other real estate companies including other REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, pension trusts, partnerships, individual investors and others that may have greater financial resources or access to capital than we do or that are willing to acquire properties in transactions which are more highly leveraged or are less attractive from a financial viewpoint than we are willing to pursue. If our competitors offer space at rental rates below current market rates, below the rental rates we currently charge our tenants, in better locations within our markets or in higher quality facilities, we may lose potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants’ leases expire.

Environmental and Related Matters

Under various federal, state and/or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste, or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property or adjacent properties for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract and/or retain tenants, and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which that property may be used or how businesses may be operated on that property.

Some of our properties may be adjacent to or near other properties used for industrial or commercial purposes or that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. Releases from these properties could impact our properties. While certain properties contain or contained uses that could have or have impacted our properties, we are not aware of any liabilities related to environmental contamination that we believe will have a material adverse effect on our operations.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant’s ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have a material adverse effect on us. We sometimes require our tenants to comply with environmental and health and safety laws and regulations and to indemnify us for any related liabilities in our leases with them. But in the event of the bankruptcy or inability of any of our tenants to satisfy such obligations, we may be required to satisfy such obligations. We are not presently aware of any instances of material noncompliance with environmental or health and safety laws or regulations at our properties, and we believe that we and/or our tenants have all material permits and approvals necessary under current laws and regulations to operate our properties.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material (“ACM”). Environmental and health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for noncompliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of releases of ACM into the environment. We are not presently aware of any material liabilities related to building conditions, including any instances of material noncompliance with asbestos requirements or any material liabilities related to asbestos. In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues, which could lead to liability for adverse health effects or property damage or costs for remediation. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury occurs. We are not presently aware of any material adverse indoor air quality issues at our properties.

Americans with Disabilities Act ("ADA")

Our properties must comply with Title III of the ADA to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe the existing properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

Legal Proceedings

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position, results of operations or cash flows.

Executive Office

Our principal executive offices are located at 1633 Broadway, Suite 1801, New York, NY 10019; telephone (212) 237-3100.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge on our website (www.paramount-group.com) as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). You may also obtain our reports by accessing the EDGAR database at the SEC's website at http://www.sec.gov or copies of these documents are also available directly from us, free of charge upon written request to Investor Relations, 1633 Broadway, Suite 1801, New York, NY 10019; telephone (212) 237 - 3100. Also available on our website are copies of our (i) Nominating and Corporate Governance Committee Charter, (ii) Corporate Governance Guidelines, (iii) Compensation

Committee Charter, (iv) Code of Business Conduct and Ethics, (v) Audit Committee Charter and (vi) Stockholder Communication Policy. In the event of any changes to these items, revised copies will be made available on our website.

Supplemental Tax Disclosures – Updates to REIT Rules

The "Protecting Americans from Tax Hikes Act of 2015" (the "PATH Act") was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation, which are briefly summarized below:

- For taxable years beginning after December 31, 2015, the PATH Act expands the exclusion of certain hedging income from the REIT gross income tests to include income from hedges or previously acquired hedges that a REIT entered into to manage risk associated with liabilities or property that have been extinguished or disposed.
- For taxable years beginning before January 1, 2018, no more than 25% of the value of our assets may consist of stock or securities of one or more taxable REIT subsidiaries. For taxable years beginning after December 31, 2017, the PATH Act reduces this limit to 20%. As of December 31, 2015, the securities we own in our taxable REIT subsidiaries do not, in the aggregate, exceed 20% of the total value of our assets.
- For taxable years beginning after December 31, 2015, for purposes of the REIT asset tests, the PATH Act provides that debt instruments issued by publicly traded REITs will constitute "real estate assets." However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of our total assets.
- For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property will be treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.

- A 100% excise tax is imposed on “redetermined TRS service income,” which is income of a taxable REIT subsidiary attributable to services provided to, or on behalf of, its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.
- For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer apply to us.
- Additional exceptions to the rules under the Foreign Investment in Real Property Tax Act (“FIRPTA”) were introduced for non-U.S. persons that constitute “qualified shareholders” (within the meaning of Section 897(k)(3) of the Code) or “qualified foreign pension funds” (within the meaning of Section 897(l)(2) of the Code).
- After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests is increased from 10% to 15%.
- The PATH Act increases from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may have held to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.
- For assets we acquired from a C corporation in a carry-over basis transaction, the PATH Act permanently reduces the recognition period during which we could be subject to corporate tax on any built-in gains recognized on the sale of such assets from 10 years to 5 years.

ITEM 1A. RISK FACTORS

Set forth below are the risks that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements beginning on page 3.

Risks Related to Real Estate

Unfavorable market and economic conditions in the United States and globally and in the specific markets or submarkets where our properties are located could adversely affect occupancy levels, rental rates, rent collections, operating expenses, and the overall market value of our assets, impair our ability to sell, recapitalize or refinance our assets and have an adverse effect on our results of operations, financial condition and our ability to make distributions to our stockholders.

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions in the United States and globally may significantly affect our occupancy levels, rental rates, rent collections, operating expenses, the market value of our assets and our ability to strategically acquire, dispose, recapitalize or refinance our properties on economically favorable terms or at all. Our ability to lease our properties at favorable rates may be adversely affected by increases in supply of office space in our markets and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and unemployment levels, recession, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We expect that any declines in our occupancy levels, rental revenues and/or the values of our buildings would cause us to have less cash available to pay our indebtedness, fund necessary capital expenditures and to make distributions to our stockholders, which could negatively affect our financial condition and the market value of our securities. Our business may be affected by the volatility and illiquidity in the financial and credit markets, a general global economic recession and other market or economic challenges experienced by the real estate industry or the U.S. economy as a whole. Our business may also be adversely affected by local economic conditions, as all of our revenues are derived from properties located in New York City, Washington, D.C. and San Francisco. Factors that may affect our occupancy levels, our rental revenues, our net operating income, or NOI, our funds from operations and/or the value of our properties include the following, among others:

- downturns in global, national, regional and local economic conditions;
- declines in the financial condition of our tenants, many of which are financial, legal and other professional firms, which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or other reasons;
- the inability or unwillingness of our tenants to pay rent increases;
- significant job losses in the financial and professional services industries, which may decrease demand for our office space, causing market rental rates and property values to be impacted negatively;
- an oversupply of, or a reduced demand for, Class A office space;
- changes in market rental rates in our markets; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site associates and routine maintenance.

All of our properties are located in New York City, Washington, D.C. and San Francisco, and adverse economic or regulatory developments in these areas could negatively affect our results of operations, financial condition and ability to make distributions to our stockholders.

All of our properties are located in New York City, in particular midtown Manhattan, as well as Washington, D.C. and San Francisco. As a result, our business is dependent on the condition of the economy in those cities, which may expose us to greater economic risks than if we owned a more geographically diverse portfolio. We are susceptible to adverse developments in the New York City, Washington, D.C. and San Francisco economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation). Such adverse developments could materially reduce the value of our real estate portfolio and our rental revenues, and thus adversely affect our ability to service current debt and to pay dividends to stockholders.

We are subject to risks inherent in ownership of real estate.

Real estate cash flows and values are affected by a number of factors, including competition from other available properties and our ability to provide adequate property maintenance and insurance and to control operating costs. Real estate cash flows and values are also affected by such factors as government regulations (including zoning, usage and tax laws), interest rate levels, the availability of financing, property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws.

A significant portion of our revenue is generated from three properties.

As of December 31, 2015, three of our properties, 1633 Broadway, 1301 Avenue of the Americas and One Market Plaza, together accounted for approximately 61.7% of our total revenue. Our results of operations and cash available for distribution to our stockholders would be adversely affected if any of these properties were materially damaged or destroyed. Additionally, our results of operations and cash available for distribution to our stockholders would be adversely affected if a significant number of our tenants at these properties experienced a downturn in their business, which may weaken their financial condition and result in their failure to make timely rental payments, defaulting under their leases or filing for bankruptcy.

We may be unable to renew leases, lease currently vacant space or vacating space on favorable terms or at all as leases expire, which could adversely affect our financial condition, results of operations and cash flow.

As of December 31, 2015, the vacancy rate of our portfolio was 4.7%. In addition, 5.5% of the square footage of the properties in our portfolio will expire by the end of 2016. We cannot assure you that the expiring leases will be renewed or that our properties will be re-leased at rental rates equal to or above current rental rates. If the rental rates of our properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available and soon-to-be-available space, our financial condition, results of operations, cash flow, market value of common stock and our ability to satisfy our principal and interest obligations and to make distributions to our stockholders would be adversely affected.

We are exposed to risks associated with property redevelopment and repositioning that could adversely affect us, including our financial condition and results of operations.

To the extent that we continue to engage in redevelopment and repositioning activities with respect to our properties, we will be subject to certain risks, which could adversely affect us, including our financial condition and results of operations. These risks include, without limitation, (i) the availability and pricing of financing on favorable terms or at all; (ii) the availability and timely receipt of zoning and other regulatory approvals; (iii) the potential for the fluctuation of occupancy rates and rents at redeveloped properties, which may result in our investment not being profitable; (iv) start up, repositioning and redevelopment costs may be higher than anticipated; and (v) cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages). These risks could result in substantial unanticipated delays or expenses and could prevent the initiation or the completion of redevelopment activities, any of which could have an adverse effect on our financial condition, results of operations, cash flow, the market value of our common stock and ability to satisfy our principal and interest obligations and to make distributions to our stockholders.

We may be required to make rent or other concessions and/or significant capital expenditures to improve our properties in order to retain and attract tenants, which could adversely affect us, including our financial condition, results of operations and cash flow.

In the event that there are adverse economic conditions in the real estate market and demand for office space decreases, with respect to our current vacant space and upon expiration of leases at our properties, we may be required to increase tenant improvement allowances or concessions to tenants, accommodate increased requests for renovations, build-to-suit remodeling and other improvements or provide additional services to our tenants, all of which could negatively affect our cash flow. In addition, a few of our existing properties are pre-war office properties, which may require frequent and costly maintenance in order to retain existing tenants or attract new tenants in sufficient numbers. If the necessary capital is unavailable, we may be unable to make these significant capital expenditures. This could result in non-renewals by tenants upon expiration of their leases and our vacant space remaining untenanted, which could adversely affect our financial condition, results of operations, cash flow and market value of our common stock.

We depend on significant tenants in our office portfolio, which could cause an adverse effect on us, including our results of operations and cash flow, if any of our significant tenants were adversely affected by a material business downturn or were to become bankrupt or insolvent.

Our rental revenue depends on entering into leases with and collecting rents from tenants. As of December 31, 2015, our six largest tenants together represented 25.2% of our total portfolio's annualized rent. As of December 31, 2015, The Corporate Executive Board Company, Barclays Capital, Inc., Allianz Global Investors LP, Clifford Chance LLP, Credit Agricole Corporate & Investment Bank and Commerzbank AG leased an aggregate of 2,376,755 rentable square feet of office space at four of our office properties, representing approximately 22.9% of the total rentable square feet in our portfolio. General and regional economic conditions may adversely affect our major tenants and potential tenants in our markets. Our major tenants may experience a material business downturn, which could potentially result in a failure to make timely rental payments and/or a default under their leases. In many cases, through tenant improvement allowances and other concessions, we have made substantial up front investments in the applicable leases that we may not be able to recover. In the event of a tenant default, we may experience delays in enforcing our rights and may also incur substantial costs to protect our investments.

The bankruptcy or insolvency of a major tenant or lease guarantor may adversely affect the income produced by our properties and may delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums altogether. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages that is limited in amount and which may only be paid to the extent that funds are available and in the same percentage as is paid to all other holders of unsecured claims.

If any of our significant tenants were to become bankrupt or insolvent, suffer a downturn in their business, default under their leases, fail to renew their leases or renew on terms less favorable to us than their current terms, our results of operations and cash flow could be adversely affected.

Real estate investments are relatively illiquid and may limit our flexibility.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. Our inability to sell our properties on favorable terms or at all could have an adverse effect on our sources of working capital and our ability to satisfy our debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. The Internal Revenue Code of 1986, as amended (the ("Code"), also imposes restrictions on REITs, which are not applicable to other types of real estate companies, on the disposal of properties. Furthermore, we will be subject to U.S. federal income tax at the highest regular corporate rate, which is currently 35%, on certain built-in gain recognized in connection with a taxable disposition of a number of our properties for a period of up to 5 years following the completion of the Formation Transactions, which may make an otherwise attractive disposition opportunity less attractive or even impractical. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the office buildings in our portfolio promptly in response to changes in economic or other conditions.

Competition could limit our ability to acquire attractive investment opportunities and increase the costs of those opportunities, which may adversely affect us, including our profitability and impede our growth.

We compete with numerous commercial developers, real estate companies and other owners of real estate for office buildings for acquisition and pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. Our markets are each generally characterized by high barriers-to-entry to construction and limited land on which to build new office space, which contributes to the competition we face to acquire existing properties and to develop new properties in these markets. This competition could increase prices for properties of the type we may pursue and adversely affect our profitability and impede our growth.

We are subject to losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage.

Our San Francisco properties are located in the general vicinity of active earthquake faults. Our New York City and Washington, D.C. properties are located in areas that could be subject to windstorm losses. Insurance coverage for earthquakes and windstorms can be costly because of limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. In addition, our New York City, Washington, D.C. and other properties may be subject to a heightened risk of terrorist attacks. We carry commercial general liability insurance, property insurance and both domestic and foreign terrorism insurance with respect to our properties with limits and on terms we consider commercially reasonable. We cannot assure you, however, that our insurance coverage will be sufficient or that any uninsured loss or liability will not have an adverse effect on our business and our financial condition and results of operations in the event of a catastrophic loss event. See “Business – Insurance.”

We carry both domestic and foreign terrorism insurance as an inclusion in our property policies for which our carriers may rely, in part for foreign acts of terrorism, on support from the federal government’s Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”). TRIPRA expires on December 31, 2020 and we can provide no assurance that it will be extended further or the impact of modifications or nonrenewal will have on our terrorism insurance coverage and rates.

We are subject to risks from natural disasters such as earthquakes and severe weather.

Natural disasters and severe weather such as earthquakes, tornadoes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe (such as an earthquake, especially in the San Francisco Bay Area) or destructive weather event (such as a hurricane, especially in New York City or Washington, D.C. area) affecting a region may have a significant negative effect on our financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. Our financial results may be adversely affected by our exposure to losses arising from natural disasters or severe weather. We also are exposed to risks associated with inclement winter weather, particularly in the Northeast states in which many of our properties are located, including increased need for maintenance and repair of our buildings.

Climate change may adversely affect our business.

To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks, including New York City, Washington, D.C. and San Francisco. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially. See also "-We are subject to losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage."

We may become subject to liability relating to environmental and health and safety matters, which could have an adverse effect on us, including our financial condition and results of operations.

Under various federal, state and/or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste, or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties have been or may be impacted by contamination arising from current or prior uses of the property or from adjacent properties used for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract and/or retain tenants and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which that property may be used or how businesses may be operated on that property. See “Business -Environmental and Related Matters.”

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant’s ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained ACM. Environmental and health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment.

In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

We cannot assure you that costs or liabilities incurred as a result of environmental issues will not affect our ability to make distributions to our stockholders or that such costs, liabilities, or other remedial measures will not have an adverse effect on our financial condition and results of operations.

We may incur significant costs complying with the Americans with Disabilities Act of 1990, (the “ADA”), and similar laws, which could adversely affect us, including our future results of operations and cash flow.

Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. We have not conducted a recent audit or investigation of all of our properties to determine our compliance with the ADA. If one or more of our properties were not in compliance with the ADA, then we could be required to incur additional costs to bring the property into compliance. We cannot predict the ultimate amount of the cost of compliance with the ADA or similar laws. Substantial costs incurred to comply with the ADA and any other legislation could adversely affect us, including our future results of operations and cash flow.

Our option property is subject to various risks and we may not acquire it.

We have entered into an option to acquire 60 Wall Street, New York, New York. 60 Wall Street is exposed to many of the same risks that may affect the other properties in our portfolio. The terms of the option agreement relating to 60 Wall Street were not determined by arm’s-length negotiations, and such terms may be less favorable to us than those that may have been obtained through negotiations with third parties. It may become economically unattractive to exercise our option with respect to 60 Wall Street. These risks could cause us to decide not to exercise our option to purchase this property in the future.

We may be unable to identify and successfully complete acquisitions and, even if acquisitions are identified and completed, including potentially the option property, we may fail to successfully operate acquired properties, which could adversely affect us and impede our growth.

Our ability to identify and acquire properties on favorable terms and successfully operate or redevelop them may be exposed to significant risks. Agreements for the acquisition of properties are subject to customary conditions to closing, including completion of due diligence investigations and other conditions that are not within our control, which may not be satisfied. In this event, we may be unable to complete an acquisition after incurring certain acquisition-related costs. In addition, if mortgage debt is unavailable at reasonable rates, we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all, including potentially the option property. We may spend more than budgeted to make necessary improvements or renovations to acquired properties and may not be able to obtain adequate insurance coverage for new properties. Further, acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures. We may also be unable to integrate new acquisitions into our existing operations quickly and efficiently, and as a result, our results of operations and financial condition could be adversely affected. Any delay or failure on our part to identify, negotiate, finance and consummate such acquisitions in a timely manner and on favorable terms, or operate acquired properties to meet our financial expectations, could impede our growth and have an adverse effect on us, including our financial condition, results of operations, cash flow and the market value of our securities.

Should we decide at some point in the future to expand into new markets, we may not be successful, which could adversely affect our financial condition, results of operations, cash flow and market value of our securities.

