

2018
ANNUAL REPORT





96.4%

TOTAL LEASED OCCUPANCY



11.9MM
TOTAL SQUARE FOOTAGE

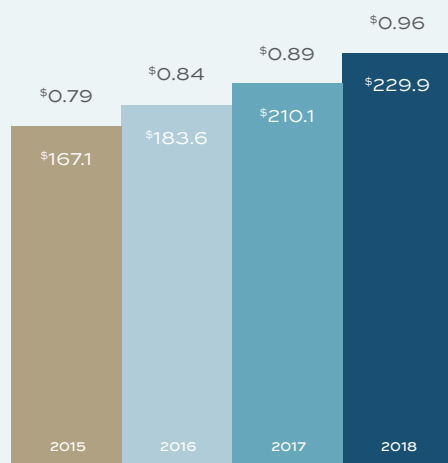
TO OUR SHAREHOLDERS

Once again, with great pride, I can report that Paramount continues to meet or exceed our goals in executing on our business plan. Those that have followed us over the past four years know that within our markets, we always look to create a portfolio that includes the most sought after addresses in the business community and during 2018, we saw the benefits of that discipline throughout our business.

We completed the multi-year leasing effort of our large-block vacancies in New York and ended the year with the entire portfolio 96.4% leased and the New York portfolio 96.0% leased—effectively full by most measures. In Washington, D.C., we sold two fully stabilized buildings at pricing that reflects our efforts over four years to convert large blocks of vacancy into high quality tenancy. In San Francisco, we made great strides in executing our investment strategy at One Front Street and 50 Beale Street. Given the successes with those two assets, late in the year we announced the addition of 111 Sutter Street to the San Francisco portfolio.

Our confidence in the strategy and its execution remains high, as our results continue to reflect strong underlying performance across our portfolio. 2018 was another breakthrough year as we produced record Core FFO earnings and Cash NOI.¹ Our Core FFO earnings grew just about 8.0% in 2018 to \$0.96 per share, driven by sector-leading same store Cash NOI growth of 10.3%, the second consecutive year of double-digit NOI growth. We expect to continue delivering superior results to our shareholders in the future.

CORE FFO (\$MM) & CORE FFO PER SHARE



LEASING

Leasing and a hands-on approach to managing our assets remains one of Paramount's greatest strengths and key differentiators. 2018 was another in a series of successful years for our leasing team since we came public. We signed leases on just over one million square feet of space, well ahead of our original guidance of between 500,000 to 700,000 square feet we expected at the beginning of the year. All that leasing increased our same store leased occupancy by 310 basis points to 96.4%. To top it off, we did all that leasing at robust cash mark-to-markets of positive 13.3%. We take great pride in the consistent pace at which we can lease our space to high quality tenants. On average, we have leased approximately one million square feet per year since we have been a public company.

In **New York**, fundamentals are strong and getting stronger. Trends in the marketplace such as lower unemployment and continued job growth, the stabilization of concessions, and the fact that leasing velocity is outpacing the delivery of new supply all bode well for the market outlook. 2018 was a record year for leasing in the Midtown office market and the second consecutive year that the market had positive net absorption in excess of one million square feet. With the leasing strength, availability has decreased to its lowest level since 2008. With our high-quality, centrally-located properties, we were able to capitalize and capture a significant portion of the activity in Midtown. We executed leases for approximately 576,000 square feet, completing the last of the large blocks of space we had available and increasing our leased occupancy to 96.0% at year end.

In **San Francisco**, we have continued to execute ahead of expectations, leasing approximately 412,000 square feet in 2018 at exceptional cash mark-to-markets of 29.0%. With several early renewals included in our leasing, same store leased occupancy increased 160 bps to end the year at 98.0%. These results highlight the strength and resiliency of the market, as well as the quality of our portfolio.

At One Market Plaza, which is our largest asset in San Francisco at 1.6 million square feet, we executed on all the full floor vacancies that we previously had in the building. This increased leased occupancy to 99.0% which is an exceptional result for a building of that size. One Market Plaza remains one of the best performing assets in the San Francisco CBD.

While at separate stages in their lease-up from when we acquired the properties, both One Front Street and 50 Beale Street continue to exceed our growth expectations. At One Front Street, for example, the average annualized rent per square foot has increased by \$12.07, or 21.3%, since its acquisition in late 2016. At 50 Beale Street, we have already begun to make significant leasing progress, increasing leased occupancy to 99.7% from 82.6% a year ago. We see a great opportunity for further growth through the lease-up of an upcoming 262,000 square foot block of space expiring at the end of 2019 at rents well below market. The demand for large blocks of space

continues to be robust and availability is scarce, so we are confident in our position in the market.

The significant outperformance in San Francisco and more specifically the success we have had at One Front Street and 50 Beale Street were key factors that led us to increase our exposure in San Francisco with the acquisition of 111 Sutter Street. More on that shortly.

We ended the year in **Washington, D.C.** at 98.0% leased. Parts of the market may be challenged, but our strategy to concentrate on Class A assets in certain key locations within the CBD has proven to be the right approach and has created significant value for shareholders. The portfolio remains well positioned in the market with not much available space and no meaningful expirations over the next three years.

ACQUISITIONS & DISPOSITIONS

In addition to our leasing efforts, a core strength in being able to create long-term value for our shareholders is our ability to be disciplined fiscal stewards of your capital. Over nearly 30 years of operating, first in the private markets and now in the public markets, we have seen time and time again that a prudent and opportunistic acquisition at a reasonable cost basis creates long term opportunities for value creation. Conversely, and just as important, is maintaining the discipline of harvesting value over cycles when we have done all we can to create value within the Paramount platform.

During 2018, as in 2017, we continued to see sizeable gaps in our markets between seller and buyer expectations. The result, once again, was transaction volumes below long-term averages. Interest rates were a touch higher than they were a year ago, but even so, many would-be sellers chose to refinance and realize net proceeds in a tax-efficient manner. Given the persistence of these market dynamics, our views didn't change much during the year. We remained disciplined and elected to recycle capital and use our equity capital carefully. During 2018, we executed on the following:

- **2099 Pennsylvania Avenue:** We sold 2099 Pennsylvania, a stabilized core property located in the heart of Washington's CBD, for \$220.0 million, or just over \$1,050 per square foot. At the time of disposition, the property was 98.5% leased, up from 31.6% at the time we went public. The leases had average annualized rents north of \$80 per square foot on a gross basis. Over a four-year period, our leasing team converted large blocks of vacancy into tenancy, creating one of the best Class A properties in the market.
- **425 Eye Street:** We sold 425 Eye Street, a property located in an up-and-coming submarket of D.C., for \$157.0 million. The property was 98.7% leased at the time of sale. The U.S. Government, whose lease was scheduled to expire in 2021, is the largest tenant, occupying roughly 90.0% of the building.

⁽¹⁾ For a reconciliation of these measures to their most directly comparable GAAP measures and the reasons we view these measures to be useful, see pages 70–75 of our Annual Report on Form 10-K for the year ended December 31, 2018.

In both cases we monetized stabilized assets and realized values much higher than what was implied by our share price at the time, and higher than those valuations assumed in Wall Street analyst's NAV models. Both transactions highlight a dynamic whereby valuations in the private markets for stabilized assets exceed what is being ascribed to the same assets in the public markets. More on this divergence and how we responded to the circumstances in a bit.

- 111 Sutter Street:** During 2018, we recycled a portion of the capital received from the Washington, D.C. asset sales and agreed to purchase 111 Sutter Street for \$227.0 million, or approximately \$775 per square foot, through a 49.0% joint venture structure. There are many things we like about this acquisition. First, the asset is currently only 70.0% leased and existing leases offer market-to-market opportunities. Second, whereas others are paying well over \$1,000 per square foot for stabilized product, we feel very good about acquiring a value-add opportunity at an attractive basis where we can bring our strengths to bear. Third, the joint venture structure greatly enhances potential future returns to Paramount shareholders through fees and a smaller equity check. Lastly, it leaves us with "dry powder" to deploy on similar opportunities as we find them, which enhances our long-term growth profile. Taken together, we essentially traded fully-stabilized, lower-growth assets in D.C. for an asset in our highest-growth market with significant lease-up potential!