If opportunities arise, we may explore acquisitions of properties in new markets. Each of the risks applicable to our ability to acquire and integrate successfully and operate properties in our current markets is also applicable in new markets. In addition, we will not possess the same level of familiarity with the dynamics and market conditions of the new markets we may enter, which could adversely affect the results of our expansion into those markets, and we may be unable to build a significant market share or achieve our desired return on our investments in new markets. If we are unsuccessful in expanding into new markets, it could adversely affect our financial condition, results of operations, cash flow, the market value of our securities and ability to satisfy our principal and interest obligations and to make distributions to our stockholders.

We are subject to risks involved in real estate activity through joint ventures and private equity real estate funds.

We have in the past, are currently and may in the future acquire and own properties in joint ventures and private equity real estate funds with other persons or entities when we believe circumstances warrant the use of such structures. We manage and consolidate into our combined consolidated financial statements, investments of certain private equity real estate funds in which we are the general partner. As of December 31, 2015, these real estate fund investments had an aggregate fair value of $416.4 million. Joint venture and fund investments involve risks, including: the possibility that our partners might refuse to make capital contributions when due; that we may be responsible to our partners for indemnifiable losses; that our partners might at any time have business or economic goals that are inconsistent with ours; and that our partners may be in a position to take action or withhold consent contrary to our recommendations, instructions or requests. We and our respective joint venture partners may each have the right to trigger a buy-sell or forced sale arrangement, which could cause us to sell our interest, or acquire our partner’s interest, or to sell the underlying asset, at a time when we otherwise would not have initiated such a transaction, without our consent or on unfavorable terms. In some instances, joint venture and fund partners may have competing interests in our markets that could create conflicts of interest. These conflicts may include compliance with the REIT requirements, and our REIT status could be jeopardized if any of our joint ventures or funds does not operate in compliance with the REIT requirements. Further, our joint venture and fund partners may fail to meet their obligations to the joint venture or fund as a result of financial distress or otherwise, and we may be forced to make contributions to maintain the value of the property. We will review the qualifications and previous experience of any co-venturers or partners, although we do not expect to obtain financial information from, or to undertake independent investigations with respect to, prospective co-venturers or partners. To the extent our partners do not meet their obligations to us or our joint ventures or funds or they take action inconsistent with the interests of the joint venture or fund, we may be adversely affected.

Our joint venture partners in 712 Fifth Avenue and One Market Plaza have forced sale rights as a result of which we may be forced to sell these assets to third parties at times or prices that may not be favorable to us.

Our partners in the joint ventures that own 712 Fifth Avenue and One Market Plaza have forced sale rights pursuant to which, after a specified period, each may require us either to purchase the property or attempt to sell the property to a third party. With respect to 712 Fifth Avenue, beginning six years after the completion of the Offering and any time thereafter, our joint venture partner may exercise a forced sale right by delivering a written notice to us designating the sales price and other material terms and conditions upon which our joint venture partner desires to cause a sale of the property. Upon receipt of such sales notice, we will have the obligation either to attempt to sell the property to a third party for not less than 95.0% of the designated sales price or to elect to purchase the interest of our joint venture partner for cash at a price equal to the amount our joint venture partner would have received if the property had been sold for the designated sales price (and the joint venture paid any applicable financing breakage costs, transfer taxes, brokerage fees and marketing costs, prepaid all liquidated liabilities of the joint venture and distributed the balance).

With respect to One Market Plaza, at any time on or after March 31, 2021, our joint venture partner may exercise a forced sale right. Upon exercise of this right, we and our joint venture partner have 60 days to negotiate a mutually agreeable transaction regarding the property. If we cannot mutually agree upon a transaction, then we will work together in good faith to market the property in a commercially reasonable manner and neither we nor our joint venture partner will be allowed to bid on the property. If our joint venture partner, after consultation with us and a qualified broker, finds a third-party bid for the property acceptable, then the joint venture will cause the property to be sold. As a result of these forced sale rights, our joint venture partners could require us either to purchase their interests at an agreed upon price or to sell the properties held by our joint ventures to third parties. In the case of One Market Plaza, our joint venture partner could force us to sell this property to a third party on terms it deems acceptable. The exercise of these rights could adversely impact our company by requiring us to sell one or more of these properties to third parties at times or prices that may not be favorable to us.

Contractual commitments with existing private equity real estate funds may limit our ability to acquire properties directly in the near term.

Paramount Group Real Estate Fund VII, LP and its parallel fund (“Fund VII”), is one of our private equity real estate funds and is actively engaged in acquisition activities. In connection with the formation of Fund VII, we agreed that we would make all investments that meet its stated investment objectives through Fund VII (provided that Fund VII is able to participate in the investment and subject to our ability to co-invest), until July 18, 2017, unless we, as the general partner of Fund VII, choose to extend it until July 18, 2018. Because of the exclusivity requirements of Fund VII, we may be required to acquire properties through this fund that we otherwise would have acquired through our operating partnership, which may prevent our operating partnership from acquiring attractive investment opportunities and adversely affect our growth prospects. Alternatively, we may choose to co-invest with Fund VII as a joint venture partner to the extent it is determined that it is in the best interest of Fund VII. In connection with any property that we co-invest in with Fund VII, Fund VII will have the authority, subject to our consent in limited circumstances, to make most of the decisions in connection with such property. Such authority in connection with a co-investment could subject us to the applicable risks described above.

Paramount Group Real Estate Fund VIII, LP (“Fund VIII”), is one of our private equity real estate funds that completed its initial closing in November 2014, with $485,000,000 in capital commitments and is targeting approximately $750,000,000 in capital commitments. Fund VIII is actively engaged in pursuing a diversified portfolio of real estate and real estate-related assets and companies primarily consisting of acquiring and/or issuing loans to real estate and real estate-related companies or investing in their preferred equity. We expect that, subject to certain prior rights granted to other of our private equity real estate funds, we would make all investments that meet Fund VIII’s stated investment objectives through Fund VIII (provided that Fund VIII is able to participate in the investment and subject to our right to co-invest), until the end of the fund’s investment period, which will end three years after the fund’s final closing. Given that the fund conducted its initial closing in November 2014, and a final closing is expected to take place approximately 18 months later, the fund’s investment period would end during mid-2019, unless we, as the general partner of Fund VIII, choose to extend it an additional year. However, we have the option (but not the obligation) of participating in each of Fund VIII’s investments in debt and preferred equity for up to 25% of the total investment and in each of Fund VIII’s equity investments for up to 50% of the total investment, and may, where it is attractive to us and determined to be in the best interest of Fund VIII, acquire greater percentages of a given investment opportunity. Because of the limited exclusivity requirements of Fund VIII, we may be required to acquire assets partially through this fund that we otherwise would have acquired solely through our operating partnership, which may prevent our operating partnership from acquiring attractive investment opportunities and adversely affect our growth prospects. In connection with certain assets that we co-invest in with Fund VIII, specifically those where Fund VIII owns a majority of the joint venture it is expected that Fund VIII will have the authority, subject to our consent in limited circumstances, to make most of the decisions in connection with such asset. Such authority in connection with a co-investment could subject us to the applicable risks described above. As of December 31, 2015, Fund VIII had an aggregate of $580,200,000 of committed capital, of which $166,560,000 has been invested.

We share control of some of our properties with other investors and may have conflicts of interest with those investors.

While we make all operating decisions for certain of our joint ventures and private equity real estate funds, we are required to make other decisions jointly with other investors who have interests in the relevant property or properties. For example, the approval of certain of the other investors may be required with respect to operating budgets, including leasing decisions and refinancing, encumbering, expanding or selling any of these properties, as well as bankruptcy decisions. We might not have the same interests as the other investors in relation to these decisions or transactions. Accordingly, we might not be able to favorably resolve any of these issues, or we might have to provide financial or other inducements to the other investors to obtain a favorable resolution.

In addition, various restrictive provisions and third-party rights provisions, such as consent rights to certain transactions, apply to sales or transfers of interests in our properties owned in joint ventures. Consequently, decisions to buy or sell interests in properties relating to our joint ventures may be subject to the prior consent of other investors. These restrictive provisions and third-party rights may preclude us from achieving full value of these properties because of our inability to obtain the necessary consents to sell or transfer these interests.

Risks Related to Our Business and Operations

Capital and credit market conditions may adversely affect our access to various sources of capital or financing and/or the cost of capital, which could impact our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use third-party financing to fund acquisitions and to refinance indebtedness as it matures. As of December 31, 2015, including debt of our unconsolidated joint ventures, we had $3.232 billion of total debt ($2.650 billion on a pro rata basis), substantially all of which was asset level debt, and we have $980 million of available borrowing capacity, including amounts reserved for letters of credit, under our revolving credit facility. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our acquisition, development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing) our earnings per share and cash flow could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely impacted.

We may from time to time be subject to litigation, including litigation arising from the Formation Transactions, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

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

We may be subject to unknown or contingent liabilities related to properties or businesses that we acquire for which we may have limited or no recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future may be subject to unknown or contingent liabilities for which we may have limited or no recourse against the sellers. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of customers, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses.

As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our business, financial condition and results of operations. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us. While the sellers are generally contractually obligated to pay all losses and other expenses relating to such retained liabilities, there can be no guarantee that such arrangements will not require us to incur losses or other expenses as well.

We depend on key personnel, including Albert Behler, our Chairman, Chief Executive Officer and President, and the loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business.

There is substantial competition for qualified personnel in the real estate industry and the loss of our key personnel could have an adverse effect on us. Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Albert Behler, our Chairman, Chief Executive Officer and President, who has extensive market knowledge and relationships and exercises substantial influence over our acquisition, redevelopment, financing, operational and disposition activity. Among the reasons that Albert Behler is important to our success is that he has a national, regional and local industry reputation that attracts business and investment opportunities and assists us in negotiations with financing sources and industry personnel. If we lose his services, our business and investment opportunities and our relationships with such financing sources and industry personnel could diminish.

Many of our other senior executives also have extensive experience and strong reputations in the real estate industry, which aid us in identifying or attracting investment opportunities and negotiating with sellers of properties. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities and weaken our relationships with lenders, business partners and industry participants, which could negatively affect our financial condition, results of operations and cash flow.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;

- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the loss, theft or misappropriation of our property;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or which could expose us to damage claims by third-parties for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or
- damage our reputation among our tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants.

Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the Securities and Exchange Commission, which create and interpret applicable accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements. Proposed changes include, but are not limited to, changes in lease accounting and the adoption of accounting standards likely to require the increased use of "fair-value" measures.

These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

Extensive regulation of our investment management businesses affects our activities and creates the potential for significant liabilities and penalties, and increased regulatory focus could result in additional burdens on this business.

Our investment management business is subject to extensive regulation, including periodic examinations and investigations, by governmental agencies in the jurisdictions in which we operate or raise capital. These authorities have regulatory powers dealing with many aspects of our investment management business, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. These regulations are extensive, complex and require substantial management time and attention. In particular, two of our subsidiaries, Paramount Group Real Estate Advisor LLC and Paramount Group Real Estate Advisor II, LP, are registered with the U.S. Securities and Exchange Commission ("SEC") as investment advisers under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), and may in the future be registered as managers of alternative investment funds under the Alternative Investment Fund Managers Directive, 2011/61/EU, and various local European laws implementing this directive (collectively, the "AIFMD"). Such registration results in certain aspects of our investment management business being supervised by the SEC and, in the future, subject to notification of sales activities for one or more of our managed funds in Germany or other countries, the Bundesanstalt fuer Finanzdiensleistungsaufsicht, Germany's Federal Financial Supervisory Authority ("BaFin"), or other foreign regulators. The Advisers Act, in particular, requires registered investment advisers to comply with numerous obligations, including compliance, record-keeping, operating and marketing requirements, disclosure obligations and limitations on certain activities. Investment advisers also owe fiduciary duties to their clients. These regulatory and fiduciary obligations may result in increased costs or administrative burdens or otherwise adversely impact our business, including by preventing us from recommending investment opportunities that otherwise meet the respective investment criteria of us or our funds.

Many of these regulators, including U.S. and foreign government agencies, as well as state securities commissions, are also empowered to conduct investigations and administrative proceedings that can result in fines, compensatory payments, suspensions of personnel, changes in policies, procedures or disclosure or other sanctions, including censure, the issuance of cease-and-desist orders, the suspension or expulsion of an investment adviser from registration or memberships or the commencement of a civil or criminal lawsuit against us or our personnel. Moreover, the financial services industry generally is presently the subject of heightened scrutiny, and the SEC has specifically focused on private equity fund managers. In that regard, the SEC's list of examination priorities includes, among other things, collection of fees and allocation of expenses, marketing and valuation practices, allocation of investment opportunities, and appropriate management of other conflicts of interest such as related party sales, loans or coinvestments, by these fund managers. We may, from time to time, be subject to requests for information or informal or formal investigations by the SEC and other regulatory authorities, and, in the current environment, even historical practices that have been previously examined are being revisited. Even if an investigation or proceeding does not result in a sanction or the sanction imposed against us or our personnel by a regulator is small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing clients or fail to gain new investors.

Risks Related to Our Organization and Structure

The ability of stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

There are provisions in our charter and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

Our charter authorizes our board of directors, without stockholder approval, to amend our charter to increase or decrease the aggregate number of authorized shares of stock, to authorize us to issue additional shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to authorize us to issue such classified or reclassified shares of stock. We believe these charter provisions provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional authorized shares of our common stock, are available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities are listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or that our common stockholders otherwise believe to be in their best interests.

In order to qualify as a REIT, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of any taxable year. In order to help us qualify as a REIT, our charter generally prohibits any person or entity from actually owning or being deemed to own by virtue of the applicable constructive ownership provisions, (i) more than 6.50% (in value or in number of shares, whichever is more restrictive) of the outstanding shares of our common stock or (ii) more than 6.50% in value of the aggregate of the outstanding shares of all classes and series of our stock, in each case, excluding any shares of our stock not treated as outstanding for U.S. federal income tax purposes. We refer to these restrictions as the “ownership limits.” These ownership limits may prevent or delay a change in control and, as a result, could adversely affect our stockholders’ ability to realize a premium for their shares of our common stock. In connection with the Formation Transactions and the concurrent private placement to certain members of the Otto family and their affiliates, our board of directors granted waivers to the lineal descendants of Professor Dr. h.c. Werner Otto, their spouses and controlled entities to own up to 22.0% of our outstanding common stock in the aggregate (which can be automatically increased to an amount greater than 22.0% to the extent that their aggregate ownership exceeds such percentage solely as a result of a repurchase by the company of its common stock). The term the “Otto family” refers to the lineal descendants and the surviving former spouse of the late Professor Dr. h.c. Werner Otto.

In addition, certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including the Maryland business combination and control share provisions.

As permitted by the MGCL, our board of directors adopted a resolution exempting any business combinations between us and any other person or entity from the business combination provisions of the MGCL. Our bylaws provide that this resolution or any other resolution of our board of directors exempting any business combination from the business combination provisions of the MGCL may only be revoked, altered or amended, and our board of directors may only adopt any resolution inconsistent with any such resolution (including an amendment to that bylaw provision), which we refer to as an opt in to the business combination provisions, with the affirmative vote of a majority of the votes cast on the matter by holders of outstanding shares of our common stock. In addition, as permitted by the MGCL, our bylaws contain a provision exempting from the control share acquisition provisions of the MGCL any and all acquisitions by any person of shares of our stock. This bylaw provision may be amended, which we refer to as an opt in to the control share acquisition provisions, only with the affirmative vote of a majority of the votes cast on such an amendment by holders of outstanding shares of our common stock.

Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board or increasing the vote required to remove a director. Such takeover defenses may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then current market price.

In addition, the provisions of our charter on the removal of directors and the advance notice provisions of our bylaws, among others, could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

Each item discussed above may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then-current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

Our board of directors may change our policies without stockholder approval.

Our policies, including any policies with respect to investments, leverage, financing, growth, debt and capitalization, are determined by our board of directors or those committees or officers to whom our board of directors may delegate such authority. Our board of directors also establishes the amount of any dividends or other distributions that we pay to our stockholders. Our board of directors or the committees or officers to which such decisions are delegated have the ability to amend or revise these and our other policies at any time without stockholder vote. Accordingly, our stockholders are not entitled to approve changes in our policies, and, while not intending to do so, we may adopt policies that may have an adverse effect on our financial condition and results of operations.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of common units, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any of its partners, on the other. Our directors and officers have duties to our company under Maryland law in connection with their management of our company. At the same time, we have duties and obligations to our operating partnership and its limited partners under Delaware law as modified by the partnership agreement of our operating partnership in connection with the management of our operating partnership as the sole general partner. The limited partners of our operating partnership expressly acknowledge that the general partner of our operating partnership acts for the benefit of our operating partnership, the limited partners and our stockholders collectively. When deciding whether to cause our operating partnership to take or decline to take any actions, the general partner will be under no obligation to give priority to the separate interests of (i) the limited partners of our operating partnership (including, without limitation, the tax interests of our limited partners, except as provided in a separate written agreement) or (ii) our stockholders. Nevertheless, the duties and obligations of the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company and our stockholders.

If there are deficiencies in our disclosure controls and procedures or internal control over financial reporting, we may be unable to accurately present our financial statements, which could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

As a publicly-traded company, we are required to report our financial statements on a consolidated basis. Effective internal controls are necessary for us to accurately report our financial results. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting and have our independent registered public accounting firm issue an opinion with respect to the effectiveness of our internal control over financial reporting. There can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Furthermore, as we grow our business, our internal controls will become more complex, and we may require significantly more resources to ensure our internal controls remain effective. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations that could require a restatement, failing to meet our public company reporting obligations and causing investors to lose confidence in our reported financial information. These events could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

We may have assumed unknown liabilities in connection with the Formation Transactions, which, if significant, could adversely affect our business.