We have executed on this strategy in the past. Recall a few years ago we sold Waterview, a stabilized asset in Rosslyn, Virginia at record pricing and acquired One Front Street for just \$800 per square foot; and in July 2017, we increased our ownership in 50 Beale at \$780 per square foot. Similar to 111 Sutter Street, both One Front and 50 Beale were under-leased. In addition, One Front had significant near-term roll and 50 Beale was only 78.0% leased. We have outperformed our own expectations with both these acquisitions and are very excited at the opportunity to do the same with 111 Sutter Street!

Our efforts in recycling capital are very consistent with how we see our markets. Today capital flows in our markets remain strong, especially for well-leased assets with little-to-no execution risk. With our current cost of capital and asset values elevated in our markets, we will continue to maintain our disciplined and opportunistic approach with an eye towards obtaining the highest risk-adjusted return for our shareholders.

CAPITAL MARKETS

Over the years since going public, we have remained balanced and consistent in our approach to capital allocation. At the same time, office REIT stock prices have disconnected from private market valuations. This disconnect has been evident to us for several years, and in August of 2017 our Board of Directors authorized the repurchase of up to \$200.0 million of our common stock as a way to take advantage of this gap.

Yet, our preference has been to allocate and/or recycle capital in a disciplined manner to prudently grow our business over the long term. Whether by leasing our large block availabilities in New York, or by recycling the capital realized by selling stabilized assets into acquisition opportunities like One Front or 50 Beale, the path we have chosen since we went public has been to capitalize on our operating strengths to create additional value for our shareholders.

However, during the fourth quarter of 2018, we saw levels of disconnect in our stock price that were, for lack of a better word, completely irrational. During this period, at a time of significant market volatility, we had just sold the two assets in Washington, D.C. and we had liquidity to take advantage of the dislocation on a leverage-neutral basis for our shareholders. We did just that and recycled a portion of the capital from the Washington, D.C. asset sales by opportunistically and aggressively repurchasing as many shares as we could. We bought back approximately 7.6 million shares at a weighted average price of \$13.95 per share, a level that is significantly below Wall Street estimates of our net asset value (NAV).

Investors should not interpret the share buyback as a change in our strategy or priorities. Quite the opposite. As we have done in the past, we will continue to deploy capital prudently to increase long-term value. Our approach has been and will remain consistent and balanced! We will continue to deliberate extensively on what we do with your capital. We do not consider any of our options, be it acquisitions or share buybacks, to be mutually exclusive.

We ended 2018 with approximately \$1.4 billion in liquidity, comprised of \$339.6 million of cash, \$25.8 million of restricted cash, and \$1.0 billion of availability under our revolving credit facility, putting us in a great position to continue to grow the Company in a disciplined and shareholder-friendly manner. Looking forward, investors should expect our capital allocation decisions to be based on long-term views and an appropriate balance between returning capital to shareholders with prudently investing for future growth.

SUSTAINABILITY

Sustainability, environmental efficiency, tenant service and property management are central to our operating principles at Paramount. We are an industry leader in ongoing sustainability initiatives and are extremely proud of our continued recognition as an environmentally conscious and socially responsible leader in the market. As in past years, central to these efforts is our continuing commitment to partner with the U.S. Green Building Council (USGBC) and the Environmental Protection Agency (EPA) to promote sustainability and green building certifications.

The USGBC's mission is to transform the way buildings are designed, built and operated, to enable environmentally and socially responsible environments that are prosperous, healthy and improve the quality of life. We are proud to work with the USGBC and even more proud that, once

again, at the end of 2018, our entire portfolio earned LEED-certified Gold or Platinum status, including all three of our San Francisco assets at the time achieving Platinum. We believe this is an achievement that is unmatched by any of our public peers, and with the acquisition of 111 Sutter Street we are hard at work once again to improve efficiency and sustainability.

We are part of the EPA's voluntary Energy Star program that certifies the most energy-efficient buildings across the country. At benchmarking in 2008, our average Energy Star Score was 73; today it stands at 85, a 16.4% increase. We are one of only a handful of U.S. commercial property companies designated as an "Energy Star Leader" with our portfolio registered and energy usage monitored online in real-time.

We were early adopters of sustainability practices and did so for one simple reason—it was the right thing to do. Over time, the benefits of these efforts have become evident. Tenants now demand sustainability practices as prerequisites for their office space. We remain committed to our sustainability practices which are imperative in attracting and retaining the best tenants and helping us manage operating costs, which ultimately enhances portfolio values.

THE PARAMOUNT TEAM & STAKEHOLDERS

As we look forward, we recognize that we must earn the confidence and trust of our shareholders, employees and tenants every year, every month and every day. We are committed to continuing to earn that support and are very excited about the opportunities for future growth and success for Paramount.

The team is energized to keep executing and achieving our strategic goals. We remain focused on continuing to unlock the significant embedded growth in the portfolio as well as executing on our investment strategies at our recent addition.

I cannot emphasize enough how honored I am to work daily with the team we have in place. Each day, I observe the extraordinary capabilities, character, values, know-how, creativity and winning spirit of the entire team. I have great partners in Executive Management in Wilbur, Peter, and David, and collectively within each discipline, there is an exceptional and deep team working on behalf of shareholders. I want to personally express my gratitude to the entire team.

Lastly, we all thank you, our investors and stakeholders, for your continued support and confidence. Rest assured, we will work tirelessly on your behalf and continue to earn that support and confidence.

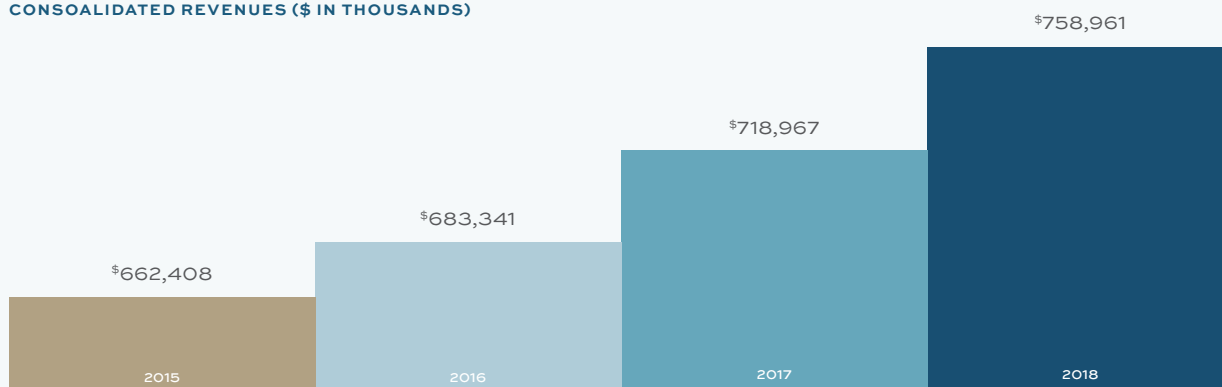
Sincerely,



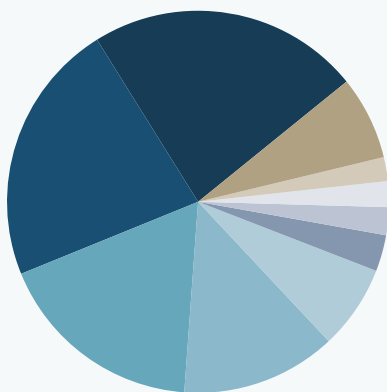
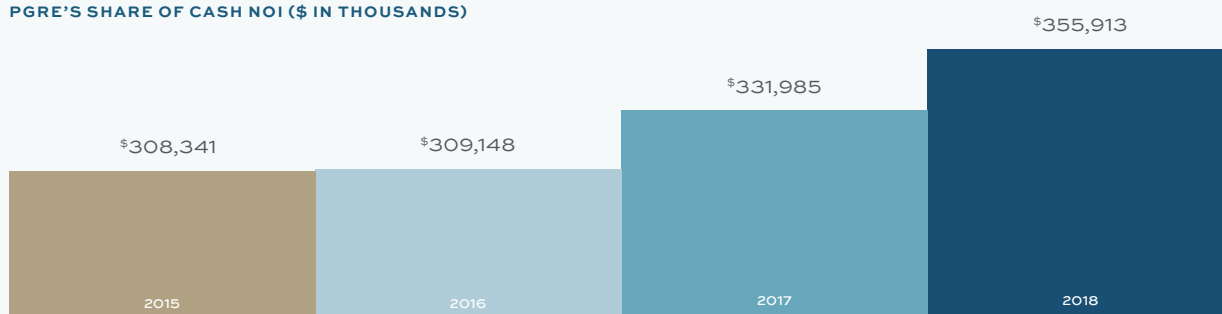
ALBERT BEHLER
Chairman, CEO & President