As part of the Formation Transactions, we (through corporate acquisitions and contributions to our operating partnership) acquired the properties and assets of our predecessor and certain other assets, subject to existing liabilities, some of which may be unknown. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with such entities prior to the Offering (that had not been asserted or threatened prior to the Offering), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. Any unknown or unquantifiable liabilities that we assumed in connection with the Formation Transactions for which we have no or limited recourse could adversely affect us. See "—We may become subject to liability relating to environmental and health and safety matters, which could have an adverse effect on us, including our financial condition and results of operations" as to the possibility of undisclosed environmental conditions potentially affecting the value of the properties in our portfolio.

Risks Related to Our Indebtedness and Financing

We have a substantial amount of indebtedness that may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.

We have a substantial amount of indebtedness. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions, discussed below in “U.S. Federal Income Tax Considerations”) or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and trading price of our common stock could be adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

We may not have sufficient cash flow to meet the required payments of principal and interest on our debt or to pay distributions on our shares at expected levels.

In the future, our cash flow could be insufficient to meet required payments of principal and interest or to pay distributions on our shares at expected levels. In this regard, we note that in order for us to continue to qualify as a REIT, we are required to make annual distributions generally equal to at least 90% of our taxable income, computed without regard to the dividends paid deduction and excluding net capital gain. In addition, as a REIT, we are subject to U.S. federal income tax to the extent that we distribute less than 100% of our taxable income (including capital gains) and are subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified by the Code. These requirements and considerations may limit the amount of our cash flow available to meet required principal and interest payments.

If we are unable to make required payments on indebtedness that is secured by a mortgage on our property, the asset may be transferred to the lender with a consequent loss of income and value to us, including adverse tax consequences related to such a transfer.

Our debt agreements include restrictive covenants, requirements to maintain financial ratios and default provisions which could limit our flexibility, our ability to make distributions and require us to repay the indebtedness prior to its maturity.

The mortgages on our properties contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. Additionally, our debt agreements contain customary covenants that, among other things, restrict our ability to incur additional indebtedness and, in certain instances, restrict our ability to engage in material asset sales, mergers, consolidations and acquisitions, and restrict our ability to make capital expenditures. These debt agreements, in some cases, also subject us to guarantor and liquidity covenants and our revolving credit facility will, and other future debt may, require us to maintain various financial ratios. Some of our debt agreements contain certain cash flow sweep requirements and mandatory escrows, and our property mortgages generally require certain mandatory prepayments upon disposition of underlying collateral. Early repayment of certain mortgages may be subject to prepayment penalties.

Variable rate debt is subject to interest rate risk that could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.

As of December 31, 2015, $321.8 million of our outstanding consolidated debt was subject to instruments which bear interest at variable rates, and we may also borrow additional money at variable interest rates in the future. Unless we have made arrangements that hedge against the risk of rising interest rates, increases in interest rates would increase our interest expense under these instruments, increase the cost of refinancing these instruments or issuing new debt, and adversely affect cash flow and our ability to service our indebtedness and make distributions to our stockholders, which could adversely affect the market price of our common stock.

We may, in a manner consistent with our qualification as a REIT, seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risk, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Moreover, there can be no assurance that our hedging arrangements will qualify for hedge accounting or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash and other collateral requirements involved to fulfill our obligation under the hedging agreement. Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the distribution requirements applicable to REITs under the Code.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile.

The trading price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our funds from operations, NOI or income estimates;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this Form 10-K;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets, generally;
- changes in tax laws;
- future equity issuances;
- failure to meet income estimates;
- failure to meet and maintain REIT qualifications; and
- general market and economic conditions.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management’s attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

The market value of our common stock may decline due to the large number of our shares eligible for future sale.

The market value of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or upon exchange of common units, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell shares of our common stock in the future at a time and at a price that we deem appropriate.

As of December 31, 2015, a significant number of our outstanding shares of our common stock are held by our continuing investors and their affiliates who acquired shares in the Formation Transactions and the concurrent private placements. These shares of common stock are “restricted securities” within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemptions contained in Rule 144. All of these shares of our common stock are eligible for future sale and certain of such shares held by our continuing investors have registration rights pursuant to registration rights agreements that we have entered into with those investors. Pursuant to the registration rights agreement we entered into with members of the Otto family and certain affiliated entities receiving shares of our common stock in the Formation Transactions and concurrent private placements, the parties to this agreement have the right to demand that we register the resale and/or facilitate an underwritten offering of their shares; provided that the demand relates to shares having a market value of at least $40.0 million and that such parties may not make more than two such demands in any consecutive 12-month period.

Upon the request of one or more parties owning at least 1.0% of our total outstanding common stock, we have agreed to file a shelf registration statement registering the offering and sale of such parties’ registrable securities on a delayed or continuous basis, or a resale shelf registration statement, and maintain the effectiveness of the resale shelf registration statement for as long as the securities registered thereunder continue to qualify as registrable securities. In addition, limited partners of our operating partnership, other than us, have the right to require our operating partnership to redeem part or all of their 46,601,137 common units for cash, based upon the value of an equivalent number of shares of our common stock at the time of the election to redeem, or, at our election, shares of our common stock on a one-for-one basis. The related shares of common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock will be available for sale or resale, as the case may be, and such sales or resales, or the perception of such sales or resales, could depress the market price for our common stock.

In connection with the registration rights agreement we entered into with the continuing investors who received common units in the Formation Transactions, on December 14, 2015, we filed a shelf registration statement with the SEC to register the primary issuance of the shares of our common stock that they may receive in exchange for their common units. We are required to maintain the effectiveness of this shelf registration statement for as long as the securities registered thereunder continue to qualify as registrable securities. Furthermore, to the extent a holder transfers more than 50% of the common stock or common units that it received in connection with the Formation Transactions within two years of the completion of the Offering, the holder generally will be required to bear additional New York City and State real property transfer taxes attributable to such holder based on the holder’s transfer.

Future issuances of debt securities and equity securities may negatively affect the market price of shares of our common stock and, in the case of equity securities, may be dilutive to existing stockholders.

Our charter provides that we may issue up to 900,000,000 shares of our common stock, $0.01 par value per share, and up to 100,000,000 shares of preferred stock, $0.01 par value per share. Moreover, under Maryland law and our charter, our board of directors has the power to increase the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue without stockholder approval. Similarly, the partnership agreement of our operating partnership authorizes us to issue an unlimited number of additional common units, which may be exchangeable for shares of our common stock. In addition, share equivalents are available for future issuance under the 2014 Equity Incentive Plan (with full value awards counting as one share equivalent and options counting as one-half of a share equivalent).

In the future, we may issue debt or equity securities or incur other financial obligations, including stock dividends and shares that may be issued in exchange for common units and equity plan shares/units. Upon liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. We are not required to offer any such additional debt or equity securities to existing stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities (including common units and convertible preferred units), warrants or options, will dilute the holdings of our existing common stockholders and such issuances or the perception of such issuances may reduce the market price of shares of our common stock. Any convertible preferred units would have, and any series or class of our preferred stock would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders.

Risks Related to Our Status as a REIT

Failure to qualify or to maintain our qualification as a REIT would have significant adverse consequences to the value of our common stock.

We elected to be treated as a REIT commencing with our taxable year ended December 31, 2014. The Code generally requires that a REIT distribute at least 90% of its taxable income (without regard to the dividends paid deduction and excluding net capital gains) to stockholders annually, and a REIT must pay tax at regular corporate rates to the extent that it distributes less than 100% of its taxable income (including capital gains) in a given year. In addition, a REIT is required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. To avoid entity-level U.S. federal income and excise taxes, we anticipate distributing at least 100% of our taxable income annually.

We believe that we have been and are organized, and have operated and will continue to operate, in a manner that will allow us to qualify as a REIT commencing with our taxable year ended December 31, 2014. However, we cannot assure you that we have been and are organized and have operated or will continue to operate as such. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there may only be limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. We have not requested and do not intend to request a ruling from the Internal Revenue Service, or the IRS, that we qualify as a REIT. The complexity of the Code provisions and of the applicable Treasury Regulations is greater in the case of a REIT that, like us, acquired assets from taxable C corporations in tax-deferred transactions and holds its assets through one or more partnerships. Moreover, in order to qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding stock, the absence of inherited retained earnings from non-REIT periods and the amount of our distributions. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT gross income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our gross income and assets on an ongoing basis. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification. Accordingly, it is possible that we may not meet the requirements for qualification as a REIT.

If, with respect to any taxable year, we fail to maintain our qualification as a REIT, we would not be allowed to deduct distributions to stockholders in computing our taxable income. If we were not entitled to relief under the relevant statutory provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years. If we fail to qualify as a REIT, we would be subject to entity-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate tax rates. As a result, the amount available for distribution to holders of our common stock would be reduced for the year or years involved, and we would no longer be required to make distributions to our stockholders. In addition, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and adversely affect the value of our common stock.

We may owe certain taxes notwithstanding our qualification as a REIT.

Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, on taxable income that we do not distribute to our stockholders, on net income from certain “prohibited transactions,” and on income from certain activities conducted as a result of foreclosure. We may, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, we expect to provide certain services that are not customarily provided by a landlord, hold properties for sale and engage in other activities (such as a portion of our management business) through one or more taxable REIT subsidiaries ("TRSs"), and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates. Furthermore, to the extent that we conduct operations outside of the United States, our operations would subject us to applicable foreign taxes, regardless of our status as a REIT for U.S. tax purposes.

In the case of assets we acquired on a tax-deferred basis from certain corporations controlled by the Otto family and Wilhelm von Finck (which we collectively refer to as the "family corporations") as part of the Formation Transactions, we are subject to U.S. federal income tax, sometimes called the "sting tax," at the highest regular corporate tax rate, which is currently 35%, on all or a portion of the gain recognized from a taxable disposition of any such assets occurring within the 5-year period following the acquisition date, to the extent of the asset's built-in gain based on the fair market value of the asset on the acquisition date in excess of our initial tax basis in the asset. Additionally, depending upon the location of the asset acquired on a tax deferred basis there may be additional "sting tax" imposed on a state and local level. Gain from a sale of such an asset occurring after the 5-year period ends will not be subject to this sting tax. We currently do not expect to dispose of any asset if the disposition would result in the imposition of a material sting tax liability under the above rules. We cannot, however, assure you that we will not change our plans in this regard.

As part of the Formation Transactions, we also acquired assets of the family corporations through mergers, stock acquisition and similar transactions. As a result of those acquisitions, we inherited any liability for the unpaid taxes of the family corporations for periods prior to the acquisitions. In each case, our acquisition of assets was intended to qualify as a tax-deferred acquisition for the family corporation so that none of the corporations recognized gain or loss for U.S. federal income tax purposes in the Formation Transactions. If for any reason our acquisition of a family corporation's assets failed to qualify for tax-deferred treatment, the corporation generally would recognize gain for U.S. federal income tax purposes to the extent that the fair market value of our stock (and any cash) issued in exchange for the stock of the family corporation or the corporation's assets, plus debt assumed, exceeded the corporation's adjusted tax basis in its assets. We would inherit the resulting tax liability of the family corporation. In several of the Formation Transactions, the acquired family corporation would have recognized gain for U.S. federal income tax purposes unless the acquisition qualified as a tax-deferred "reorganization" within the meaning of Section 368(a) of the Code. The requirements of tax-deferred reorganizations are complex, and it is possible that the IRS could interpret the applicable law differently and assert that one or more of the acquisitions failed to qualify as a reorganization under Section 368(a) of the Code. Moreover, under the "investment company" rules under Section 368 of the Code, certain of the acquisitions could be taxable if the acquired corporation was an "investment company" under such rules. If any such acquisition failed to qualify for tax-free reorganization treatment we would incur significant U.S. federal income tax liability.

Our Operating Partnership has, and various predecessor partnerships whose assets were acquired in the Formation Transactions, have, limited partners that are non-U.S. persons. Such non-U.S. persons are subject to a variety of U.S. withholding taxes, including with respect to certain aspects of the Formation Transactions, withholding taxes that the relevant partnership must remit to the U.S. Treasury. A partnership that fails to remit the full amount of withholding taxes is liable for the amount of the under withholding, as well as interest and potential penalties. As a successor to certain of the private equity real estate funds controlled by our predecessor, our operating partnership could be responsible if the private equity real estate funds failed to properly withhold for prior periods. Although we believe that we and our predecessor partnerships have complied and will comply with the applicable withholding requirements, the determination of the amounts to be withheld is a complex legal determination, depends on provisions of the Code and the applicable Treasury Regulations that have little guidance and the treatment of certain aspects of the Formation Transactions under the withholding rules may be uncertain. Accordingly, we may interpret the applicable law differently from the IRS and the IRS may seek to recover additional withholding taxes from us.

Our property taxes could increase due to property tax rate changes or reassessment, which could impact our cash flow.

Even if we qualify as a REIT for U.S. federal income tax purposes, we are required to pay state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. Therefore, the amount of property taxes we pay in the future may increase substantially from what we have paid in the past and such increases may not be covered by tenants pursuant to our lease agreements. If the property taxes we pay increase, our financial condition, results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our principal and interest obligations and to make distributions to our stockholders could be adversely affected.

If our operating partnership is treated as a corporation for U.S. federal income tax purposes, we will cease to qualify as a REIT.

We believe our operating partnership qualifies and will continue to qualify as a partnership for U.S. federal income tax purposes. Assuming that it qualifies as a partnership for U.S. federal income tax purposes, our operating partnership will not be subject to U.S. federal income tax on its income. Instead, its partners, including us, generally are required to pay tax on their respective allocable share of our operating partnership's income. No assurance can be provided, however, that the IRS will not challenge our operating partnership's status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. For example, our operating partnership would be treated as a corporation for U.S. federal income tax purposes if it were deemed to be a "publicly traded partnership" and less than 90% of its income consisted of "qualified income" under the Code. If the IRS were successful in treating our operating partnership as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, therefore, cease to qualify as a REIT, and our operating partnership would become subject to U.S. federal, state and local income tax. The payment by our operating partnership of income tax would reduce significantly the amount of cash available to our partnership to satisfy obligations to make principal and interest payments on its debt and to make distribution to its partners, including us.

There are uncertainties relating to our distribution of non-REIT earnings and profits.

To qualify as a REIT, we must not have any non-REIT accumulated earnings and profits, as measured for U.S. federal income tax purposes, at the end of any REIT taxable year. Such non-REIT earnings and profits generally would have included any accumulated earnings and profits of the corporations acquired by us (or whose assets we acquired) in the Formation Transactions. We believe that we have operated, and intend to continue to operate, so that we have not had and will not have any earnings and profits accumulated in a non-REIT year at the end of any taxable year. However, the determination of the amounts of any such non-REIT earnings and profits is a complex factual and legal determination, especially in the case of corporations, such as the corporations acquired in our formation transactions that have been in operation for many years. In addition, certain aspects of the computational rules are not completely clear. Thus, we cannot guarantee that the IRS will not assert that we had accumulated non-REIT earnings as of the end of 2014 or a subsequent taxable year. If it is subsequently determined that we had any accumulated non-REIT earnings and profits as of the end of our first taxable year as a REIT or at the end of any subsequent taxable year, we could fail to qualify as a REIT beginning with the applicable taxable year. Pursuant to Treasury Regulations, however, so long as our failure to comply with the prohibition on non-REIT earnings and profits was not due to fraud with intent to evade tax, we could cure such failure by paying an interest charge on 50% of the amount of accumulated non-REIT earnings and profits and by making a special distribution of accumulated non-REIT earnings and profits. We intend to utilize such cure provisions if ever required to do so. The amount of any such interest charge could be substantial.

Dividends payable by REITs generally do not qualify for reduced tax rates applicable to non-corporate taxpayers.

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. stockholders that are individuals, trusts and estates generally is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates and therefore may be subject to a 39.6% maximum U.S. federal income tax rate on ordinary income when paid to such stockholders. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates or are otherwise sensitive to these lower rates to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities or liquidate certain of our investments.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may, for instance, hinder our ability to make certain otherwise attractive investments or undertake other activities that might otherwise be beneficial to us and our stockholders, or may require us to borrow or liquidate investments in unfavorable market conditions and, therefore, may hinder our investment performance.

As a REIT, at the end of each calendar quarter, at least 75% of the value of our assets must consist of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than cash, cash items, government securities, securities issued by a TRS and qualified real estate assets) can consist of the securities of any one issuer, no more than 25% (for taxable years beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets can be represented by securities of one or more TRSs. Further, even though for taxable years beginning after December 31, 2015, debt instruments issued by a publicly traded REIT that are not secured by a mortgage on real property are qualifying real estate assets, no more than 25% of the value of our total assets can be represented by such assets. After meeting these requirements at the close of a calendar quarter, if we fail to comply with these requirements at the end of any subsequent calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain other statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may be subject to a 100% penalty tax on any prohibited transactions that we enter into, or may be required to forego certain otherwise beneficial opportunities in order to avoid the penalty tax on prohibited transactions.

If we are found to have held, acquired or developed property primarily for sale to customers in the ordinary course of business, we may be subject to a 100% "prohibited transactions" tax under U.S. federal tax laws on the gain from disposition of the property unless the disposition qualifies for one or more safe harbor exceptions for properties that have been held by us for at least two years and satisfy certain additional requirements (or the disposition is made through a TRS and, therefore, is subject to corporate U.S. federal income tax).