CORPORATE HIGHLIGHTS

CONSOALIDATED REVENUES (\$ IN THOUSANDS)



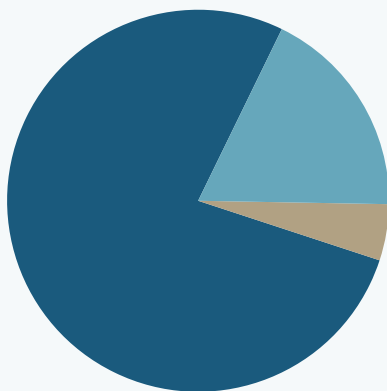
PGRE'S SHARE OF CASH NOI (\$ IN THOUSANDS)



DIVERSIFIED TENANTS

*Commercial & Investment Banking **All Others ***Figures based on PGRE's share of annualized rent

LEGAL SERVICES	23.0%
FINANCIAL SERVICES*	22.3%
TECHNOLOGY AND MEDIA	17.7%
FINANCIAL SERVICES**	13.1%
INSURANCE	7.1%
RETAIL	3.1%
CONSUMER PRODUCTS	2.4%
TRAVEL & LEISURE	2.2%
REAL ESTATE	2.0%
OTHER	7.1%



DECEMBER 2018 ANNUALIZED RENT*

*All figures exclude the impact of the acquisition of 111 Sutter Street which is completed February 2019.

NEW YORK	77.2%
SAN FRANCISCO	18.1%
WASHINGTON, D.C.	4.7%

96.0%

LEASED IN
NEW YORK

[8.6MM SQUARE FEET]



PROPERTY	LEASED %
1633 BROADWAY	95.4%
1301 AVENUE OF THE AMERICAS	97.9%
1325 AVENUE OF THE AMERICAS	96.7%
31 WEST 52 ND STREET	97.5%
900 THIRD AVENUE	92.6%
712 FIFTH AVENUE	88.4%

60 WALL STREET	100%
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98.0%

LEASED IN
SAN FRANCISCO*

[2.9MM SQUARE FEET]



ONE MARKET PLAZA	99.0%
ONE FRONT STREET	96.3%
50 BEALE STREET	99.7%

98.0%

LEASED IN
WASHINGTON, D.C.

[365K SQUARE FEET]



1899 PENNSYLVANIA AVENUE	100%
LIBERTY PLACE	95.8%

*All figures exclude the impact of the acquisition of 111 Sutter Street which is completed February 2019.

SUSTAINABILITY HIGHLIGHTS



"LIVING WALL" - ONE MARKET PLAZA, SF



100%

OF PORTFOLIO HAS
ACHIEVED EITHER
GOLD OR PLATINUM
LEED CERTIFICATION.

Paramount is an industry leader in on-going sustainability initiatives that have helped us to manage operating costs, attract and retain premium tenants, and ultimately enhance portfolio value. We are proud to have partnered with the EPA and U.S. Green Building Council (USGBC) to promote sustainability and green building certifications.

LEED CERTIFICATION

- We are a member of the USGBC and we have certified millions of square feet of LEED buildings.
- Our entire portfolio of REIT-owned properties (11.9 million sq. ft)⁽¹⁾ has earned LEED EB Gold or Platinum.

* All figures exclude the impact of the acquisition of 111 Sutter Street which is completed February 2019.

ENERGY STAR RATINGS

- ENERGY STAR for Buildings is an EPA voluntary program that certifies the most energy-efficient buildings across the country.
- As an early ENERGY STAR Leader, our entire portfolio has earned ENERGY STAR Certifications and energy usage is monitored online in real-time.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2018

OR

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

For the transition period from _____ To _____

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)
1633 Broadway, Suite 1801, New York, NY
(Address of principal executive offices)

32-0439307
(IRS Employer
Identification No.)
10019
(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
Common Stock, \$0.01 par value per share

Name of each exchange on which registered
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 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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). 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.

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 31, 2019, there were 233,214,341 shares of the registrant's common stock outstanding.

As of June 30, 2018, the aggregate market value of the 206,672,016 shares of common stock held by non-affiliates of the Registrant was \$3,182,749,000 based on the June 29, 2018 closing share price of our common stock of \$15.40 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 16, 2019) 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. and Paramount Group Real Estate Fund VII, LP.

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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, 2018, 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 variations of 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 the market for our common stock;
- regulatory changes, including changes to tax laws and regulations;
- failure to qualify as a real estate investment trust (“REIT”);
- compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
- any of the other risks included in this 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. A reader should review carefully, our consolidated 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. is a fully-integrated REIT focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. All references to “we,” “us,” “our,” the “Company” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership. We conduct our business through, and substantially all our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 90.3% of the Operating Partnership as of December 31, 2018. As of December 31, 2018, our portfolio consisted of 12 Class A office properties aggregating approximately 11.9 million square feet that was 97.0% leased and 95.1% occupied.

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.
- **Demonstrated Acquisition and Operational Expertise.** Over the past 21 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.
- **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, Morgan Stanley, Credit Agricole Corporate & Investment Bank, Norton Rose Fulbright, Showtime Networks Inc., TD Bank, N.A., Warner Music Group, Google Inc. and First Republic Bank.

- **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 vacant and expiring leases in our portfolio.
- **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, 2018, our share of net debt to enterprise value was 46.2% and we had \$339.7 million of cash and cash equivalents and a \$1.0 billion revolving credit facility.
- **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.
- **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 22 years, and has worked at our company for an average of 12 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.

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 vacant and expiring space, at market rents;
- 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; and
- Proactively managing our portfolio to increase occupancy and rental rates.

Significant Tenants

None of our tenants accounted for more than 10% of total revenues in the years ended December 31, 2018, 2017 and 2016.

Employees

As of December 31, 2018, we had 321 employees, including 95 corporate employees and 226 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 such as floods, earthquakes and windstorms. Our policies also cover the loss of rental income during an estimated reconstruction period. Our policies reflect limits and deductibles customary in the industry and specific to the buildings and portfolio. We also obtain title insurance policies when acquiring new properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. In addition, there are certain losses (including, but not limited to, losses arising from known environmental conditions or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in consultation with our insurance advisors, we believe the properties in our portfolio are adequately insured.

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.

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 U.S. Federal Income Tax Considerations

The following discussion supplements and updates the disclosures under “Certain United States Federal Income Tax Considerations” in the prospectus dated May 3, 2018 contained in our Registration Statement on Form S-3 filed with the SEC on May 3, 2018.

Consolidated Appropriations Act

The Consolidated Appropriations Act amended various provisions of the Code and implicates certain tax-related disclosures contained in the prospectus. The discussion contained in the two paragraphs under “Certain United States Federal Income Tax Considerations—Taxation of Non-U.S. Stockholders—Special FIRPTA Rules” is replaced with the following two paragraphs:

For periods on or after December 18, 2015, to the extent our stock is held directly (or indirectly through one or more partnerships) by a “qualified shareholder,” it will not be treated as a U.S. real property interest (“USRPI”). Further, to the extent such treatment applies, any distribution to such shareholder will not be treated as gain recognized from the sale or exchange of a USRPI. For these purposes, a qualified shareholder is generally a non-U.S. stockholder that (i)(A) is eligible for treaty benefits under an income tax treaty with the United States that includes an exchange of information program, and the principal class of interests of which is listed and regularly traded on one or more stock exchanges as defined by the treaty, or (B) is a foreign limited partnership organized in a jurisdiction with an exchange of information agreement with the United States and that has a class of regularly traded limited partnership units (having a value greater than 50% of the value of all partnership units) on the New York Stock Exchange or Nasdaq, (ii) is a “qualified collective investment vehicle” (within the meaning of Section 897(k)(3)(B) of the Code) and (iii) maintains records of persons holding 5% or more of the class of interests described in clauses (i)(A) or (i)(B) above. However, in the case of a qualified shareholder having one or more “applicable investors,” the exception described in the first sentence of this paragraph will not apply to the applicable percentage of the qualified shareholder’s stock (with “applicable percentage” generally meaning the percentage of the value of the interests in the qualified shareholder held by applicable investors after applying certain constructive ownership rules). The applicable percentage of the amount realized by a qualified shareholder on the disposition of our stock or with respect to a distribution from us attributable to gain from the sale or exchange of a USRPI will be treated as amounts realized from the disposition of USRPIS. Such treatment shall also apply to applicable investors in respect of distributions treated as a sale or exchange of stock with respect to a qualified shareholder. For these purposes, an “applicable investor” is a person who generally holds an interest in the qualified shareholder and holds more than 10% of our stock applying certain constructive ownership rules.