Under existing law, whether property is held primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances. We intend to hold, and, to the extent within our control, to have any joint venture to which our operating partnership is a partner hold, properties for investment with a view to long-term appreciation, to engage in the business of acquiring, owning, operating and developing the properties, and to make sales of our properties and other properties acquired subsequent to the date hereof as are consistent with our investment objectives (and to hold investments that do not meet these criteria through a TRS). Based upon our investment objectives, we believe that overall, our properties (other than certain interests we intend to hold through a TRS) should not be considered property held primarily for sale to customers in the ordinary course of business. However, it may not always be practical for us to comply with one of the safe harbors, and, therefore, we may be subject to the 100% penalty tax on the gain from dispositions of property if we otherwise are deemed to have held the property primarily for sale to customers in the ordinary course of business.

The potential application of the prohibited transactions tax could cause us to forego potential dispositions of property or to forego other opportunities that might otherwise be attractive to us, or to hold investments or undertake such dispositions or other opportunities through a TRS, which would generally result in corporate income taxes being incurred.

REIT distribution requirements could adversely affect our liquidity and adversely affect our ability to execute our business plan.

In order to maintain our qualification as a REIT and to meet the REIT distribution requirements, we may need to modify our business plans. Our cash flow from operations may be insufficient to fund required distributions, for example, as a result of differences in timing between our cash flow, the receipt of income for accounting principles generally accepted in the United States of America ("GAAP") purposes and the recognition of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves, payment of required debt service or amortization payments, or the need to make additional investments in qualifying real estate assets. The insufficiency of our cash flow to cover our distribution requirements could require us to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions or capital expenditures or used for the repayment of debt, (iv) pay dividends in the form of "taxable stock dividends" or (v) use cash reserves, in order to comply with the REIT distribution requirements. As a result, compliance with the REIT distribution requirements could adversely affect the market value of our common stock. The inability of our cash flow to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities. In addition, if we are compelled to liquidate our assets to repay obligations to our lenders or make distributions to our stockholders, we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as property held primarily for sale to customers in the ordinary course of business, and, in the case of some of our properties, we may be subject to an entity-level sting tax.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on our total return to our stockholders.

Our ability to provide certain services to our tenants may be limited by the REIT rules, or may have to be provided through a TRS.

As a REIT, we generally cannot provide services to our tenants other than those that are customarily provided by landlords, nor can we derive income from a third party that provides such services. If we forego providing such services to our tenants, we may be at a disadvantage to competitors who are not subject to the same restrictions. However, we can provide such non-customary services to tenants or share in the revenue from such services if we do so through a TRS, though income earned through the TRS will be subject to corporate income taxes.

Although our use of TRSs may partially mitigate the impact of meeting certain requirements necessary to maintain our qualification as a REIT, there are limits on our ability to own and enter into transactions with TRSs, and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (for taxable periods beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of a REIT's assets may consist of securities of one or more TRSs. In addition, rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are treated as not being conducted on an arm's-length basis.

We intend to jointly elect with one or more companies for those companies to be treated as our TRS under the Code for U.S. federal income tax purposes. These companies and any other TRSs that we form will pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification. Although we will monitor the aggregate value of the securities of such TRSs and intend to conduct our affairs so that such securities will represent less than 25% (for taxable periods beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets, there can be no assurance that we will be able to comply with the TRS limitation in all market conditions.

Recent legislation may alter who bears the liability in the event any subsidiary partnership (such as our operating partnership) is audited and an adjustment is assessed.

Congress recently revised the rules applicable to federal income tax audits of partnerships (such as our operating partnership) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017. Under the new rules, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. Many questions remain as to how the new rules will apply, especially with respect to partners that are REITs, and it is not clear at this time what effect this new legislation will have on us. However, these changes could increase the federal income tax, interest, and/or penalties otherwise borne by us in the event of a federal income tax audit of a subsidiary partnership.

Possible legislative, regulatory or other actions could adversely affect our stockholders and us.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders', tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income and/or be subject to additional restrictions. These increased tax costs could, among other things, adversely affect our financial condition, the results of operations and the amount of cash available for the payment of dividends. Stockholders are urged to consult with their own tax advisors with respect to the impact that recent legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our shares.

ITEM 1B.UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the staff of the Securities and Exchange Commission as of the date of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Our Portfolio Summary

As of December 31, 2015, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 95.3% leased and 90.3% occupied. The table below presents an overview of our portfolio as of December 31, 2015.

									Annualized Rent [4]	
Property	Submarket	% Ownership		Square Feet [1]	% Leased[2]		% Occupied[3]		Amount	Per Square Foot [5]
New York City:										
1633 Broadway	West Side	100.0	%	2,643,065	92.7	%	83.5	%	$141,165,000	$69.60
1301 Avenue of the Americas	Sixth Ave./Rock Center	100.0	%	1,767,992	97.0	%	85.5	%	112,348,000	75.04
1325 Avenue of the Americas	Sixth Ave./Rock Center	100.0	%	814,892	96.5	%	94.2	%	49,875,000	67.27
31 West 52nd Street	Sixth Ave./Rock Center	100.0	%	786,647	100.0	%	100.0	%	60,298,000	79.09
900 Third Avenue	East Side	100.0	%	596,270	96.0	%	95.2	%	41,479,000	73.79
712 Fifth Avenue	Madison/Fifth Avenue	50.0	%	543,341	98.5	%	98.5	%	55,658,000	104.52
Subtotal / Weighted Average				7,152,207	95.7	%	89.1	%	460,823,000	75.36
Washington, D.C.:										
Waterview	Rosslyn, VA	100.0	%	647,243	98.9	%	98.9	%	34,086,000	51.41
425 Eye Street	East End	100.0	%	380,090	96.5	%	90.1	%	15,292,000	45.72
2099 Pennsylvania Avenue	CBD	100.0	%	208,636	62.0	%	62.0	%	10,034,000	77.32
1899 Pennsylvania Avenue	CBD	100.0	%	192,481	88.8	%	88.8	%	13,471,000	79.85
Liberty Place	East End	100.0	%	174,205	80.1	%	80.1	%	10,872,000	76.52
Subtotal / Weighted Average				1,602,655	90.3	%	88.8	%	83,755,000	58.31
San Francisco:										
One Market Plaza	South Financial District	49.0	%	1,611,125	98.4	%	97.2	%	98,006,000	63.63

Total / Weighted Average	10,365,987	95.3	%	90.3	%	$642,584,000	$70.71

[1] Represents the remeasured square feet, which includes an aggregate of 164,742 square feet of either REBNY or BOMA remeasurement adjustments that are not reflected in current leases.

[2] Represents the percentage of square feet that is leased, including signed leases not yet commenced.

[3] Represents the percentage of space for which we have commenced rental revenue in accordance with GAAP.

[4] Represents the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

[5] Excludes square feet and revenue from parking, storage, theater, signage and roof space.

Tenant Diversification

As of December 31, 2015, our properties were leased to a diverse base of tenants. Our tenants represent a broad array of industries, including financial services, media and entertainment, consulting, legal and other professional services, technology and federal government agencies. The following table sets forth information regarding the 10 largest tenants in our portfolio based on annualized rent as of December 31, 2015.

	Lease	Square Feet	% of Total	Annualized Rent [1]		% of
Tenant	Expiration[1]	Occupied	Square Feet	Amount	Per Square Foot	Annualized Rent
The Corporate Executive Board Company	Jan-2028	625,062	6.0%	$32,048,000	$51.27	5.0%
Barclays Capital, Inc.	Dec-2020	497,418	4.8%	29,071,000	58.44	4.5%
Allianz Global Investors, LP	Jan-2031 [2]	326,457 [2]	3.1%	26,170,000	80.16	4.1%
Clifford Chance LLP	Jun-2024	328,992	3.2%	25,510,000	77.54	4.0%
Credit Agricole Corporate & Investment Bank	Feb-2023	311,291	3.0%	24,726,000	79.43	3.8%
Commerzbank AG	May-2016 [3]	287,535 [3]	2.8%	24,271,000	84.41	3.8%
Google Inc.	Apr-2025	275,822	2.7%	17,495,000	63.43	2.7%
Deloitte & Touche, LLP	Mar-2016	212,052	2.0%	16,735,000	78.92	2.6%
WMG Acquisition Corp. (Warner Music Group)	Jul-2029	293,487	2.8%	16,311,000	55.58	2.5%
Chadbourne & Parke LLP	Sep-2034	203,102	2.0%	15,884,000	78.21	2.5%

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

[2] 5,546 of the square feet leased expires in December 2016.

[3] As of December 31, 2015, 144,712 of this square footage has been leased to other tenants pursuant to signed leases that are expected to commence following the May 2016 expiration.

Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our portfolio based on annualized rent as of December 31, 2015.

Industry	% of

	Square Feet Occupied	% of Occupied Square Feet		Annualized Rent [1]	Annualized Rent	
Legal Services	1,782,122	19.4	%	$131,355,000	20.4	%
Financial Services - Commercial and Investment Banking	1,726,657	18.8	%	124,469,000	19.4	%
Financial Services - All other	1,396,171	15.2	%	112,087,000	17.4	%
Technology and Media	1,433,307	15.6	%	89,537,000	14.0	%
Retail	321,436	3.5	%	28,326,000	4.4	%
Insurance	338,399	3.7	%	26,869,000	4.2	%
Accounting	275,263	3.0	%	20,718,000	3.2	%
Real Estate	205,835	2.2	%	15,677,000	2.4	%
Government	316,700	3.5	%	14,677,000	2.3	%
Other	1,385,376	15.1	%	78,869,000	12.3	%

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

Lease Expirations

The following table sets forth a summary schedule of the lease expirations for leases in place as of December 31, 2015 for each of the 10 calendar years beginning with the year ending December 31, 2015, at the properties in our portfolio. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

		Annualized Rent [1]			
Year of Lease Expiration [3]	Square Feet of Expiring Leases	Amount	Per Square Foot [2]	% of Annualized Rent	
Month to Month	5,593	$631,000	$104.08	0.1	%
1Q 2016	9,111	911,000	100.00	0.1	%
2Q 2016	366,010	30,019,000	81.49	4.5	%
3Q 2016	160,772	11,675,000	72.65	1.7	%
4Q 2016	27,427	2,045,000	76.28	0.3	%
Total 2016	563,320	44,650,000	79.02	6.6	%
2017	553,297	40,453,000	73.75	6.0	%
2018	323,095	25,631,000	79.20	3.8	%
2019	500,762	37,617,000	75.50	5.6	%
2020	465,698	32,852,000	79.17	4.9	%
2021	1,521,322	89,931,000	59.99	13.4	%
2022	531,263	35,346,000	73.97	5.3	%
2023	670,462	53,101,000	79.70	7.9	%
2024	682,055	53,564,000	78.99	8.0	%
2025	465,438	34,118,000	73.43	5.1	%
Thereafter	3,300,647	223,413,000	67.23	33.3	%

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

[2] Excludes square feet and revenue from parking, storage, theater, signage and roof space.

[3] Leases that expire on the last day of any given period are treated as occupied and are reflected as expiring space in the following period.

Our portfolio contains a number of large buildings in select central business district submarkets, which often involve large users occupying multiple floors for relatively long terms. Accordingly, the re-lease or renewal of one or more large leases may have a material positive or negative impact on average base rent, tenant improvement and leasing commission costs in a given period. Tenant improvement costs include expenditures for general improvements related to installing a tenant. Leasing commission costs are similarly subject to significant fluctuations depending upon the anticipated revenue to be received under the leases and the length of leases being signed. Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual properties.

As of December 31, 2015, the vacancy rate of our portfolio was 4.7%. In addition approximately 568,913 square feet (including month-to-month tenants), or 5.5% of the square footage of our portfolio is scheduled to expire during the year ending December 31, 2016, which represents approximately 6.7% of our annualized rent.

Real Estate Fund Investments

We have an investment management business, where we serve as the general partner of real estate funds for institutional investors and high net-worth individuals. The following is a summary of our ownership in these funds and the funds' ownership in the underlying investments.

Property Funds

The purpose of the Property Funds is to invest in office buildings and related facilities primarily in New York City and San Francisco. As of December 31, 2015, the Property Funds were 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").

On October 29, 2015, Fund VII and Fund VII-H completed the acquisition of 670 Broadway, a 75,945 square foot creative office building located in Manhattan, for $112,000,000, comprised of $42,000,000 in cash and $70,000,000 of initial mortgage debt.

The following is a summary of the Property Funds, our ownership interests in these Funds and the Funds' ownership interest in the underlying investments, as of December 31, 2015.

		As of December 31, 2015			
	% Ownership	60 Wall Street	One Market Plaza	50 Beale Street	670 Broadway
Fund II	10.0 %	46.3 %	-	-	-
Fund III	3.1 %	16.0 %	2.0 %	-	-
Fund VII/VII-H	7.2 %	-	-	42.8 %	100.0 %
Total Property Funds		62.3 %	2.0 %	42.8 %	100.0 %
Other Investors		37.7 %	98.0 %[1]	57.2 %	-
Total		100.0%	100.0 %	100.0%	100.0 %

[1] Includes a 49.0% direct ownership interest held by us.

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 December 31, 2015, the Alternative Investment Funds had an aggregate of $580,200,000 of committed capital, of which, we have invested $166,560,000.

The following is a summary of our ownership interests in the Alternative Investment Funds and the Funds' underlying investments, as of December 31, 2015.

(Amounts in thousands)		%			Fair Value as of
			Interest		December
Fund/Investment	Investment Type	Ownership	Rate	Initial Maturity	31, 2015
Fund VIII					
26 Broadway [(1)]	Mezzanine Loan	1.7%	8.3%	Jan-2022	$ 46,678
1440 Broadway [(2)]	Mezzanine Loan	1.7%	6.4%	Oct-2019	40,619
700 Eighth Avenue [(3)]	Mortgage/Mezzanine Loans	1.7%	6.4%	Dec-2016	80,317
Total Alternative Investment Funds					$ 167,614

[(1)] The loan is secured by the equity interests in the owner of 26 Broadway, an 836,000 square foot office building, located in the financial district of Manhattan. The loan has a fixed interest rate and is subordinate to $220,000 of other debt.

[(2)] On September 30, 2015, Fund VIII closed on a $40,000 mezzanine loan secured by the equity interests in the owner of 1440 Broadway, a 751,546 square foot office and retail property located in Manhattan. The loan bears interest at LIBOR plus 600 bps, has a one-year extension option and is subordinate to $265,000 of other debt.

[(3)] On November 24, 2015, Fund VIII closed on a senior mortgage and mezzanine loan aggregating $80,000 secured by 700 Eighth Avenue, a 26,126 square foot retail property located in Manhattan. The loans bear interest at LIBOR plus 600 bps and have one-year extension options.

Additionally, on September 1, 2015, PGRESS and PGRESS-H redeemed their preferred equity investment in One Court Square for $42,475,000, resulting in a realized gain on the investment of $7,455,000.

Residential Development Fund

The purpose of the Residential Development Fund ("Residential Fund") is to construct a multifamily residential project in San Francisco. As of December 31, 2015, the Residential Fund had an aggregate of $135,600,000 of committed capital, of which $75,600,000 has been called and substantially invested.

Preferred Equity Investments

On December 16, 2015, we acquired PGRESS-A, which owned a 20% interest in a PGRESS Equity Holdings L.P., for $12,150,000. PGRESS Equity Holdings L.P. owns certain preferred equity investments that are also owned by PGRESS and PGRESS-H (together with PGRESS-A, the "PGRESS Funds"). Prior to our acquisition of PGRESS-A, we owned a 5.4% interest in the underlying investments held by the PGRESS and PGRESS-H Funds, which were consolidated into our consolidated financial statements. These investments were reflected as a component of "real estate fund investments" on our consolidated balance sheets and the income from these investments was reflected as a component of "income from real estate fund investments" on our consolidated statements of income. Subsequent to our acquisition of PGRESS-A, we are required to consolidate PGRESS Equity Holdings L.P. Accordingly, we reclassified the underlying investments to "preferred equity investments" on our consolidated balance sheets and income from the investments is now reflected as a component of "interest and other income (loss), net" on our consolidated statements of income.

The following is a summary of the preferred equity investments held by PGRESS Equity Holdings L.P.

(Amounts in thousands)				As of
	%	Dividend		December
Preferred Equity Investment	Ownership	Rate	Initial Maturity	31, 2015
470 Vanderbilt Avenue [(1)]	25.4%	10.3%	Feb-2019	$ 35,305
2 Herald Square [(2)]	25.4%	10.3%	Apr-2017	18,636
Total Preferred Equity Investments				$ 53,941

[(1)] Represents a $33,750 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 650,000 square foot office building located in Brooklyn, New York. The preferred equity has a dividend rate of 10.3%, of which 8.0% is being paid in cash through February 2016 and will increase thereafter to 10.3% through maturity, and the unpaid portion accretes to the balance of the investment.

[(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 has a dividend rate of 10.3%, of which 7.0% is paid currently and the remainder accretes to the balance of the investment. The preferred equity investment has two one-year extension options.

Other

60 Wall Street - Option Agreement

60 Wall Street is a 47-story, 1.6 million square foot Class-A office building located steps from the New York Stock Exchange in the heart of New York's financial district. It features a two-story retail arcade and enclosed park on the ground floor and serves as the American headquarters of Deutsche Bank. The property is 100% net leased to Deutsche Bank through 2022 and Deutsche Bank has five five-year renewal options to extend the lease term through 2047 and a contraction option on up to 174,420 rentable square feet exercisable between June 2017 and June 2018.

In connection with the Formation Transactions, we entered into an option agreement with each of Fund II and Fund III pursuant to which we will have the right to acquire their interests in the joint venture that owns 60 Wall Street. We will have the right to acquire these interests at any time for up to two years after the completion of the Offering (i.e., through November 2016) at a purchase price based on the fair market value of the property, subject to a minimum floor price, and the net value of the other assets and liabilities of the joint venture on the date on which the option is exercised. In order to determine the fair market value of the property, we will obtain three independent appraisals from nationally recognized valuation firms and the fair market value will be deemed to be the average of the two highest appraisals; provided that the fair market value will be subject to a minimum floor price equal to 95% of the appraised value of the property as of December 31, 2013. We will have the right to acquire these interests for either cash or shares of our common stock, based on the then current market value. Our acquisition of these interests upon exercise of the option will be subject to Fund II and Fund III obtaining all applicable consents or waivers, including the consent or waiver of any lenders or tenants to the extent required. In addition, the purchase price will be increased to the extent we enter into any new lease or lease amendment at the property within 90 days after the closing that would have resulted in the fair market value of the property increasing by more than one percent if such lease or lease amendment had been in place as of the date of the appraisals used to determine the fair market value of the property. If we were to exercise the option, we have agreed to provide our joint venture partner with the right to "tag-along" and transfer their interests in the joint venture that owns 60 Wall Street at a purchase price based on the same valuation procedures pursuant to which we would acquire each of Fund II's and Fund III's interests.

If we were to exercise the option and our joint venture partner did not exercise its right to tag-along, we would continue to act as the general partner of the joint venture that is in charge of the property's day-to-day operations. In the event we desire to transfer, sell or assign any portion of our interest in the joint venture to a third party, our joint venture partner will have the right to elect to purchase our interests subject to certain conditions. The partnership agreement contains a buy-sell provision, under which at any time, we or the joint venture partner may deliver a notice designating the amount that we or the joint venture partner determines the market value of the property to be. The party receiving a buy-sell notice will have the right to either purchase the entire partnership interest of the partner delivering the buy-sell notice, or sell its entire partnership interest to the partner delivering the buy-sell notice, in each case for cash at a price equal to the amount the selling partner would have received if the property had been sold for the amount listed in the notice (with financing breakage costs and transfer taxes to be apportioned between the partners in accordance with their percentage interests in the joint venture).

718 Fifth Avenue - Put Right

We manage 718 Fifth Avenue, a five-story building containing 19,050 square feet of prime retail space that is located on the southwest corner of 56th Street and Fifth Avenue in New York. The property is one block south of one of the world's most exclusive commercial intersections (57th Street and Fifth Avenue). Rockefeller Center and Central Park are within walking distance, as are numerous luxury hotels, museums and retail stores, including the Plaza Hotel, the Museum of Modern Art, Bergdorf Goodman and Saks Fifth Avenue. The property serves as the flagship store of Harry Winston, a high-end American luxury jeweler and producer of Swiss timepieces owned by The Swatch Group.

Prior to the Formation Transactions, an affiliate of our Predecessor owned a 25.0% interest in 718 Fifth Avenue (based on its 50.0% interest in a joint venture that held a 50.0% tenancy-in-common interest in the property). Prior to the completion of the Formation Transactions, this interest was sold to its partner in the 718 Fifth Avenue joint venture, who is also our 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 the four-year anniversary of the sale of its interest in 718 Fifth Avenue (i.e., September 10, 2018) upon 12 months written notice with the actual purchase occurring no earlier than the five-year anniversary of such sale (i.e., 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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol PGRE. The table below sets forth the high and low sales prices of our common stock and dividends for the year ended December 31, 2015 and for the period from November 19, 2014 through December 31, 2014:

	Year Ended			Period from November 19, 2014		
	December 31, 2015			through December 31, 2014		
Quarter Ended	High	Low	Dividends	High	Low	Dividends
March 31	$20.21	$17.66	$ 0.134 [1]			
June 30	19.73	16.97	0.095			
September 30	18.35	15.65	0.095			
December 31	18.56	16.50	0.095	$19.68	$17.49	$ 0.00

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

As of December 31, 2015, there were approximately 37 registered holders of record of our common stock. This figure does not reflect the beneficial ownership of shares of our common stock held in nominee or “street” name.

Dividends

In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to shareholders. We intend to pay dividends on a quarterly basis to holders of our common stock. Any dividend distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors; including the revenue we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. Distributions declared by us will be authorized by our board of directors in its sole discretion out of funds legally available and will be dependent upon a number of factors, including restrictions under applicable law, the capital requirements of our company and the distribution requirements necessary to maintain our qualification as a REIT. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of this Annual Report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect our ability to make distributions to our shareholders.

On December 15, 2015, we declared a regular quarterly cash dividend of $0.095 per share of common stock for the fourth quarter ending December 31, 2015 which was paid on January 15, 2016 to stockholders of record as of the close of business on December 31, 2015.

Performance Graph

The following graph is a comparison of the cumulative return of our common stock, the Standard & Poor’s 500 Index (the “S&P 500 Index”), the SNL Financials (“SNL”) Office REIT Index (the “SNL Office REIT Index”) and the National Association of Real Estate Investment Trusts (“NAREIT”) All Equity Index (the “All Equity Index”). Since our 2015 Performance Plan, a multi-year performance based equity compensation program, that was approved by the compensation committee of the board of directors on April 1, 2015, compares the return of our common stock to the SNL Office REIT Index, we have added the SNL Office REIT Index to the performance graph below. The graph assumes that $100 was invested on November 19, 2014 (the first trading day of our common stock) in our common stock, the S&P 500 Index, the SNL Office REIT Index and the All Equity Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our stock will continue in line with the same or similar trends depicted in the graph below.

	November 19, 2014	December 31, 2014	December 31, 2015
Paramount	$ 100.00	$ 102.26	$ 101.95
S&P 500 Index	100.00	100.72	102.12
SNL Office REIT Index	100.00	104.09	105.01
All Equity Index	100.00	104.09	107.03

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes certain information about our equity compensation plans as of December 31, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)[2]
Equity compensation plans approved by stockholders	7,574,416 [1]	$ 17.69	14,384,791
Equity compensation plans not approved by stockholders	-	-	-
Total	7,574,416	$ 17.69	14,384,791

[1] Includes an aggregate of 1,624,450 options, 1,001,808 long-term incentive plan units in our Operating Partnership ("LTIP units") and 891,015 Performance Units that were granted pursuant to our 2014 Equity Incentive Plan (the "Plan") and 4,057,143 units that were granted as one-time Founders Grants that were granted outside of the Plan. The LTIP units and performance units do not have an exercise price.

[2] Based on awards being granted as "Full Value Awards," as defined. If we were to grant "Not Full Value Awards," as defined in the Plan, the number of securities remaining available for future issuance would be 28,769,582. See Note 18, Incentive Compensation - Stock Based Compensation for more information.

Recent Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

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 consolidated historical cost accounting. As a result, our consolidated financial statements following the Formation Transactions differ significantly from the combined consolidated financial statements of our Predecessor. The following table sets forth selected financial and operating data for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 and as of the end of such year and period. This data should be read in conjunction with the combined consolidated financial statements and notes thereto included in “Item 8. Financial Statements and Supplementary Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. This data may not be comparable to, or indicative of, future operating results.

	The Company	
		Period from
(Amounts in thousands, except per share amounts)	Year Ended December 31, 2015	November 24, 2014 to December 31, 2014
REVENUES:		
Rental income	$586,530	$ 57,465
Tenant reimbursement income	50,885	5,865
Fee and other income	24,993	2,805
Total revenues	662,408	66,135
EXPENSES:		
Operating	244,754	26,011
Depreciation and amortization	294,624	34,481
General and administrative	42,056	2,207
Acquisition and transaction related costs	10,355	-
Total expenses	591,789	62,699
Operating income	70,619	3,436
Income from real estate fund investments	37,975	1,412
Income from unconsolidated joint ventures	6,850	938
Unrealized gain on interest rate swaps	75,760	15,084
Interest and other income (loss), net	871	(179)
Interest and debt expense	(168,366)	(43,743)
Formation related costs	-	(143,437)
Gain on consolidation of an unconsolidated joint venture	-	239,716
Net income before income taxes	23,709	73,227
Income tax expense	(2,566)	(505)
Net income	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:		
Consolidated joint ventures and funds	(26,632)	(1,488)
Operating Partnership	1,070	(13,926)
Net (loss) income attributable to common stockholders	$(4,419)	$ 57,308
Per Share Data:		
Net (loss) income per common share - basic	$(0.02)	$ 0.27
Net (loss) income per common share - diluted	$(0.02)	$ 0.27

Dividends per common share	$ 0.419 [1]	$ -

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 through December 31, 2014
Balance Sheet Data (as of end of period):		
Total assets	$8,794,143	$9,030,441
Rental property, at cost	7,652,117	7,530,239
Accumulated depreciation and amortization	(243,089)	(81,050)
Debt	2,961,524	2,852,287
Total equity	5,310,550	5,554,953
Other Data:		
Funds from operations attributable to common stockholders ("FFO") [2]	$209,349	$82,425
Core funds from operations attributable to common stockholders ("Core FFO") [3]	172,796	16,100

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

[2] 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 the pro rata 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. For a reconciliation of net income to FFO see page 69.

[3] 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 acquisition, transaction and formation related costs, unrealized gains or losses on interest rate swaps, severance costs and defeasance and debt breakage costs, 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. For a reconciliation of net income to Core FFO see page 69.

The following table sets forth selected financial and operating data of our Predecessor for the period from January 1, 2014 to November 23, 2014 and for the years ended December 31, 2013, 2012 and 2011 and as of the end of such period and years.

	The Predecessor			
	Period from January 1, 2014 to November 23, 2014	Year Ended December 31,		
(Amounts in thousands)		2013	2012	2011
REVENUES:				
Rental income	$30,208	$30,406	$29,773	$29,187
Tenant reimbursement income	1,646	1,821	1,543	1,004
Distributions from real estate fund investments	17,083	29,184	31,326	15,128
Realized and unrealized gains, net	129,354	332,053	161,199	533,819
Fee and other income	49,098	26,426	22,974	26,802
Total revenues	227,389	419,890	246,815	605,940
EXPENSES:				
Operating	15,862	16,195	15,402	14,656
Depreciation and amortization	10,203	10,582	10,104	10,701
General and administrative	30,912	33,504	28,374	25,556
Profit sharing compensation	12,041	23,385	17,554	78,354
Other	7,974	4,633	6,569	5,312
Total expenses	76,992	88,299	78,003	134,579
Operating income	150,397	331,591	168,812	471,361
Income from unconsolidated joint ventures	4,241	1,062	3,852	5,448
Unrealized (loss) gain on interest rate swaps	(673)	1,615	6,969	(273)
Interest and other income, net	2,479	9,407	4,431	1,887
Interest and debt expense	(28,585)	(29,807)	(37,342)	(34,497)
Net income before income taxes	127,859	313,868	146,722	443,926
Income tax expense	(18,461)	(11,029)	(6,984)	(42,973)
Net income	109,398	302,839	139,738	400,953
Net income attributable to noncontrolling interests	(87,888)	(286,325)	(137,443)	(347,075)
Net income attributable to the Predecessor	$21,510	$16,514	$2,295	$53,878

	The Predecessor		
	Year Ended December 31,		
(Amounts in thousands)	2013	2012	2011
Balance Sheet Data (as of end of period):			
Total assets	$2,992,691	$2,611,727	$2,366,888
Rental property, at cost	414,998	414,855	416,864
Accumulated depreciation and amortization	(57,689)	(48,425)	(39,637)
Debt	499,859	517,494	532,305
Total equity	2,025,444	1,738,226	1,484,813

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the combined consolidated financial statements of that of our Predecessor, including the related notes included therein.

Overview

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. 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 December 31, 2015.

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 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").

Objectives and Strategy

Our primary business objective is to enhance stockholder value by increasing cash flow from operations. The strategies we intend to execute to achieve this objective include:

- Leasing available vacant space;
- Releasing expiring space;
- Maintaining a disciplined acquisition strategy focused on owning and operating Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco;
- Redeveloping and repositioning properties to increase returns;
- Proactively managing our portfolio to increase occupancy and rental rates; and
- Refinancing existing above market debt.

Acquisitions

On October 1, 2015, we acquired the remaining 35.8% equity interest that we did not previously own in 31 West 52nd Street from our joint venture partner for approximately $230,000,000 in cash and the assumption of $148,000,000 of existing debt.

Real Estate Fund Investments

On September 1, 2015, Paramount Group Special Situations Fund, L.P. ("PGRESS") and Paramount Group Special Situations Fund-H, L.P. ("PGRESS-H") redeemed their preferred equity investment in One Court Square for $42,475,000, resulting in a realized gain on the investment of $7,455,000.

On September 30, 2015, Paramount Group Real Estate Fund VIII, L.P. ("Fund VIII") made a $40,000,000 mezzanine loan secured by the equity interests in the owner of 1440 Broadway, a 751,546 square foot office and retail property located in Manhattan. The loan bears interest at LIBOR plus 600 bps, matures in October 2019 and has a one-year extension option. The loan is subordinate to $265,000,000 of other debt.

On October 29, 2015, Paramount Group Real Estate Fund VII, L.P. ("Fund VII") and Paramount Group Real Estate Fund VII-H, L.P. ("Fund VII-H") completed the acquisition of 670 Broadway, a 75,945 square foot creative office building located in Manhattan, for $112,000,000, comprised of $42,000,000 in cash and $70,000,000 of initial mortgage debt.

On November 24, 2015, Fund VIII made a senior mortgage and mezzanine loan aggregating $80,000,000 secured by 700 Eighth Avenue, a 26,126 square foot retail property located in Manhattan. The loans bear interest at LIBOR plus 600 bps, mature in December 2016 and have one-year extension options.

Preferred Equity Investments

On December 16, 2015, we acquired PGRESS-A, which owned a 20% interest in a PGRESS Equity Holdings L.P., for $12,150,000. PGRESS Equity Holdings L.P. owns certain preferred equity investments that are also owned by PGRESS and PGRESS-H (together with PGRESS-A, the "PGRESS Funds"). Prior to our acquisition of PGRESS-A, we owned a 5.4% interest in the underlying investments held by the PGRESS and PGRESS-H Funds, which were consolidated into our consolidated financial statements. These investments were reflected as a component of "real estate fund investments" on our consolidated balance sheets and the income from these investments was reflected as a component of "income from real estate fund investments" on our consolidated statements of income. Subsequent to our acquisition of PGRESS-A, we are required to consolidate PGRESS Equity Holdings L.P. Accordingly, we reclassified the underlying investments to "preferred equity investments" on our consolidated balance sheets and income from the investments is now reflected as a component of "interest and other income (loss), net" on our consolidated statements of income.

Financings and Refinancing

On December 1, 2015, we completed a $1.0 billion refinancing of 1633 Broadway, a 2.6 million square foot, office building located on Broadway between 50th and 51st Streets in Manhattan. The new seven-year loan is interest only at LIBOR plus 175 basis points and can be increased at our option, by $250,000,000 to $1.25 billion, until December 1, 2018, if certain performance hurdles relating to the property are satisfied. The net proceeds from the refinancing were used to repay the existing $926,260,000 loan and fund $42,011,000 of costs, primarily for swap breakage. The existing loan was scheduled to mature in December 2016 and had a weighted average interest rate of 5.35%. We have entered into interest rate swap agreements, to fix the one-month LIBOR to a weighted average rate of 1.84%. These swaps have maturity dates ranging between December 2020 and December 2022. The weighted average interest rate on the $1.0 billion mortgage loan was 3.54% as of December 31, 2015.

Financial Results

Three Months Ended December 31, 2015

Net income attributable to common stockholders was $8,905,000, or $0.04 per diluted share, for the three months ended December 31, 2015, compared to $57,308,000, or $0.27 per diluted share, for the period from November 24, 2014 to December 31, 2014. Funds from Operations ("FFO") attributable to common stockholders was $61,559,000, or $0.29 per diluted share, for the three months ended December 31, 2015, compared to $82,425,000, or $0.39 per diluted share, for the period from November 24, 2014 to December 31, 2014. FFO includes the impact of certain "non-core" items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders by $16,371,000, or $0.08 per diluted share, for the three months ended December 31, 2015, compared to $66,325,000, or $0.31 per diluted share, for the period from November 24, 2014 to December 31, 2014. Core Funds from Operations ("Core FFO") attributable to common stockholders, which excludes the impact of these items, was $45,188,000, or $0.21 per diluted share, for the three months ended December 31, 2015, compared to $16,100,000, or $0.08 per diluted share, for the period from November 24, 2014 to December 31, 2014. See "Non-GAAP Financial Measures – Funds from Operations ("FFO") and Core Funds from Operations ("Core FFO")."

	The Company	
(Amounts in thousands, except per share amounts)	Three Months Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Non-core (income) expense:		
Unrealized gain on interest rate swaps	$ (26,263)	$ (15,084)
Pro rata share of unrealized gain on interest rate swaps of unconsolidated joint ventures	(1,065)	(643)
Acquisition, transaction and formation related costs	523	143,437
Gain on consolidation of an unconsolidated joint venture	-	(239,716)
Defeasance and debt breakage	-	25,717
Total non-core income	(26,805)	(86,289)
Less non-core income attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	6,447	3,847
Operating Partnership	3,987	16,117

Non-core income attributable to common stockholders	$(16,371)	$(66,325)
Per diluted share	$(0.08)	$(0.31)

Year Ended December 31, 2015

Net loss attributable to common stockholders was $4,419,000, or $0.02 per diluted share, for the year ended December 31, 2015, compared to net income of $57,308,000, or $0.27 per diluted share, for the period from November 24, 2014 to December 31, 2014. FFO attributable to common stockholders was $209,349,000, or $0.99 per diluted share, for the year ended December 31, 2015, compared to $82,425,000, or $0.39 per diluted share, for the period from November 24, 2014 to December 31, 2014. FFO includes the impact of certain "non-core" items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders by $36,553,000, or $0.18 per diluted share, for the year ended December 31, 2015, compared to $66,325,000, or $0.31 per diluted share, for the period from November 24, 2014 to December 31, 2014. Core Funds from Operations ("Core FFO") attributable to common stockholders, which excludes the impact of these items, was $172,796,000, or $0.81 per diluted share, for the year ended December 31, 2015, compared to $16,100,000, or $0.08 per diluted share, for the period from November 24, 2014 to December 31, 2014. See "Non-GAAP Financial Measures – Funds from Operations ("FFO") and Core Funds from Operations ("Core FFO")."