For periods on or after December 18, 2015, for FIRPTA purposes neither a “qualified foreign pension fund” nor any entity all of the interests of which are held by a qualified foreign pension fund is treated as a non-U.S. stockholder. A “qualified foreign pension fund” is an organization or arrangement (i) created or organized in a foreign country, (ii) established by a foreign country (or one or more political subdivisions thereof) or one or more employers to provide retirement or pension benefits to current (or former employees (including self-employed individuals) or their designees as a result of, or in consideration for, services rendered, (iii) which does not have a single participant or beneficiary that has a right to more than 5% of its assets or income, (iv) which is subject to government regulation and with respect to which annual information about its beneficiaries is provided, or is otherwise available, to relevant local tax authorities and (v) with respect to which, under its local laws, (A) contributions that would otherwise be subject to tax are deductible or excluded from its gross income or taxed at a reduced rate, or (B) taxation of its investment income is deferred, or such income is excluded from its gross income or taxed at a reduced rate.

Recent FATCA Proposed Treasury Regulations

On December 18, 2018, the Internal Revenue Service promulgated proposed regulations under Sections 1471-1474 of the Code (commonly referred to as FATCA), which proposed regulations eliminate FATCA withholding on gross proceeds and thus implicate certain tax-related disclosures contained in the prospectus. While these regulations have not yet been finalized, taxpayers are generally entitled to rely on the proposed regulations (subject to certain limited exceptions). As a result, the discussion in the final sentence of the discussion under “Certain United States Federal Income Tax Considerations—Taxation of Non-U.S. Stockholders—FATCA Withholding on Certain Foreign Accounts and Entities” is deleted and replaced with the following:

While withholding under FATCA would have applied to the gross proceeds from a disposition of property that can produce U.S. source interest or dividends after December 31, 2018, recently proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury Regulations until final Treasury Regulations are issued. Withholding under FATCA currently applies with respect to other withholding payments, including, e.g., U.S. source interest and dividends.

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 4.

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 (“NOI”), our funds from operations (“FFO”) 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;
- changes in space utilization by our tenants due to technology, economic conditions and business culture; 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, 2018, approximately 59% of our total consolidated revenue was generated from three of our properties – 1633 Broadway, 1301 Avenue of the Americas and One Market Plaza. 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, 2018, the vacancy rate of our portfolio was 3.0%. In addition, 4.7% of the square footage of the properties in our portfolio will expire by the end of 2019. We cannot guarantee 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; (v) cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages); (vi) the potential that we may fail to recover expenses already incurred if we abandon development or redevelopment opportunities after we begin to explore them; (vii) the potential that we may expend funds on and devote management time to projects which we do not complete; (viii) the inability to complete construction and leasing of a property on schedule, resulting in increased debt service expense and construction or redevelopment costs; and (ix) the possibility that properties will be leased at below expected rental rates. 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. While no single tenant accounts for more than 10% of our rental revenue, our six largest tenants in the aggregate account for approximately 25% of our share of rental revenue. 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.

We may be adversely affected by trends in the office real estate industry.

Telecommuting, flexible work schedules, open workplaces and teleconferencing are becoming more common. These practices enable businesses to reduce their space requirements. There is also an increasing trend among some businesses to utilize shared office spaces and co-working spaces. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates and property valuations.

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, under the Tax Cuts and Jobs Act (the “TCJA”), was reduced from 35% to 21%, on certain built-in gains recognized in connection with a taxable disposition of a number of our properties acquired in the Formation Transactions 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.

Terrorist attacks and/or shooting incidents may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets, including New York City, Washington D.C. and San Francisco, that have been or may be in the future the targets of actual or threatened terrorism attacks and/or shooting incidents. 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 face risks associated with our tenants being designated “Prohibited Persons” by the Office of Foreign Assets Control and similar requirements.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”) maintains a list of persons designated as terrorists or who are otherwise blocked or banned (“Prohibited Persons”) from conducting business or engaging in transactions in the United States and thereby restricts our doing business with such persons. We are required to comply with OFAC and related requirements and may be required to terminate or otherwise amend our leases, loans and other agreements. If a tenant or other party with whom we conduct business is placed on the OFAC list or is otherwise a party with which we are prohibited from doing business, we may be required to terminate the lease or other agreement. Any such termination could result in a loss of revenue or otherwise negatively affect our financial results and cash flows.

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 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 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. Additional federal, state and local laws also may require modifications to our properties, or restrict our ability to renovate our properties. 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.

We may be unable to identify and successfully complete acquisitions and, even if acquisitions are identified and completed, 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. 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. Further, we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete. 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. 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, put right 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, One Market Plaza and 50 Beale 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, One Market Plaza and 50 Beale have forced sale rights pursuant to which, after a specified period, each may require us to sell the property to a third party. At any time on or after (i) November 24, 2020, with respect to 712 Fifth Avenue, (ii) March 31, 2021, with respect to One Market Plaza, and (iii) August 12, 2024, with respect to 50 Beale, our joint venture partners 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. In the case of 712 Fifth Avenue and 50 Beale, 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). In the case of One Market Plaza, upon exercise of forced sale 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 to sell these properties to third parties at times or prices that may not be favorable to us, which could adversely impact us.

Contractual commitments with existing private equity real estate funds and our investment club may limit our ability to acquire properties, issue loans or invest in preferred equity directly in the near term.

Because of the limited exclusivity requirements of our private equity real estate funds, we may be required to acquire or issue loans, or invest in preferred equity partially through these funds that we otherwise would have acquired solely through our operating partnership, which may prevent our operating partnership from acquiring or issuing loans, or investing in preferred equity and adversely affect our growth prospects. In connection with certain assets that we co-invest in with our private equity real estate funds, specifically those where such funds owns a majority of the joint venture it is expected that such funds 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.

In addition, because of the exclusivity requirements of our strategic real estate co-investment platform (our investment club) focused on acquiring real estate assets and/or real estate-related equity investments, we may be required to acquire properties through this platform 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 up to 51.0% of the equity required for any property alongside the third-party investors in this platform to the extent we determine it is in our best interest. In connection with any property in which we co-invest, we will have the authority, subject to major decision rights in favor of our joint venture partners, to make a majority of the decisions in connection with such property.

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, 2018, including debt of our unconsolidated joint ventures, we had \$4.5 billion of total debt, of which our share is \$3.1 billion, substantially all of which was secured debt, and we have \$1.0 billion of available borrowing capacity under our unsecured 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 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 generally accepted accounting principles could adversely affect the operating results and the reported financial performance of us and our tenants.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. 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. 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 SEC as investment advisers under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), and may be registered as non-EU alternative investment fund managers of Non-EU 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 subject to regulation or reporting requirements by the regulatory bodies of the countries where our subsidiaries are or may be registered in pursuant to the AIFMD. Our investment management business may also, in the future, become subject to notification of sales activities for one or more of our managed funds in Germany or other countries, the Bundesanstalt fuer Finanzdienstleistungsaufsicht, 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 has been 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.

We cannot predict the impact future actions by regulators or government bodies, including the U.S. Federal Reserve, will have on real estate debt markets or on our business, and any such actions may negatively impact us.

Regulators and U.S. government bodies have a major impact on our business. The U.S. Federal Reserve is a major participant in, and its actions significantly impact, the commercial real estate debt markets. For example, quantitative easing, a program implemented by the U.S. Federal Reserve to keep long-term interest rates low and stimulate the U.S. economy, had the effect of reducing the difference between short-term and long-term interest rates. However, the U.S. Federal Reserve ended the latest round of quantitative easing and has raised interest rates. Rising interest rates increase the cost of borrowing, which could limit our flexibility. This may result in future acquisitions by us generating lower overall economic returns and increasing the costs associated with refinancing current debt, which could potentially reduce future cash flow available for distribution. We cannot predict or control the impact future actions by regulators or government bodies, such as the U.S. Federal Reserve, will have on our business.

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 (“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 “*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*” 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, 2018, \$396.8 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 FFO, 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.