	The Company	
(Amounts in thousands, except per share amounts)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Non-core (income) expense:		
Unrealized gain on interest rate swaps	$(75,760)	$(15,084)
Transfer taxes due in connection with the sale of shares by a former joint venture partner	5,872	-
Acquisition, transaction and formation related costs	4,483	143,437
Severance costs	3,315	-
Pro rata share of unrealized gain on interest rate swaps of unconsolidated joint ventures	(2,112)	(643)
Gain on consolidation of an unconsolidated joint venture		(239,716)
Defeasance and debt breakage	-	25,717
Predecessor income tax true-up	721	-
Total non-core income	(63,481)	(86,289)
Less non-core income attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	18,028	3,847
Operating Partnership	8,900	16,117

Non-core income attributable to common stockholders	$(36,553)	$(66,325)
Per diluted share	$(0.18)	$(0.31)

Portfolio Operations and Leasing Activity

As of December 31, 2015, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet that was 95.3% leased.

During the three months ended December 31, 2015, we leased 647,828 square feet at a weighted average initial rent of $79.80 per square foot. This leasing activity, offset by lease expirations during the three months, increased portfolio wide leased percentage by 240 basis points from September 30, 2015. Of the 647,828 square feet leased in the three months, 443,336 square feet represents second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 17.3% on a cash basis and 19.4% on a GAAP basis. The weighted average lease term for leases signed during the three months was 13.0 years and tenant improvements and leasing commissions on these leases were $7.46 per square foot per annum, or 9.4% of initial rent.

The following table presents additional details on the leases signed during the three months ended December 31, 2015 and 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 December 31, 2015	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	647,828	478,451	-	169,377
Pro rata share of total square feet leased:	561,446	478,451	-	82,995
Initial rent [(1)]	$79.80	$78.90	$ -	$85.01
Weighted average lease term (in years)	13.0	14.2	-	5.9
Tenant improvements and leasing commissions:				
Per square foot	$96.77	$107.03	$ -	$37.63
Per square foot per annum	$7.46	$7.54	$ -	$6.40
Percentage of initial rent	9.4 %	9.6 %	-	7.5 %
Rent concessions:				
Average free rent period (in months)	10.0	11.0	-	3.9
Average free rent period per annum (in months)	0.8	0.8	-	0.7
Second generation space:				
Square feet	443,336	360,341	-	82,995
Cash basis:				
Initial rent [(1)]	$79.68	$78.45	$ -	$85.01
Prior escalated rent [(2)]	$67.95	$70.51	$ -	$56.81
Percentage increase	17.3 %	11.3 %	-	49.6 %

GAAP basis:				
Straight-line rent	$80.75	$79.83	$ -	$84.72
Prior straight-line rent	$67.61	$70.51	$ -	$55.00
Percentage increase	19.4 %	13.2 %	-	54.0 %

[1] Represents the weighted average cash basis starting rent per square foot and does not include free rent or periodic step-ups in rent.

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

[3] The leasing statistics (excluding square feet leased) include the effect of a lease extension for the parking garage at 31 West 52nd Street.

During the year ended December 31, 2015, we leased 1,393,770 square feet at a weighted average initial rent of $78.48 per square foot. This leasing activity, offset by lease expirations during the year, increased portfolio wide leased percentage by 140 basis points from December 31, 2014. Of the 1,393,770 square feet leased in the year, 930,514 square feet represents second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 15.6% on a cash basis and 16.0% on a GAAP basis. The weighted average lease term for leases signed during the year was 11.9 years and tenant improvements and leasing commissions on these leases were $7.55 per square foot per annum, or 9.6% of initial rent.

The following table presents additional details on the leases signed during year ended December 31, 2015 and is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Year Ended December 31, 2015	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	1,393,770	1,074,761	49,633	269,376
Pro rata share of square feet leased:	1,220,654	1,039,027	49,633	131,994
Initial rent [(1)]	$78.48	$78.37	$ 56.58	$87.64
Weighted average lease term (in years)	11.9	12.6	11.1	6.2
Tenant improvements and leasing commissions:				
Per square foot	$89.71	$95.80	$ 92.63	$40.70
Per square foot per annum	$7.55	$7.57	$ 8.35	$6.60
Percentage of initial rent	9.6 %	9.7 %	14.8 %	7.5 %
Rent concessions:				
Average free rent period (in months)	9.6	10.4	10.3	3.2
Average free rent period per annum (in months)	0.8	0.8	0.9	0.5
Second generation space:				
Square feet	930,514	787,585	20,770	122,159
Cash basis:				
Initial rent [(1)]	$79.52	$78.31	$ 78.62	$87.47
Prior escalated rent [(2)]	$68.78	$70.59	$ 64.86	$57.79
Percentage increase	15.6 %	10.9 %	21.2 %	51.3 %
GAAP basis:				
Straight-line rent	$79.60	$78.54	$ 77.00	$86.85
Prior straight-line rent	$68.62	$70.95	$ 51.72	$56.48
Percentage increase	16.0 %	10.7 %	48.9 %	53.8 %

[1] Represents the weighted average cash basis starting rent per square foot and does not include free rent or periodic step-ups

in rent.

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

[3] The leasing statistics (excluding square feet leased) include the effect of a lease extension for the parking garage at

31 West 52nd Street.

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.

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

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

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

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

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

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

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

Critical Accounting Policies

Rental Property

Rental property is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 40 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, identified intangibles, such as acquired above-market leases and acquired in-place leases) and acquired liabilities (such as acquired below-market leases) and allocate the purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known trends, and market/economic conditions. We record acquired intangible assets (including acquired above-market leases and acquired in-place leases) and acquired intangible liabilities (including below-market leases) at their estimated fair value. We amortize acquired above and below-market leases as a decrease or increase to rental income, respectively, over the lives of the respective leases. Amortization of acquired in-place leases is included as a component of depreciation and amortization.

Our properties, including any related intangible assets, are individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over the anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property’s carrying amount over its estimated fair value. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. If our estimates of the projected future cash flows, anticipated holding periods, or market conditions change, our evaluation of impairment losses may be different and such differences could be material to our combined consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses.

Variable Interest Entities and Investments in Unconsolidated Joint Ventures

We consolidate variable interest entities ("VIEs") in which we are considered to be the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or that the holders of the equity investment at risk do not have a controlling financial interest. The primary beneficiary is defined by the entity having both of the following characteristics: (i) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and (ii) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. For joint ventures that are not VIEs, we consolidate entities for which we have significant decision making control over the joint ventures' operations. Our judgment with respect to our level of influence or control of an entity involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment, estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the joint venture, if applicable.

We account for investments under the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. Investments accounted for under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for deferred rent receivable. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates.

Income Taxes

We operate and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986, as amended, to distribute at least 90% of our taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on our undistributed taxable income.

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 815, are recorded on our balance sheet 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 as either fair value hedges or cash flow hedges. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in accumulated other comprehensive income (outside of earnings).

Revenue Recognition

Rental Income

Rental income includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease, which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. Differences between rental income recognized and amounts due under the respective lease agreements are recorded as an increase or decrease to “deferred rent receivable.” Rental income also includes the amortization of acquired above and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the property. This revenue is accrued in the same period as the expenses are incurred.

Fee and Other Income

Fee and other income includes management fees earned pursuant to contractual agreements. This revenue is recognized as the related services are performed. Fee and other income also includes lease termination fees.

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, following 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, in part, 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, 2017. 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. The adoption of this update on January 1, 2016 will not have a material impact 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. The adoption of ASU 2015-02 on January 1, 2016, will result in the deconsolidation of our

Real Estate Fund investments, which qualify as investment companies pursuant to Financial Services-Investment Companies ("ASC 946"), with the exception of the Residential Fund, which is carried at historical cost.

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 debt issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. In August 2015, the FASB issued an update ("ASU 2015-15") Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at 18 June 2015 EITF Meeting. ASU 2015-15 clarifies the exclusion of line-of-credit arrangements from the scope of ASU 2015-03. Therefore, debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the time of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of these updates on January 1, 2016 will not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued an update ("ASU 2015-16") Simplifying the Accounting for Measurement-Period Adjustments to ASC Topic 805, Business Combinations. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 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.

Results of Operations

The following pages summarize our consolidated results of operations for the year ended December 31, 2015 and the period from November 24, 2014 to December 31, 2014 and the combined consolidated historical results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014 and for the year ended December 31, 2013.

The acquisition of the properties from our Predecessor was 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 consolidated 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.

Results of Operations – The Company – Year Ended December 31, 2015 Compared to the Period from November 24, 2014 to December 31, 2014

	The Company		
		Period from	
	Year		
	Ended	November 24, 2014	
(Amounts in thousands)	December 31, 2015	to December 31, 2014	Change
REVENUES:			
Rental income	$586,530	$ 57,465	$529,065
Tenant reimbursement income	50,885	5,865	45,020
Fee and other income	24,993	2,805	22,188
Total revenues	662,408	66,135	596,273
EXPENSES:			
Operating	244,754	26,011	218,743
Depreciation and amortization	294,624	34,481	260,143
General and administrative	42,056	2,207	39,849
Acquisition and transaction related costs	10,355	-	10,355
Total expenses	591,789	62,699	529,090
Operating income	70,619	3,436	67,183
Income from real estate fund investments	37,975	1,412	36,563
Income from unconsolidated joint ventures	6,850	938	5,912
Unrealized gain on interest rate swaps	75,760	15,084	60,676
Interest and other income (loss), net	871	(179)	1,050
Interest and debt expense	(168,366)	(43,743)	(124,623)
Formation related costs	-	(143,437)	143,437
Gain on consolidation of an unconsolidated joint venture	-	239,716	(239,716)

Net income before income taxes	23,709	73,227	(49,518)
Income tax expense	(2,566)	(505)	(2,061)
Net income	21,143	72,722	(51,579)
Less net (income) loss attributable to noncontrolling interests:			
Consolidated joint ventures and funds	(26,632)	(1,488)	(25,144)
Operating Partnership	1,070	(13,926)	14,996
Net (loss) income attributable to common stockholders	$(4,419)	$ 57,308	$(61,727)

Rental Income

Rental income for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represents rental income from the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Rental income was $586,530,000 for the year ended December 31, 2015, compared to $57,465,000 for the period from November 24, 2014 to December 31, 2014, an increase of $529,065,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Tenant Reimbursement Income

Tenant reimbursement income represents reimbursement income from tenants at the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Tenant reimbursement income was $50,885,000 for the year ended December 31, 2015, compared to $5,865,000 for the period from November 24, 2014 to December 31, 2014, an increase of $45,020,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Fee and Other Income

Fee and other income was $24,993,000 for the year ended December 31, 2015 and $2,805,000 for the period from November 24, 2014 to December 31, 2014, an increase of $22,188,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of fee and other income.

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Fee and other income		
Property management fees	$5,763	$ 587
Acquisition and disposition fees	1,985	510
Construction fees	216	58
Other fees	2,284	21

Total fee income	10,248	1,176
Other income [1]	14,745	1,629
Total fee and other income	$24,993	$ 2,805

[1] Other income is primarily comprised of (i) tenant payments for items such as after hour heating and

cooling, freight elevator services and similar expenses and (ii) lease termination income.

Operating Expenses

Operating expenses for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represent the operating expenses of the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Operating expenses were $244,754,000 for the year ended December 31, 2015, compared to $26,011,000 for the period from November 24, 2014 to December 31, 2014, an increase of $218,743,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014 represents depreciation and amortization on the 11 properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Depreciation and amortization was $294,624,000 for the year ended December 31, 2015, compared to $34,481,000 for the period from November 24, 2014 to December 31, 2014, an increase of $260,143,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014 and the timing of the amortization of certain in-place leases.

General and Administrative Expenses

General and administrative expenses were $42,056,000 for the year ended December 31, 2015, compared to $2,207,000 for the period from November 24, 2014 to December 31, 2014, an increase of $39,849,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. In addition, the year ended December 31, 2015 includes $7,000,000 of amortization of stock-based compensation expense. The following table sets forth the details of general and administrative expenses.

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
General and administrative expenses	$41,859 [1]	$ 2,528
Mark-to-market of investments in our deferred compensation plan [2]	197	(321)
Total general and administrative expenses	$42,056	$ 2,207

[1] Includes $3,315 of severance costs

[2] The change resulting from the mark-to-market of the deferred compensation plan liabilities is entirely offset by the change in the mark-to-market of deferred compensation plan assets, which is included in interest and other income (loss), net.

Acquisition and Transaction Related Costs

Acquisition and transaction related costs were $10,355,000 for the year ended December 31, 2015 and are primarily comprised of legal and professional fees related to potential acquisitions and capital raising costs in connection with real estate fund investments. Acquisition and transaction related costs for the year ended December 31, 2015 also includes $5,872,000 of transfer taxes incurred in connection with the sale of shares by a former joint venture partner.

Income from Real Estate Fund Investments

Income from real estate fund investments for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, represents income from the remaining private equity real estate funds that we consolidate. Income from real estate fund investments was $37,975,000 for the year ended December 31, 2015, compared to $1,412,000 for the period from November 24, 2014 to December 31, 2014, an increase of $36,563,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. In addition, the year ended December 31, 2015 includes $13,884,000 of realized gains from the sale of certain fund investments and $18,401,000 of unrealized gains from the appreciation in value of certain fund investments. The following table sets forth the details of income from real estate fund investments.

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Investment income	$ 13,406	$ 3,334
Investment expenses	1,132	565
Net investment income	12,274	2,769
Net realized gains	11,955	50
Previously recorded unrealized gains on exited investments	(6,584)	-
Net unrealized gains (losses)	20,330	(1,407)
Income from real estate fund investments	$ 37,975	$ 1,412

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was $6,850,000 for the year ended December 31, 2015, compared to $938,000 for the period from November 24, 2014 to December 31, 2014, an increase of $5,912,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets for the details of income from unconsolidated joint ventures.

			The Company	
(Amounts in thousands)	% Ownership at December 31, 2015		Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Our share of Net Income:				
712 Fifth Avenue	50.0	%	$6,734	$ 938
Oder-Center, Germany [1]	9.5	%	116	-
			$6,850	$ 938

[1] We account for our interest in Oder-Center on a one quarter lag basis.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was $75,760,000 for the year ended December 31, 2015, compared to $15,084,000 for the period from November 24, 2014 to December 31, 2014, an increase of $60,676,000, and represents the change in fair value of the interest rate swap derivative instruments.

Interest and Other Income (Loss), net

Interest and other income (loss), net was income of $871,000 for the year ended December 31, 2015, compared to a loss of $179,000 for the period from November 24, 2014 to December 31, 2014, an increase in income of $1,050,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. The following table sets forth the details of interest and other income.

The Company

(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Mark-to-market of investments in our deferred compensation plan [1]	$197	$ (321)
Interest and other income	674	142
Total interest and other income (loss)	$871	$ (179)

[1] The change resulting from the mark-to-market of the deferred compensation plan assets is entirely offset by the change in the mark-to-market of deferred compensation plan liabilities, which is included in general and administrative expenses.

Interest and Debt Expense

Interest and debt expense for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, represents interest cost on the properties that we consolidate using historical cost accounting subsequent to the completion of the Offering and the Formation Transactions. Interest and debt expense was $168,366,000 for the year ended December 31, 2015, compared to $43,743,000 for the period from November 24, 2014 to December 31, 2014, an increase of $124,623,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014. Interest and debt expense also includes $2,565,000 and $240,000 of amortization of deferred financing costs for the year ended December 31, 2015 and for the period from November 24, 2014 to December 31, 2014, respectively. In addition, the period from November 24, 2014 to December 31, 2014 includes $25,717,000 of defeasance and debt breakage costs related to the Formation Transactions.

Formation Related Costs

Formation related costs were $143,437,000 for the period from November 24, 2014 to December 31, 2014 and includes (i) $71,000,000 of stock based compensation expense in connection with the one-time founders' grants to executive officers and certain other employees, (ii) $51,306,000 of transfer taxes and (iii) $21,131,000 of accounting, legal and other professional fees incurred in connection with the Formations Transactions.

Gain on Consolidation of an Unconsolidated Joint Venture

Prior to the completion of the Offering and the Formation Transactions, our Predecessor owned a 50.0% interest in a joint venture that owned 1325 Avenue of the Americas, which was accounted for under the equity method. The remaining 50.0% interest was held by a third-party joint venture partner. As part of the Formation Transactions, we acquired the 50.0% interest held by our joint venture partner for $130,381,000 payable in shares of our common stock. The purchase price took into account certain tax benefits to our joint venture partner. The transaction was accounted for as a step acquisition in which we were required to re-measure our existing 50.0% ownership interest at fair value. As a result of the acquisition, we own 100.0% of the property and began consolidating the accounts of the property into our consolidated financial statements from the date of acquisition. In connection therewith, we recognized a $239,716,000 gain in the period from November 24, 2014 to December 31, 2014, comprised of (i) $175,917,000 representing the excess of the fair value of the property over the carrying amount of our investment in the property and (ii) $63,799,000 representing a purchase gain.

Income Tax expense

Income tax expense was $2,566,000 for the year ended December 31, 2015, compared to $505,000 for the period from November 24, 2014 to December 31, 2014, an increase of $2,061,000. This increase was primarily due to a full year's results of operations in 2015, compared to a partial year in 2014.

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures and Funds

Net income attributable to noncontrolling interest in consolidated joint ventures was $5,459,000 for the year ended December 31, 2015 compared to $1,353,000 for the period from November 24, 2014 to December 31, 2014, an increase of $4,106,000. Net income attributable to noncontrolling interest in consolidated funds was $21,173,000 for the year ended December 31, 2015 compared to $135,000, for the period from November 24, 2014 to December 31, 2014, an increase of $21,038,000. These increases were primarily due to a full year's result of operations in 2015, compared to a partial year in 2014.

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

(Amounts in thousands)	The Company	
	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Noncontrolling interest in consolidated joint ventures	$5,459	$ 1,353
Noncontrolling interest in funds	21,173	135
Total noncontrolling interests in consolidated joint ventures and funds	$26,632	$ 1,488

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

Net (income) or loss attributable to noncontrolling interest in Operating Partnership represents net (income) or loss attributable to the unitholders of the Operating Partnership. For the year ended December 31, 2015, we allocated a loss of $1,070,000 and for the period from November 24, 2014 to December 31, 2014, we allocated income of $13,926,000 to the unitholders of the Operating Partnership.

Results of Operations – The Predecessor - Period from January 1, 2014 to November 23, 2014 compared to Year Ended December 31, 2013

The following table summarizes the consolidated results of operations of our Predecessor for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013.

	The Predecessor		
(Amounts in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013	Change
REVENUES:			
Rental income	$30,208	$30,406	$(198)
Tenant reimbursement income	1,646	1,821	(175)
Distributions from real estate fund investments	17,083	29,184	(12,101)
Realized and unrealized gains, net	129,354	332,053	(202,699)
Fee and other income	49,098	26,426	22,672
Total revenues	227,389	419,890	(192,501)
EXPENSES:			
Operating	15,862	16,195	(333)
Depreciation and amortization	10,203	10,582	(379)
General and administrative	30,912	33,504	(2,592)
Profit sharing compensation	12,041	23,385	(11,344)
Other	7,974	4,633	3,341
Total expenses	76,992	88,299	(11,307)
Operating income	150,397	331,591	(181,194)
Income from unconsolidated joint ventures	4,241	1,062	3,179
Unrealized (loss) gain on interest rate swaps	(673)	1,615	(2,288)
Interest and other income, net	2,479	9,407	(6,928)
Interest and debt expense	(28,585)	(29,807)	1,222
Net income before income taxes	127,859	313,868	(186,009)
Income tax expense	(18,461)	(11,029)	(7,432)
Net income	109,398	302,839	(193,441)
Net income attributable to noncontrolling interests	(87,888)	(286,325)	198,437
Net income attributable to the Predecessor	$21,510	$16,514	$4,996

Rental Income

Rental income for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013, represents rental income from Waterview, the sole property for which direct property operations were reflected in the historical combined consolidated financial statements of our Predecessor. Rental income was $30,208,000 for the period from January 1, 2014 to November 23, 2014, compared to $30,406,000 for the year ended December 31, 2013, a decrease of $198,000. This decrease was primarily due to a full year's results of operations in 2013, compared to a partial year in 2014.

Tenant Reimbursement Income

Tenant reimbursement income for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013, represents reimbursement income from tenants at Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Tenant reimbursement income was $1,646,000 for the period from January 1, 2014 to November 23, 2014, compared to $1,821,000 for the year ended December 31, 2013, a decrease of $175,000. This decrease was primarily due to a full year's results of operations in 2013, compared to a partial year in 2014.

Distributions from Real Estate Fund Investments

Distributions from real estate fund investments comprise distributions received from our private equity real estate funds and were $17,083,000 for the period from January 1, 2014 to November 23, 2014, compared to $29,184,000 for the year ended December 31, 2013, a decrease of $12,101,000. This decrease was primarily attributable to the elimination of distributions from 1633 Broadway as cash was retained in 2014 in order to fund leasing costs at the property.

Realized and Unrealized Gains, Net

Realized and unrealized gains, net were $129,354,000 for the period from January 1, 2014 to November 23, 2014, compared to $332,053,000 for the year ended December 31, 2013, a decrease of $202,699,000. This decrease was primarily attributable to market fundamentals in 2014 as compared to 2013. While market fundamentals continued to improve during 2014, they did so at a slower pace as compared to 2013.

Fee and Other Income

Fee and other income was $49,098,000 for the period from January 1, 2014 to November 23, 2014, compared to $26,426,000 for the year ended December 31, 2013, an increase of $22,672,000. The following table sets forth the details of fee and other income.

	The Predecessor	
(Amounts in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013
Fee and other income		
Property management fees	$15,599	$ 15,641
Acquisition and disposition fees	25,038	2,785
Construction fees	5,718	6,937
Other fees	2,743	1,063
Total fee and other income	$49,098	$ 26,426

Operating Expenses

Operating expenses for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013, represents the operating expenses of Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor, and the cost of operating and managing the portfolio of properties owned by our Predecessor as well as the private real estate funds that it controlled. Operating expenses were $15,862,000 for the period from January 1, 2014 to November 23, 2014, compared to $16,195,000 for the year ended December 31, 2013, a decrease of $333,000. This decrease was primarily due to a full year’s results of operations in 2013, compared to a partial year in 2014.

Depreciation and Amortization

Depreciation and amortization for the period from January 1, 2014 to November 23, 2014, and for the year ended December 31, 2013, represents depreciation and amortization on Waterview, the sole property for which direct property operations are reflected in the historical combined consolidated financial statements of our Predecessor. Depreciation and amortization was $10,203,000 for the period from January 1, 2014 to November 23, 2014, compared to $10,582,000 for the year ended December 31, 2013, a decrease of $379,000. This decrease was primarily due to a full year’s depreciation in 2013, compared to a partial year in 2014.

General and Administrative

General and administrative expenses were $30,912,000 for the period from January 1, 2014 to November 23, 2014, compared to $33,504,000 for the year ended December 31, 2013, a decrease of $2,592,000. The following table sets forth the details of general and administrative expenses.

	The Predecessor	
(Amounts in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013
General and administrative expenses [1]	$29,206	$ 27,972
Mark-to-market of investments in our deferred compensation plans [2]	1,706	5,532
Total general and administrative expenses	$30,912	$ 33,504

[1] Primarily due to higher payroll costs

[2] The change resulting from the mark-to-market of the deferred compensation plan liabilities is entirely offset by the change in the mark-to-market of deferred compensation plan assets, which is included in interest and other income, net.

Profit Sharing Compensation

Profit sharing compensation represents a portion of fee income and real estate appreciation attributable to our Predecessor’s private equity real estate fund business, which was payable to certain management employees through profit sharing arrangements. These arrangements ceased upon completion of the Offering and the Formation Transactions. Profit sharing compensation was $12,041,000 for the period from January 1, 2014 to November 23, 2014, compared to $23,385,000 for the year ended December 31, 2013, a decrease of $11,344,000. This decrease resulted primarily from decreases in unrealized gains on real estate investments held through funds.

Other Expenses

Other expenses were $7,974,000 for the period from January 1, 2014 to November 23, 2014, compared to $4,633,000 for the year ended December 31, 2013, an increase of $3,341,000. This increase resulted primarily from higher capital raising and formation costs for our Predecessor’s private equity real estate fund business.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was $4,241,000 for the period from January 1, 2014 to November 23, 2014, compared to $1,062,000 for the year ended December 31, 2013, an increase of $3,179,000. The following table sets for the details of income from unconsolidated joint ventures.

			The Predecessor	
(Amounts in thousands)	% Ownership at November 23, 2014		Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013
Our share of Net Income (Loss):				
712 Fifth Avenue	50.0	%	$ 4,141	$ 2,612
1325 Avenue of the Americas	50.0	%	100	(1,550)
900 Third Avenue [(1)]	11.8	%	-	-
			$ 4,241	$ 1,062

[(1)] As of November 23, 2014, and December 31, 2013, 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.

Unrealized (Loss) Gain on Interest Rate Swaps

Unrealized (loss) gain on interest rate swaps was a loss of $673,000 for the period from January 1, 2014 to November 23, 2014, compared to a gain of $1,615,000 for the year ended December 31, 2013, a decrease in income of $2,288,000. This decrease resulted primarily from a decrease in interest rate indexes to which rates are tied. These interest rate swaps related to the debt of certain private equity real estate funds that were controlled by our Predecessor.

Interest and Other Income, net

Interest and other income was $2,479,000 for the period from January 1, 2014 to November 23, 2014, compared to $9,407,000 for the year ended December 31, 2013, a decrease of $6,928,000. The following table sets forth the details of interest and other income.

	The Predecessor	
(Amounts in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013
Mark-to-market of investments in our deferred compensation plans [1]	$1,706	$ 5,532
Interest and other income [2]	773	3,875
Total interest and other income	$2,479	$ 9,407

[1] The change resulting from the mark-to-market of the deferred compensation plan assets is entirely offset by the change in the mark-to-market of deferred compensation plan liabilities, which is included in general and administrative expenses.

[2] The decrease in interest and other income resulted primarily from interest income received in the year ended December 31, 2013 from new investors in one of our private equity real estate funds in connection with their initial

capital contribution.

Interest and Debt Expense

Interest and debt expense included for the period from January 1, 2014 to November 23, 2014 and for the year ended December 31, 2013, related to interest incurred on the Waterview mortgage, the fund-level debt of the private equity real estate funds and preferred equity in the joint venture holding 1633 Broadway. Interest expense was $28,585,000 for the period from January 1, 2014 to November 23, 2014, compared to $29,807,000 for the year ended December 31, 2013, a decrease of $1,222,000. This decrease was primarily due to a full year's results of operations in 2013, compared to a partial year in 2014.

Income Tax Expense

Income tax expense was $18,461,000 for the period from January 1, 2014 to November 23, 2014, compared to $11,029,000 for the year ended December 31, 2013, an increase of $7,432,000. This increase resulted primarily from previously deferred contingent fees that were recognized in 2014.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $87,888,000 for the period from January 1, 2014 to November 23, 2014, compared to $286,325,000 for the year ended December 31, 2013, a decrease of $198,437,000 and represents net income attributable to the noncontrolling interests of the private equity real estate funds. The decrease resulted primarily from lower income from real estate fund investments.

Liquidity and Capital Resources

Our primary sources of liquidity include existing cash balances, cash flow from operations and borrowings available under our $1.0 billion revolving credit facility, which could be increased to $1.25 billion, subject to certain conditions. 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, and the issuance of long-term debt or equity.

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.

Liquidity

As of December 31, 2015, we had $143,884,000 of cash and cash equivalents and $780,000,000 of borrowing capacity under our revolving credit facility, net of $200,000,000, which has been reserved under a letter of credit.

On December 1, 2015, we completed a $1.0 billion refinancing of 1633 Broadway, a 2.6 million square foot, office building located on Broadway between 50th and 51st Streets in Manhattan. The new seven-year loan is interest only at LIBOR plus 175 basis points and can be increased at the Company's option, by $250,000,000 to $1.25 billion, until December 1, 2018, if certain performance hurdles relating to the property are satisfied. The net proceeds from the refinancing were used to repay the existing $926,260,000 loan and fund $42,011,000 of costs, primarily for swap breakage. The existing loan was scheduled to mature in December 2016 and had a weighted average interest rate of 5.35%.

As of December 31, 2015, our outstanding consolidated debt (including amounts outstanding under our revolving credit facility) aggregated $2.962 billion. None of our debt matures in 2016 and $897,827,000 of our debt matures in 2017. We may refinance the remainder of our maturing debt when it comes due or refinance or prepay 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 December 15, 2015, we declared a regular quarterly cash dividend of $0.095 per share of common stock for the fourth quarter ending December 31, 2015, which was paid on January 15, 2016 to stockholders of record as of the close of business on December 31, 2015. During 2015, we paid an aggregate of $85,458,000 in dividends to our common stockholders and common unitholders. These dividends were paid utilizing the cash flow from operations. Our net cash flow from operations, as disclosed in our statement of cash flows, was a negative $16,969,000 due to utilizing $127,743,000 of cash for real estate fund investments. However, this amount was entirely funded by the limited partners of the real estate funds for which such investments were made. In accordance with GAAP, amounts paid for real estate fund investments are disclosed within operating activities in our statement of cash flows as opposed to investing activities, and the source of the funds for real estate fund investments are disclosed within financing activities as a component of "contributions from noncontrolling interests." Excluding real estate fund investments, which were fully funded by the limited partners of our real estate funds, our net cash flow from operations was $110,774,000.

If we were to continue our current dividend policy for all of 2016, we would have to pay out approximately $101,000,000 to common stockholders and unitholders during 2016.

Development and Redevelopment Expenditures

We have substantially completed the redevelopment of the lobby and retail space at One Market Plaza, including new entrances along Spear, Steuart and Mission streets as well as public seating.

We are in the process of redeveloping the public plaza and below-grade retail space at 1633 Broadway. The project, which is expected to be completed by the third quarter of 2016, is estimated to cost approximately $15,000,000, of which $8,683,000 has been expended as of December 31, 2015.

Contractual Obligations

Below is a summary of our contractual obligations and commitments as of December 31, 2015.

	Payments due by period				
		Less than	1-3	3-5	
(Amounts in thousands)	Total	one year	years	years	Thereafter
Notes and mortgages payable:					
Interest expense [1]	$465,848	$136,301	$163,162	$104,860	$61,525
Principal repayment	2,941,524	1,441	984,928	941,611	1,013,544
Revolving credit facility (including interest expense) [1]	20,905	313	20,592	-	-
Due to affiliates (including interest expense)[1]	27,543	139	27,404	-	-
Loans payable to noncontrolling interests (including interest expense)[1]	119,069	-	-	-	119,069
Tenant obligations	109,212	104,997	3,437	778	-
Leasing commissions	5,179	5,179	-	-	-
Construction obligations	20,799	20,799	-	-	-
Total [2]	$3,710,079	$269,169	$1,199,523	$1,047,249	$1,194,138

[1] Interest expense is calculated using contractual rates for fixed rate debt and the rates in effect as of December 31, 2015 for variable rate debt.

[2] The total above does not include various standing or renewal service contracts with vendors related to our property management.

Off Balance Sheet Arrangements

As of December 31, 2015, our unconsolidated joint ventures had $270,643,000 of outstanding indebtedness, of which our share was $125,544,000. We do not guarantee the indebtedness of unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carve outs relating to specified covenants and representations; however, we may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans in order to enable the joint venture to repay this indebtedness upon maturity.

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 of 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, 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 requires 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 December 31, 2015, 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

As noted above, we no longer account for the assets that we acquired from the private equity real estate funds that our Predecessor controlled under investment company accounting. Instead, we account for these assets using either consolidated historical cost accounting or the equity method. Moving from investment company accounting to consolidated historical cost accounting or the equity method resulted in a significant change in the classification of our cash flows. For example, the purchase and sale of underlying investments by our private equity real estate funds that utilize investment company accounting are treated as an operating activity and such purchases and sales are shown net of any related mortgage debt entered into upon acquisition or repaid upon sale. Purchases and sales that we engage in directly or through our consolidated subsidiaries other than these funds are treated as investing activities and any related mortgage debt entered into upon acquisition or repaid upon sale is treated as financing activities. Furthermore, all other property-level debt activity relating to properties owned by these funds is currently treated as operating activity, whereas debt activity engaged in directly or through our consolidated subsidiaries other than these funds is treated as financing activity. In addition, the net income of our Predecessor currently reflects significant unrealized gains or losses relating to properties owned by these funds. Any unrealized gains or losses are reversed to arrive at net cash flow provided by or used in operating activities. Gains or losses arising from sales of properties owned by us directly or through our consolidated subsidiaries will only be recognized by us when realized. The proceeds of such sales will be reflected in net cash provided by investing activities.

The Company

Cash and cash equivalents were $143,884,000 and $438,599,000, at December 31, 2015 and December 31, 2014, respectively, a decrease of $294,715,000. The following table sets forth the changes in cash flow.

(Amount in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Net cash (used in) provided by:		
Operating activities	$(16,969)	$(80,572)
Investing activities	(95,416)	204,913
Financing activities	(182,330)	262,172

Operating Activities

Year Ended December 31, 2015 – We used $16,969,000 of cash for operating activities for the year ended December 31, 2015, primarily due to the net change in operating assets and liabilities of $170,269,000, partially offset by net income before noncash adjustments of $148,334,000 and distributions from unconsolidated joint ventures of $4,966,000. Noncash adjustments of $127,191,000 were primarily comprised of depreciation and amortization, unrealized gain on interest rate swaps, straight-lining of rental income and realized and net unrealized gains on real estate fund investments. The changes in operating assets and liabilities were primarily due to net acquisition of real estate fund investments of $127,743,000 and additions to deferred charges of $40,510,000.

Period from November 24, 2014 to December 31, 2014 – We used $80,572,000 of cash for operating activities for the period from November 24, 2014 to December 31, 2014, primarily to fund real estate fund investments aggregating $51,362,000 and leasing costs aggregating $13,181,000.

Investing Activities

Year Ended December 31, 2015 – We used $95,416,000 of cash for investing activities for the year ended December 31, 2015, primarily due to additions to rental properties of $107,859,000, partially offset by a decrease in restricted cash of $12,424,000.

Period from November 24, 2014 to December 31, 2014 – We generated $204,913,000 of cash from investing activities for the period from November 24, 2014 to December 31, 2014, primarily from cash received from properties in connection with the Formation Transactions.