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").

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, 2018, 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. 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 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.

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.

In addition, upon the request of one or more such 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 connection with the registration rights agreement we entered into with the continuing investors who received common units in the Formation Transactions, on May 3, 2018, 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.

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. In addition, share repurchases under our share repurchase program could also increase the volatility of the price of our common stock and could diminish our cash reserves.

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.

The existence of our share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Although our share repurchase program is intended to enhance long-term stockholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program’s effectiveness.

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 (which, for corporations, was repealed for tax years beginning after December 31, 2017 under the TCJA), 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 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 non-U.S. 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 21%, effective January 1, 2018, 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 property taxes on our properties. The 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 generally 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 operating 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 the 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 are taxable as ordinary income when paid to such stockholders. However, the TCJA provides a deduction of up to 20% of a non-corporate taxpayer's ordinary REIT dividends with such deduction scheduled to expire for taxable years beginning after December 31, 2025. 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, debt instruments issued by a publicly traded REIT and qualified real estate assets. The REIT asset tests further require that with respect to our assets that are not qualifying assets for purposes of this 75% asset test and that are not securities issued by a TRS, we generally cannot hold at the close of any calendar quarter (i) securities representing 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 or (ii) securities of any one issuer that represent more than 5% of the value of our total assets. In addition, securities (other than qualified real estate assets) issued by our TRSs cannot represent 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 at the close of any calendar quarter. 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 assets for purposes of the 75% asset test, no more than 25% of the value of our total assets can be represented by such unsecured debt instruments. After meeting these asset test 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 effect of limitations on interest and net operating loss deductibility, 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. 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.

Any company treated as our TRS under the Code for U.S. federal income tax purposes 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 (and believe we have conducted our affairs) so that such securities will represent (or have represented) 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.

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

In the case of an audit of a partnership for a taxable year beginning after December 31, 2017, 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. Thus, for example, an audit assessment attributable to former partners of the operating partnership could be shifted to the partners in the year of adjustment. The partnership audit rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners (often referred to as a "push-out election"), subject to a higher rate of interest than otherwise would apply. When a push-out election causes a partner that is itself a partnership to be assessed with its share of such additional taxes from the adjustment, such partnership may cause such additional taxes to be pushed out to its own partners. In addition, Treasury Regulations provide that a partner that is a REIT may be able to use deficiency dividend procedures with respect to such adjustments. Many questions remain as to how the partnership audit rules will apply, and it is not clear at this time what effect these rules will have on us. However, it is possible that 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 (such as our operating partnership).

Tax legislation or regulatory action could adversely affect us or our investors.

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.

On December 22, 2017, President Trump signed into law the TCJA. The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. The effect of the significant changes made by the TCJA remains uncertain, and administrative and/or regulatory guidance will be required in order to fully evaluate the effect of many of the provisions contained therein. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders.

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, 2018, our portfolio consisted of 12 Class A office properties aggregating approximately 11.9 million square feet that was 97.0% leased and 95.1% occupied. The following table presents an overview of our portfolio as of December 31, 2018.

(Amounts in thousands, except square feet and per square foot amounts)

Property	Submarket	Paramount Ownership	Square Feet	% Leased ⁽¹⁾	% Occupied ⁽²⁾	Annualized Rent ⁽³⁾	
						Amount	Per Square Foot ⁽⁴⁾
New York:							
1633 Broadway	West Side	100.0%	2,518,597	95.4%	95.4%	\$ 174,341	\$ 74.20
1301 Avenue of the Americas	Sixth Avenue / Rock Center	100.0%	1,781,571	97.9%	97.9%	134,544	77.80
1325 Avenue of the Americas	Sixth Avenue / Rock Center	100.0%	811,439	96.7%	81.2%	43,331	68.38
31 West 52nd Street	Sixth Avenue / Rock Center	100.0%	763,140	97.5%	95.8%	65,950	87.93
900 Third Avenue	East Side	100.0%	599,317	92.6%	91.6%	39,025	71.56
712 Fifth Avenue	Madison / Fifth Avenue	50.0%	543,411	88.4%	85.5%	51,971	112.48
60 Wall Street	Downtown	5.0%	1,625,483	100.0%	100.0%	73,600	45.28
Subtotal / Weighted Average			8,642,958	96.5%	94.6%	582,762	71.94
Paramount's Ownership Interest			6,827,207	96.0%	93.7%	486,864	77.14
Washington, D.C.:							
1899 Pennsylvania Avenue	CBD	100.0%	190,955	100.0%	100.0%	15,722	83.03
Liberty Place	East End	100.0%	174,090	95.8%	94.9%	14,338	86.49
Subtotal / Weighted Average			365,045	98.0%	97.5%	30,060	84.62
Paramount's Ownership Interest			365,045	98.0%	97.5%	30,060	84.62
San Francisco:							
One Market Plaza	South Financial District	49.0%	1,583,336	99.0%	97.6%	120,288	77.09
One Front Street	North Financial District	100.0%	646,538	96.3%	96.3%	43,136	68.80
50 Beale Street	South Financial District	31.1%	666,495	99.7%	93.5%	38,156	61.68
Subtotal / Weighted Average			2,896,369	98.5%	96.4%	201,580	71.84
Paramount's Ownership Interest			1,629,653	98.0%	96.6%	113,944	71.94
Total / Weighted Average			11,904,372	97.0%	95.1%	\$ 814,402	\$ 72.32
Paramount's Ownership Interest			8,821,905	96.4%	94.4%	\$ 630,868	\$ 76.45

(1) Represents the percentage of square feet that is leased, including signed leases not yet commenced.

(2) Represents the percentage of space for which we have commenced rental revenue in accordance with GAAP.

(3) Except for 60 Wall Street, which is presented on a "triple-net" basis, amounts in this column represent the end of the period monthly base rent plus escalations in accordance with the lease terms, multiplied by 12.

(4) Represents office and retail space only.

Tenant Diversification

As of December 31, 2018, our properties were leased to a diverse base of tenants. Our tenants represent a broad array of industries, including financial services, legal services, technology and media, insurance and other professional services. The following table sets forth information regarding the ten largest tenants in our portfolio based on annualized rent as of December 31, 2018.

(Amounts in thousands, except square feet and per square feet amounts)

Tenant	Lease Expiration	Total Square Feet Occupied	Total Square Feet Occupied	% of Total Square Feet	Our Share of		% of Annualized Rent
					Annualized Rent ⁽¹⁾	Per Square Foot	
					Amount	Foot	
Barclays Capital, Inc.	Dec-2020	497,418	497,418	5.6%	\$ 32,505	\$ 65.35	5.2%
Allianz Global Investors, LP	Jan-2031	320,911	320,911	3.6%	28,726	89.51	4.6%
Credit Agricole Corporate & Investment Bank	Feb-2023	312,679	312,679	3.5%	26,794	85.69	4.2%
Clifford Chance LLP	Jun-2024	328,992	328,992	3.7%	26,538	80.66	4.2%
Norton Rose Fulbright	Sep-2034 ⁽²⁾	320,325 ⁽²⁾	320,325 ⁽²⁾	3.6%	25,537	79.72	4.0%
Morgan Stanley & Company	Mar-2032	260,829	260,829	3.0%	19,532	74.88	3.1%
WMG Acquisition Corporation (Warner Music Group)	Jul-2029	293,888	293,888	3.3%	17,423	59.28	2.8%
First Republic Bank	Jun-2025	232,479	232,479	2.6%	15,647	67.31	2.5%
Showtime Networks, Inc.	Jan-2026	238,880	238,880	2.7%	14,852	62.17	2.4%
Kasowitz Benson Torres & Friedman, LLP	Mar-2037	203,394	203,394	2.3%	14,680	72.18	2.3%

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

⁽²⁾ 116,462 of the square feet leased expires on March 31, 2032.

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, 2018.

(Amounts in thousands, except square feet)

Industry	Our Share of			
	Square Feet Occupied	% of Occupied Square Feet	Annualized Rent ⁽¹⁾	% of Annualized Rent
Legal Services	1,864,548	22.5%	\$ 145,232	23.0%
Financial Services - Commercial and Investment Banking	1,909,853	23.0%	140,420	22.3%
Technology and Media	1,618,203	19.5%	111,540	17.7%
Financial Services, all others	951,219	11.5%	82,802	13.1%
Insurance	554,680	6.7%	44,984	7.1%
Retail	190,010	2.3%	19,383	3.1%
Consumer Products	192,620	2.3%	14,876	2.4%
Travel & Leisure	203,575	2.5%	13,780	2.2%
Real Estate	171,683	2.1%	12,754	2.0%
Other	642,339	7.6%	45,097	7.1%

⁽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 lease expirations for leases in place as of December 31, 2018 for each of the ten calendar years beginning with the year ending December 31, 2019. The information set forth in the table assumes that tenants exercise no renewal options and no early termination rights.

(Amounts in thousands, except square feet)

Year of Lease Expiration ⁽²⁾	Total Square Feet of Expiring Leases	Square Feet of Expiring Leases	Our Share of Annualized Rent ⁽¹⁾		% of Annualized Rent
			Amount	Per Square Foot ⁽³⁾	
Month to Month	10,459	8,362	\$ 500	\$ 50.83	0.1%
2019	548,310	459,482	37,692	81.93	6.0%
2020	724,829	446,356	32,577	72.62	5.1%
2021	1,239,764	1,063,359	71,954	68.83	11.2%
2022	2,288,355	528,018	37,405	79.96	5.8%
2023	769,530	704,152	56,525	83.76	8.8%
2024	715,125	658,689	51,667	78.64	8.0%
2025	1,034,174	693,699	52,621	75.88	8.2%
2026	895,433	720,441	55,166	73.12	8.6%
2027	169,260	131,905	10,716	81.26	1.7%
2028	216,489	193,575	15,157	78.91	2.4%
Thereafter	2,906,375	2,872,731	220,824	76.63	34.1%

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

(2) 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.

(3) Represents office and retail space only.

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 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 a new 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, 2018, the vacancy rate of our portfolio was 3.0%. In addition, 558,769 square feet (including month-to-month tenants), or 4.7% of the square footage of our portfolio is scheduled to expire during the year ending December 31, 2019, which represents approximately 6.1% 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. Real estate fund investments are comprised of the Property Funds and Alternative Investment Fund. The following is a summary of our ownership in these funds and the funds' ownership in the underlying investments.

Property Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VII, L.P. ("Fund VII") and its parallel fund, Paramount Group Real Estate Fund VII-H, L.P. ("Fund VII-H"), our Property Funds. Fund VII and Fund VII-H's sole asset, which they collectively owned 100% of, was 0 Bond Street, a 64,532 square foot creative office building in the NoHo submarket of Manhattan. As of December 31, 2018, our combined ownership interest in Fund VII and Fund VII-H was approximately 7.2%. On January 25, 2019, Fund VII and Fund VII-H sold 0 Bond Street for \$130,500,000.

Alternative Investment Funds

We are also the general partner and investment manager of Paramount Group Real Estate Fund VIII L.P. ("Fund VIII") and Paramount Group Real Estate Fund X L.P. ("Fund X"), our Alternative Investment Funds, which invest in mortgage and mezzanine loans and preferred equity investments.

Fund VIII completed its final closing in April 2016 with \$775,200,000 in capital commitments, of which \$614,450,000 has been called and substantially invested as of December 31, 2018 and an additional \$74,391,000 is reserved for funding future draws on existing mezzanine loans and preferred equity investments. These investments have various stated interest rates ranging from 5.50% to 9.61% and maturities ranging from October 2019 to December 2027. Fund VIII's investment period is scheduled to end in April 2019, unless extended by us until April 2020. As of December 31, 2018, our ownership interest in Fund VIII was approximately 1.3%.

Fund X completed an initial closing in December 2018, with \$167,000,000 in capital commitments, including \$10,000,000 from us. As of December 31, 2018, none of the capital has been called.

Residential Development Fund

We also serve as the general partner of the Residential Development Fund ("RDF"). The purpose of RDF is to construct a for sale residential project in San Francisco. We own 7.4% interest in RDF that owns a 25.0% interest in One Steuart Lane (formerly 75 Howard Street), a fully-entitled residential condominium land parcel.

Preferred Equity Investments

As of December 31, 2018, we own a 24.4% interest in PGRESS Equity Holdings L.P. ("PGRESS"). PGRESS owns a \$36,042,000 preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 686,000 square foot office building in Brooklyn, New York. The preferred equity has a dividend rate of 10.3%, of which 8.0% was paid in cash through February 2016 and the unpaid portion accreted to the balance of the investment. Subsequent to February 2016, the entire 10.3% dividend is being paid in cash. The investment matures in February 2019.

Other

Oder-Center, Germany

We own a 9.5% interest in a joint venture that owns Oder-Center, a shopping center located in Brandenburg, Germany.

745 Fifth Avenue

We own a 1.0% interest in 745 Fifth Avenue, a 35-story 535,357 square foot art deco style building located on the corner of 5th Avenue and 58th Street, in New York.

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

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.

As of December 31, 2018, there were approximately 287 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

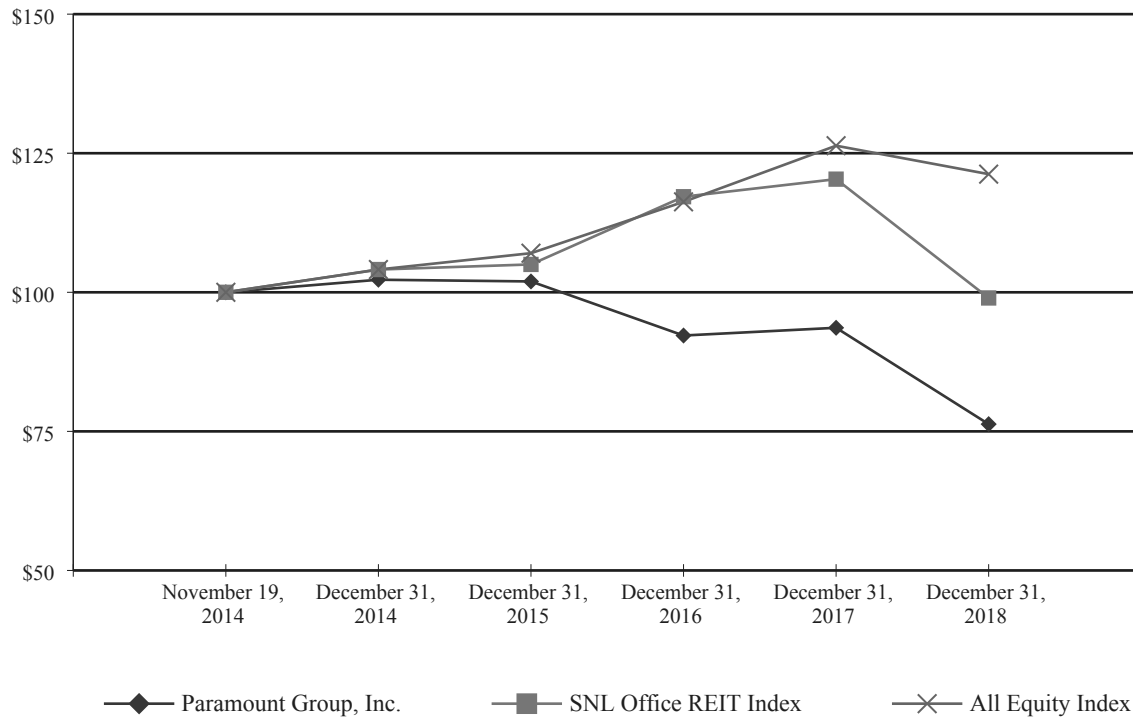
In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to shareholders. We intend to pay dividends on a quarterly basis to holders of our common stock. Any dividend distributions we pay in the future will depend upon our 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 14, 2018, we declared a regular quarterly cash dividend of \$0.10 per share of common stock for the fourth quarter ended December 31, 2018, which was paid on January 15, 2019 to stockholders of record as of the close of business on December 31, 2018.

Performance Graph

The following graph is a comparison of the cumulative return of our common stock, 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”). The graph assumes that \$100 was invested on November 19, 2014 (the first trading day of our common stock) in our common stock, 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.

Comparison of Cumulative Returns



	November 19, 2014	December 31,				
		2014	2015	2016	2017	2018
Paramount	\$ 100.00	\$ 102.26	\$ 101.95	\$ 92.23	\$ 93.62	\$ 76.30
SNL Office REIT Index	100.00	104.09	105.01	117.18	120.34	98.98
All Equity Index	100.00	104.09	107.03	116.26	126.35	121.24

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, 2018.