Financing Activities

Year Ended December 31, 2015 - We used $182,330,000 of cash for financing activities in the year ended December 31, 2015, primarily due to the repayment of notes and mortgages payable of $927,633,000, the acquisition of noncontrolling interest in consolidated joint ventures of $261,464,000, dividends paid to common stockholders and unitholders of $85,458,000, distributions to noncontrolling interests of $56,636,000, the settlement of swap liabilities of $33,741,000 and debt issuance costs of $18,871,000, partially offset by proceeds from notes and mortgages payable of $1,013,544,000, contributions from noncontrolling interests of $167,929,000 and proceeds from our revolving credit facility of $20,000,000.

Period from November 24, 2014 to December 31, 2014 – We generated $262,172,000 of cash from financing activities for the period from November 24, 2014 to December 31, 2014. Cash generated from financing activities during the period was primarily due to the issuance and sale of common stock in connection with the Offering, substantially all of the proceeds of which were used toward the repayment of debt assumed in the Formation Transactions and the defeasance of a mortgage note payable.

The Predecessor

Cash and cash equivalents were $52,086,000 and $307,161,000 at November 23, 2014 and December 31, 2013, respectively, a decrease of $255,075,000 for the period from January 1, 2014 to November 23, 2014 and an increase of $2,183,000 during the year ended December 31, 2013. The following table sets forth the changes in cash flow.

(Amount in thousands)	Period from January 1, 2014 to November 23, 2014	Year Ended December 31, 2013
Net cash (used in) provided by:		
Operating activities	$(84,495)	$33,485
Investing activities	(64,330)	1,042
Financing activities	(106,250)	(32,344)

Operating Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013 – Our Predecessor used $84,495,000 of cash for operating activities during the period January 1, 2014 to November 23, 2014, compared to $33,485,000 generated during the year ended December 31, 2013, a decrease of $117,980,000. This decrease was primarily due to $31,061,000 for net real estate fund investments in 2014 resulting from the purchase of a new asset and additional investments in existing assets and changes in other operating assets and liabilities aggregating $87,542,000.

Investing Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013 – Our Predecessor used $64,330,000 of cash for investing activities during the period January 1, 2014 to November 23, 2014, compared to $1,042,000 provided during the year ended December 31, 2013, a decrease of $65,372,000. This decrease was primarily due to a $64,650,000 acquisition by a consolidated private equity fund, which utilizes historical cost accounting rather than investment company accounting.

Financing Activities

Period from January 1, 2014 to November 23, 2014 Compared to Year Ended December 31, 2013 – Our Predecessor used $106,250,000 of cash for financing activities during the period January 1, 2014 to November 23, 2014, compared to $32,344,000 used during the year ended December 31, 2013, an increase of $73,906,000. This was primarily due to a decrease in net contributions from noncontrolling interests aggregating $92,926,000, from $99,619,000 in 2013 to $6,693,000 in 2014.

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.

Net Operating Income ("NOI")

NOI is a metric we use to measure the operating performance of our property and consists of property-related revenue (which includes rental revenue, 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 pro rata 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 table presents a reconciliation of our net income to NOI and Cash NOI.

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Reconciliation of net income to NOI and Cash NOI:		
Net income	$21,143	$72,722
Add:		
Depreciation and amortization	294,624	34,481
General and administrative expenses	42,056	2,207
Interest and debt expense	168,366	43,743
Transfer taxes due in connection with the sale of shares by a former joint venture partner	5,872	-

Acquisition, transaction and formation related costs	4,483	143,437
Income tax expense	2,566	505
NOI of unconsolidated joint ventures	16,580	1,680
Less:		
Income from real estate fund investments	(37,975)	-
Income from unconsolidated joint ventures	(6,850)	(938)
Fee income	(10,248)	(1,176)
Unrealized gain on interest rate swaps	(75,760)	(15,084)
Interest and other income (loss), net	(871)	179
Gain on consolidation of unconsolidated joint ventures	-	(239,716)
NOI	423,986	42,040
Less NOI attributable to noncontrolling interests in consolidated joint ventures	(55,325)	(5,710)
Pro rata share of NOI	$368,661	$36,330
NOI	$423,986	$42,040
Less:		
Straight-line rent adjustments	(69,522)	(5,653)
Amortization of below-market leases, net	(9,917)	(467)
Pro rata share of straight-line rent adjustments of unconsolidated joint ventures	410	(7)
Cash NOI	344,957	35,913
Less Cash NOI attributable to noncontrolling interests in consolidated joint ventures	(36,616)	(4,092)
Pro rata share of Cash NOI	$308,341	$31,821

Funds from Operations ("FFO") and Core Funds from Operations ("Core FFO")

FFO is a supplemental measure of our performance. We present FFO in accordance with the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, impairment losses on depreciable real estate and depreciation and amortization expense from real estate assets, including the pro rata 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 acquisition, transaction and formation related costs, unrealized gain or losses on interest rate swaps, severance costs and defeasance and debt breakage costs, 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 financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

	The Company	
(Amounts in thousands, except per share amounts)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Reconciliation of net income to FFO and Core FFO:		
Net income	$21,143	$72,722
Real estate depreciation and amortization	294,624	34,481
Pro rata share of real estate depreciation and amortization of unconsolidated joint ventures	6,021	605
FFO	321,788	107,808
Less FFO attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	(61,479)	(5,353)
Operating Partnership	(50,960)	(20,030)
FFO attributable to common stockholders	$209,349	$82,425
Per diluted share	$0.99	$0.39
FFO	$321,788	$107,808
Non-core (income) expense:		
	5,872	-

Transfer taxes due in connection with the sale of shares by a former joint venture partner		
Acquisition, transaction and formation related costs	4,483	143,437
Defeasance and debt breakage costs	-	25,717
Predecessor income tax true-up	721	-
Severance costs	3,315	-
Unrealized gain on interest rate swaps	(75,760)	(15,084)
Pro rata share of unrealized gain on interest rate swaps of unconsolidated joint ventures	(2,112)	(643)
Gain on consolidation of an unconsolidated joint venture	-	(239,716)
Core FFO	258,307	21,519
Less Core FFO attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	(43,451)	(1,506)
Operating Partnership	(42,060)	(3,913)
Core FFO attributable to common stockholders	$172,796	$16,100
Per diluted share	$0.81	$0.08
Reconciliation of weighted average shares outstanding:		
Weighted average shares outstanding	212,106,718	212,106,718
Effect of dilutive securities	4,572	1,190
Denominator for FFO per diluted share	212,111,290	212,107,908

ITEM 7A.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 December 31, 2015.

Property	Rate	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Fixed Rate Debt									
1633 Broadway[1]	3.54%	$-	$-	$-	$-	$-	$1,000,000	$1,000,000	$1,000,194
31 West 52nd Street[1]	6.04%	-	237,600	-	-	-	-	237,600	233,896
900 Third Avenue[1]	5.98%	-	162,000	-	-	-	-	162,000	158,103
Waterview	5.76%	-	210,000	-	-	-	-	210,000	217,993
1899 Pennsylvania Avenue	4.88%	-	-	-	-	89,116	-	89,116	92,890
Liberty Place	4.50%	-	-	84,000	-	-	-	84,000	85,952
One Market Plaza[1]	6.14%	-	-	-	857,037	-		857,037	821,444
Total Fixed Rate Debt	5.01%	-	$609,600	$84,000	$857,037	$89,116	$1,000,000	$2,639,753	$2,610,472
Variable Rate Debt									
1633 Broadway	2.15%	$-	$-	$-	$-	$-	$13,544	$13,544	$13,547
31 West 52nd Street	1.79%	-	175,890	-	-	-	-	175,890	173,538
900 Third Avenue	1.69%	-	112,337	-	-	-	-	112,337	109,685
Revolving Credit Facility	1.54%	-	-	20,000	-	-	-	20,000	20,723
	1.75%	$-	$288,227	$20,000	$-	$-	$13,544	$321,771	$317,493

Total Variable Rate Debt									
Total Consolidated Debt	4.66%	$-	$897,827	$104,000	$857,037	$89,116	$1,013,544	$2,961,524	$2,927,965

[1] All or a portion of this debt has been swapped from floating rate debt to fixed rate debt. See table below.

In addition to the above, our unconsolidated joint ventures had $270,643,000 of outstanding indebtedness as of December 31, 2015, of which our share was $125,544,000.

The following table summarizes our fixed rate debt that has been swapped from floating rate to fixed as of December 31, 2015.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of December 31, 2015
(Amounts in thousands)					
One Market Plaza [1]	$840,000	Aug-2007 to Aug-2012	Aug-2017	5.02 %	$ 55,404
31 W 52nd Street [1]	237,600	Dec-2007	Dec-2017	4.79 %	17,661
900 Third Avenue [1]	162,000	Nov-2007	Nov-2017	4.78 %	11,630
1633 Broadway [2]	1,000,000	Dec 2015	Dec 2020 to Dec-2022	1.79 %	9,204
1633 Broadway [2]	400,000	Dec-2020	Dec-2021	2.35 %	37
Total interest rate swap liabilities					$ 93,936

[1] Represents interest rate swaps not designated as hedges. Changes in the fair value of these swaps are recognized in earnings.

[2] Represents interest rate swaps designated as cash flow hedges. Changes in the fair value of these hedges are recognized in accumulated other comprehensive income (outside of earnings).

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

	2015			2014	
(Amounts in thousands, except per share amount)	Balance at December 31,	Weighted Average Interest Rate	Effect of 1% Increase in Base Rates	Balance at December 31,	Weighted Average Interest Rate
Pro rata share of consolidated debt:					
Variable rate	$321,771	1.75 %	$ 3,218	$222,283	1.49 %
Fixed rate [1]	2,202,664	4.79 %	-	2,046,582	5.79 %
	$2,524,435	4.40 %	$ 3,218	$2,268,865	5.37 %
Pro rata share of debt of non-consolidated entities (non-recourse):					
Variable rate	$55,750	2.34 %	$ 558	$10,750	2.71 %
Fixed rate [1]	69,794	5.74 %	-	112,500	5.65 %
	$125,544	4.23 %	$ 558	$123,250	5.39 %
Noncontrolling interests' share of above			(739)		
Total change in annual net income			$ 3,037		
Per diluted share			$ 0.01		

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Paramount Group, Inc.

New York, NY

We have audited the accompanying consolidated balance sheets of Paramount Group, Inc. (the Company or Successor) as of December 31, 2015 and 2014, the related consolidated statements of income and comprehensive income for the year ended December 31, 2015 (Successor), and for the period from November 24, 2014 through December 31, 2014 (Successor), and the related combined consolidated statements of changes in equity and cash flows or the year ended December 31, 2015 (Successor), and the related combined consolidated statements of income, changes in equity and cash flows for the period from January 1, 2014 through November 23, 2014 (Paramount Predecessor) and for the year ended December 31, 2013 (Paramount Predecessor). Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Paramount Group, Inc. as of December 31, 2015 (Successor) and 2014 (Successor), and the results of their operations and their cash flows for the year ended December 31, 2015 (Successor), for the period from November 24, 2014 through December 31, 2014 (Successor), for the period from January 1, 2014 through November 23, 2014 (Paramount Predecessor), and for the year ended December 31, 2013 (Paramount Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, NY

February 25, 2016

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)	The Company	
ASSETS	December 31, 2015	December 31, 2014
Rental property, at cost		
Land	$2,042,071	$2,042,071
Buildings and improvements	5,610,046	5,488,168
	7,652,117	7,530,239
Accumulated depreciation and amortization	(243,089)	(81,050)
Rental property, net	7,409,028	7,449,189
Real estate fund investments	416,438	323,387
Preferred equity investments	53,941	-
Investments in unconsolidated joint ventures	7,102	5,749
Cash and cash equivalents	143,884	438,599
Restricted cash	41,823	55,728
Marketable securities	21,521	20,159
Deferred rent receivable	77,792	8,267
Accounts and other receivables, net of allowance of $365 and $333 in 2015 and 2014, respectively	10,844	7,692
Deferred charges, net of accumulated amortization of $15,961 and $10,859 in 2015 and 2014, respectively	93,905	39,165
Intangible assets, net of accumulated amortization of $143,987 and $20,509 in 2015 and 2014, respectively	511,207	669,385
Other assets	6,658	13,121
Total assets	$8,794,143	$9,030,441
LIABILITIES AND EQUITY		
Notes and mortgages payable	$2,941,524	$2,852,287
Revolving credit facility	20,000	-
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	45,662	42,195
Accounts payable and accrued expenses	102,730	93,472
Dividends and distributions payable	25,067	-
Deferred income taxes	2,533	2,861
Interest rate swap liabilities	93,936	194,196
Intangible liabilities, net of accumulated amortization of $41,931 and $3,757 in 2015 and 2014, respectively	179,741	219,228
Other liabilities	45,101	43,950
Total liabilities	3,483,593	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 212,112,137 and 212,106,718 shares in 2015 and 2014, respectively	2,122	2,122

Additional paid-in-capital	3,802,858	3,851,432
Earnings (less than) in excess of distributions	(36,120)	57,308
Accumulated other comprehensive loss	(7,843)	-
Paramount Group, Inc. equity	3,761,017	3,910,862
Noncontrolling interests in:		
Consolidated joint ventures and funds	651,486	685,888
Operating Partnership (51,660,088 and 51,543,993 units outstanding in 2015 and 2014, respectively)	898,047	958,203
Total equity	5,310,550	5,554,953
Total liabilities and equity	$8,794,143	$9,030,441

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

	The Company	
		Period from
	Year Ended	November 24, 2014
(Amounts in thousands, except per share amounts)	December 31, 2015	to December 31, 2014
REVENUES:		
Rental income	$586,530	$ 57,465
Tenant reimbursement income	50,885	5,865
Fee and other income	24,993	2,805
Total revenues	662,408	66,135
EXPENSES:		
Operating	244,754	26,011
Depreciation and amortization	294,624	34,481
General and administrative	42,056	2,207
Acquisition and transaction related costs	10,355	-
Total expenses	591,789	62,699
Operating income	70,619	3,436
Income from real estate fund investments	37,975	1,412
Income from unconsolidated joint ventures	6,850	938
Unrealized gain on interest rate swaps	75,760	15,084
Interest and other income (loss), net	871	(179)
Interest and debt expense	(168,366)	(43,743)
Formation related costs	-	(143,437)
Gain on consolidation of an unconsolidated joint venture	-	239,716
Net income before income taxes	23,709	73,227
Income tax expense	(2,566)	(505)
Net income	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:		
Consolidated joint ventures and funds	(26,632)	(1,488)
Operating Partnership	1,070	(13,926)
Net (loss) income attributable to common stockholders	$(4,419)	$ 57,308
(LOSS) INCOME PER COMMON SHARE - BASIC:		
(Loss) Income per common share	$(0.02)	$ 0.27
Weighted average shares outstanding	212,106,718	212,106,718
(LOSS) INCOME PER COMMON SHARE - DILUTED:		
(Loss) Income per common share	$(0.02)	$ 0.27
Weighted average shares outstanding	212,106,718	212,107,908
DIVIDENDS PER COMMON SHARE	0.419 [1]	-

[1] Includes the $0.039 cash dividend for the 38 day period following the completion of our initial public offering and related formation transactions and ended on December 31, 2014.

See notes to combined consolidated financial statements.

PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF INCOME

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

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	The Company	
(Amounts in thousands)	Year Ended December 31, 2015	Period from November 24, 2014 to December 31, 2014
Net income	$21,143	$ 72,722
Other comprehensive loss:		
Change in value of interest rate swaps	(9,241)	-
Pro rata share of other comprehensive loss of unconsolidated joint ventures	(512)	-
Comprehensive income	11,390	72,722
Less comprehensive (income) loss attributable to noncontrolling interests in:		
Consolidated joint ventures and funds	(26,632)	(1,488)
Operating Partnership	2,980	(13,926)
Comprehensive (loss) income attributable to common stockholders	$(12,262)	$ 57,308

See notes to combined consolidated financial statements.

PARAMOUNT GROUP, INC. AND PARAMOUNT PREDECESSOR

COMBINED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares						Noncontrolling Interests in Consolidated		
(Amounts in thousands)	Shares	Amount	Additional Paid-in-Capital	Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Loss	Predecessor Shareholders' Equity	Joint Ventures and Funds	Operating Partnership	Total Equity
The Predecessor									
Balance as of December 31, 2012	-	$-	$-	$-	$ -	$420,495	$1,317,731	$-	$1,738,226
Net income	-	-	-	-	-	16,514	286,325	-	302,839
Contributions	-	-	-	-	-	5,359	106,262	-	111,621
Distributions	-	-	-	-	-	(120,599)	(6,643)	-	(127,242)
Balance as of December 31, 2013	-	-	-	-	-	321,769	1,703,675	-	2,025,444
Net income	-	-	-	-	-	21,510	87,888	-	109,398
Contributions	-	-	-	-	-	23,688	272,721	-	296,409
Distributions	-	-	-	-	-	(176,434)	(266,028)	-	(442,462)
Deemed contributions	-	-	-	-	-	187,389	-	-	187,389
Balance as of November 23, 2014	-	-	-	-	-	377,922	1,798,256	-	2,176,178
The Company									
Net income	-	-	-	57,308	-	-	1,488	13,926	72,722
Common shares issued:									
Initial public offering	150,650	1,507	2,496,693	-	-	-	-	-	2,498,200
Private placement	3,914	39	68,461	-	-	-	-	-	68,500
Acquire property interests	11,279	113	209,203	-	-	-	-	-	209,316
Upon redemption of common units	210	2	3,890	-	-	-	-	(3,892)	-

Under Omnibus share plan	6	1	-	-	-	-	-	-	1
Common units issued:									
Founders Grant	-	-	-	-	-	-	-	71,000	71,000
Under Omnibus share plan	-	-	(13,702)	-	-	-			