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) ⁽³⁾
Equity compensation plans approved by stockholders	12,182,037 ⁽¹⁾	\$ 17.08 ⁽²⁾	9,643,663
Equity compensation plans not approved by stockholders	-	-	-
Total	12,182,037	\$ 17.08	9,643,663

- ⁽¹⁾ Includes an aggregate of (i) 2,131,943 shares of common stock issuable upon the exercise of outstanding options granted pursuant to our 2014 Equity Incentive Plan (the "Plan"), (ii) 6,192,284 shares of common stock issuable in exchange for common units issued or which may, upon the satisfaction of certain conditions, be issuable pursuant to LTIP units of our Operating Partnership ("LTIP units") that were previously granted pursuant to the Plan and (iii) 3,857,810 shares of common stock issuable in exchange for common units issued, pursuant to LTIP units that were previously granted outside of the Plan in connection with our initial public offering. The 6,192,284 LTIP units include 3,373,570 LTIP units that remain subject to the achievement of the requisite performance-based vesting criteria.
- ⁽²⁾ The outstanding LTIP units and the common units into which they were converted or are convertible into do not have an exercise price. Accordingly, these awards are not included in the weighted-average exercise price calculation.
- ⁽³⁾ Based on awards being granted as "Full Value Awards," as defined in the Plan, including awards such as restricted stock and LTIP units that do not require the payment of an exercise price. If we were to grant awards other than "Full Value Awards," as defined in the Plan, including stock options or stock appreciation rights, the number of securities remaining available for future issuance would be 19,287,326.

Recent Purchases of Equity Securities

Stock Repurchase Program

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. During the three months ended December 31, 2018, we repurchased the following shares under the stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Approximate Dollar Value Available for Future Purchase
October 2018	3,206,379	\$ 14.50	3,443,053	\$ 149,928,000
November 2018	988,910	14.16	4,431,963	135,926,000
December 2018	3,123,638	13.22	7,555,601	94,617,000

We currently have \$94,617,000 available for future repurchases. The amount and timing of future repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

ITEM 6. SELECTED FINANCIAL DATA

Upon completion of the Offering and the Formation Transactions, we acquired substantially all of the assets of our Predecessor, and the assets of the real estate funds that it controlled. In addition, as part of the Formation Transactions, we also acquired the interests of certain unaffiliated third parties in 1633 Broadway, 31 West 52nd Street and 1301 Avenue of the Americas. These transactions were accounted for as transactions among entities under common control. However, as a result of our acquisition of these assets from the real estate funds in the Formation Transactions, we account for these assets following the Formation Transactions using historical cost accounting whereas, prior to the Formation Transactions, the Predecessor had accounted for these assets using the specialized accounting applicable to investment companies because, prior to the Formation Transactions, they had been held by the real estate funds, which qualified for investment company 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.

The following table sets forth selected financial and operating data for the years ended December 31, 2018, 2017, 2016 and 2015 and for the period from November 24, 2014 to December 31, 2014 and as of the end of such years and period. This data should be read in conjunction with the 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.

(Amounts in thousands, except per share amounts)	The Company				Period from November 24, 2014 to December 31, 2014
	For the Year Ended December 31,				
	2018	2017	2016	2015	
REVENUES:					
Rental income	\$ 667,360	\$ 628,883	\$ 590,161	\$ 586,530	\$ 57,465
Tenant reimbursement income	56,950	52,418	44,943	50,885	5,865
Fee and other income	34,651	37,666	48,237	24,993	2,805
Total revenues	758,961	718,967	683,341	662,408	66,135
EXPENSES:					
Operating	274,078	266,136	250,040	244,754	26,011
Depreciation and amortization	258,225	266,037	269,450	294,624	34,481
General and administrative	57,563	61,577	53,510	42,056	2,207
Transaction related costs	1,471	2,027	2,404	10,355	-
Real estate impairment loss	46,000	-	-	-	-
Total expenses	637,337	595,777	575,404	591,789	62,699
Operating income	121,624	123,190	107,937	70,619	3,436
Income from unconsolidated joint ventures	3,468	20,185	7,413	6,850	938
Loss from unconsolidated real estate funds	(269)	(6,143)	(498)	-	-
Income from real estate fund investments	-	-	-	37,975	1,412
Interest and other income (loss), net	8,117	(9,031)	6,934	871	(179)
Interest and debt expense	(147,653)	(143,762)	(153,138)	(168,366)	(43,743)
Loss on early extinguishment of debt	-	(7,877)	(4,608)	-	-
Gain on sale of real estate	36,845	133,989	-	-	-
Unrealized gain on interest rate swaps	-	1,802	39,814	75,760	15,084
Formation related costs	-	-	-	-	(143,437)
Gain on consolidation of an unconsolidated joint venture	-	-	-	-	239,716
Net income before income taxes	22,132	112,353	3,854	23,709	73,227
Income tax expense	(3,139)	(5,177)	(1,785)	(2,566)	(505)
Net income	18,993	107,176	2,069	21,143	72,722
Less net (income) loss attributable to noncontrolling interests:					
Consolidated joint ventures	(8,182)	10,365	(15,423)	(5,459)	(1,353)
Consolidated real estate funds	(720)	(19,797)	1,316	(21,173)	(135)
Operating Partnership	(944)	(11,363)	2,104	1,070	(13,926)
Net income (loss) attributable to common stockholders	\$ 9,147	\$ 86,381	\$ (9,934)	\$ (4,419)	\$ 57,308
Per Share Data:					
Income (loss) per common share - basic	\$ 0.04	\$ 0.37	\$ (0.05)	\$ (0.02)	\$ 0.27
Income (loss) per common share - diluted	\$ 0.04	\$ 0.37	\$ (0.05)	\$ (0.02)	\$ 0.27
Dividends per common share	\$ 0.400	\$ 0.380	\$ 0.380	\$ 0.419 ⁽¹⁾	\$ -
Balance Sheet Data (as of end of period):					
Total assets	\$ 8,755,978	\$ 8,917,661	\$ 8,867,168	\$ 8,775,229	\$ 9,021,605
Real estate, at cost	8,101,651	8,329,475	7,849,093	7,652,117	7,530,239
Accumulated depreciation and amortization	(644,639)	(487,945)	(318,161)	(243,089)	(81,050)
Debt, net	3,566,917	3,541,300	3,594,898	2,942,610	2,843,451
Total equity	4,891,664	5,022,084	4,885,947	5,310,550	5,554,953
Other Data:					
Funds from operations attributable to common stockholders ("FFO") ⁽²⁾	\$ 224,465	\$ 205,558	\$ 195,140	\$ 209,349	\$ 82,425
Core funds from operations attributable to common stockholders ("Core FFO") ⁽²⁾	229,900	210,072	183,579	167,091	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 and ending on December 31, 2014.

⁽²⁾ For a reconciliation of net income to FFO and Core FFO and why we view these measures to be useful supplemental performance measures, see page 74.

The following table sets forth selected financial and operating data of our Predecessor for the period from January 1, 2014 to November 23, 2014.

	The Predecessor
	Period from
	January 1, 2014
	to November 23, 2014
(Amounts in thousands)	
REVENUES:	
Rental income	\$ 30,208
Tenant reimbursement income	1,646
Distributions from real estate fund investments	17,083
Realized and unrealized gains, net	129,354
Fee and other income	49,098
Total revenues	227,389
EXPENSES:	
Operating	15,862
Depreciation and amortization	10,203
General and administrative	30,912
Profit sharing compensation	12,041
Other	7,974
Total expenses	76,992
Operating income	150,397
Income from unconsolidated joint ventures	4,241
Unrealized loss on interest rate swaps	(673)
Interest and other income, net	2,479
Interest and debt expense	(28,585)
Net income before income taxes	127,859
Income tax expense	(18,461)
Net income	109,398
Net income attributable to noncontrolling interests	(87,888)
Net income attributable to the Predecessor	\$ 21,510

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, including the related notes included therein.

Overview

We are a fully-integrated REIT focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. We conduct our business through, and substantially all of our interests in properties and investments are held by, our Operating Partnership. We are the sole general partner of, and owned approximately 90.3% of the Operating Partnership as of December 31, 2018.

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 vacant and expiring space, at market rents;
- 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; and
- Proactively managing our portfolio to increase occupancy and rental rates.

Critical Accounting Policies

Real Estate

Real estate is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of real estate 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-market 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. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. 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. Estimates of fair value are determined using discounted cash flow models, which consider, among other things, anticipated holding periods, current market conditions and utilize unobservable quantitative inputs, including appropriate capitalization and discount rates. 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 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.

Real estate and related intangibles are classified as held for sale when all the necessary criteria are met. The criteria include (i) management, having the authority to approve action, commits to a plan to sell the property in its present condition, (ii) the sale of the property is at a price reasonable in relation to its current fair value and (iii) the sale is probable and expected to be completed within one year. Real estate and the related intangibles held for sale are carried at the lower of carrying amounts or estimated fair value less disposal costs. Depreciation and amortization is not recognized on real estate and related intangibles classified as assets held for sale.

Variable Interest Entities (“VIEs”) and Investments in Unconsolidated Joint Ventures and Funds

We consolidate VIEs in which we are considered to be the primary beneficiary. Entities are considered to be the primary beneficiary if they have 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. We consolidate entities that are not VIEs where we have significant decision making control over 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, which consists of investments in unconsolidated joint ventures and funds are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. To the extent that our cost basis is different than our share of the equity method investment, the basis difference allocated to depreciable assets is amortized into “income from unconsolidated joint ventures” over the estimated useful life of the related asset. The agreements that govern our equity method investments may designate different percentage allocations among investors for profits and losses; however, our recognition of income or loss generally follows the investment's distribution priorities, which may change upon the achievement of certain investment return thresholds. We account for cash distributions in excess of our basis in the equity method investments as income when we have neither the requirement, nor the intent to provide financial support to the joint venture. 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 under the cost method.

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value in accordance with ASC Topic 815, *Derivatives and Hedging*. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and whether we have designated a derivative as a hedge and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We use derivative financial instruments in the normal course of business to selectively manage or hedge a portion of the risk associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps. Interest rate swaps that are designated as hedges are so designated at the inception of the contract. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. The changes in the fair value of interest rate swaps that are designated as hedges are recognized in “other comprehensive income (loss)” (outside of earnings) and subsequently reclassified to earnings over the term that the hedged transaction affects 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” on our consolidated balance sheets. Rental income also includes the amortization of acquired above and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenues 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 earned in the same period as the expenses are incurred.

Fee and Other Income

Fee income includes (i) property management fees, (ii) asset management fees and (iii) fees related to acquisitions, dispositions and leasing services and (iv) other fee income earned pursuant to contractual agreements. Fee income is recognized as and when we satisfy our performance obligations pursuant to contractual agreements. Property management and asset management services are provided continuously over time and revenue is recognized over that time. Fee income relating to acquisitions, dispositions and leasing services is recognized upon completion of the acquisition, disposition or leasing services as required in the contractual agreements. The amount of fee income to be recognized is stated in the contract as a fixed price or as a stated percentage of revenues, contributed capital or transaction price.

Other income includes lease termination income, income from tenant requested services, including overtime heating and cooling and parking income. Lease termination income could result from a lessee terminating a lease prior to the stated terms in their agreements. To the extent a lease term is modified, any incremental fees or increased lease payments received as a result of the modification are recognized over the remaining lease term based on the relevant facts and circumstances.

Recently Issued Accounting Literature

A summary of recently issued accounting literature and their potential impact on our consolidated financial statements, if any, are included in Note 2, *Basis of Presentation and Significant Accounting Policies*, to our consolidated financial statements in this Annual Report on Form 10-K.

Business Overview

Dispositions

On August 9, 2018, we completed the sale of 2099 Pennsylvania Avenue, a 208,776 square foot, Class A office building in Washington, D.C. for \$219,900,000 and recognized a gain of \$35,836,000.

On September 27, 2018, we completed the sale of 425 Eye Street, a 372,552 square foot, Class A office building in Washington, D.C. for \$157,000,000 and recognized a gain of \$1,009,000.

Acquisitions

On February 7, 2019, we completed the acquisition of 111 Sutter Street, a 293,000 square foot office building in San Francisco, California. Simultaneously with closing, we brought in a joint venture partner to acquire 51.0% of the equity interest. We will retain the remaining 49.0% equity interest and manage and lease the asset. The purchase price was \$227,000,000. In connection with the acquisition, the joint venture completed a \$138,200,000 financing of the property. The four-year loan is interest only at LIBOR plus 215 basis points and has three one-year extension options.

Financings

On January 10, 2018, we amended and restated the credit agreement governing our revolving credit facility. The maturity date of the revolving credit facility was extended from November 2018 to January 2022, with two six-month extension options, and the capacity was increased to \$1,000,000,000 from \$800,000,000. The interest rate on the extended facility, at current leverage levels, was lowered by 10 basis points from LIBOR plus 125 basis points to LIBOR plus 115 basis points, and the facility fee was reduced by 5 basis points from 25 basis points to 20 basis points.

Stock Repurchase Program

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. As of December 31, 2018, we have repurchased an aggregate of 7,555,601 shares, or \$105,383,000 of our common stock, at a weighted average price of \$13.95 per share. We currently have \$94,617,000 available for future repurchases.

Leasing Results – Year Ended December 31, 2018

In the year ended December 31, 2018, we leased 1,014,101 square feet, of which our share was 766,509 square feet that was leased at a weighted average initial rent of \$84.44 per square foot. This leasing activity, partially offset by lease expirations during the year, increased our leased occupancy by 290 basis points to 96.4% at December 31, 2018 from 93.5% at December 31, 2017 and increased same store leased occupancy (properties owned by us during both reporting periods) by 310 basis points to 96.4% at December 31, 2018 from 93.3% at December 31, 2017. Of the 1,014,101 square feet leased in the year, 469,463 square feet represented our share of second generation space (space that had been vacant for less than twelve months) for which we achieved rental rate increases of 13.2% on a GAAP basis and 13.3% on a cash basis. The weighted average lease term for leases signed during the year was 9.1 years and weighted average tenant improvements and leasing commissions on these leases were \$9.77 per square foot per annum, or 11.6% of initial rent.

New York

In the year ended December 31, 2018, we leased 576,037 square feet in our New York portfolio, of which our share was 555,969 square feet that was leased at a weighted average initial rent of \$84.01 per square foot. This leasing activity, partially offset by lease expirations during the year, increased our leased occupancy and same store leased occupancy by 360 basis points to 96.0% at December 31, 2018 from 92.4% at December 31, 2017. Of the 576,037 square feet leased in the year, 325,646 square feet represented our share of second generation space for which we achieved rental rates increases of 6.9% on a GAAP basis and 7.4% on a cash basis. The weighted average lease term for leases signed during the year was 10.0 years and weighted average tenant improvements and leasing commissions on these leases were \$9.49 per square foot per annum, or 11.3% of initial rent.

Washington, D.C.

In the year ended December 31, 2018, we leased 26,381 square feet in our Washington, D.C. portfolio, at a weighted average initial rent of \$76.15 per square foot. This leasing activity increased our leased occupancy by 190 basis points in the year to 98.0% at December 31, 2018 from 96.1% at December 31, 2017. Same store leased occupancy, which excludes 2099 Pennsylvania Avenue and 425 Eye Street that were sold in August 2018 and September 2018, respectively, increased by 50 basis points to 98.0% at December 31, 2018 from 97.5% at December 31, 2017. The weighted average lease term for leases signed during the year was 11.1 years and weighted average tenant improvements and leasing commissions on these leases were \$11.69 per square foot per annum, or 15.3% of initial rent.

San Francisco

In the year ended December 31, 2018, we leased 411,683 square feet in our San Francisco portfolio, of which our share was 184,159 square feet that was leased at a weighted average initial rent of \$86.65 per square foot. This leasing activity, partially offset by lease expirations during the year, increased our leased occupancy and same store occupancy by 160 basis points to 98.0% at December 31, 2018 from 96.4% at December 31, 2017. Of the 411,683 square feet leased in the year, 136,741 square feet represented our share of second generation space for which we achieved rental rate increases of 29.3% on GAAP basis and 29.0% on a cash basis. The weighted average lease term for leases signed during the year was 6.2 years and weighted average tenant improvements and leasing commissions on these leases were \$10.72 per square foot per annum, or 12.4% of initial rent.

The following table presents additional details on the leases signed during the year ended December 31, 2018. It is not intended to coincide with the commencement of rental revenue in accordance with GAAP. The leasing statistics, except for square feet leased, represent office space only.

Year Ended December 31, 2018	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	1,014,101	576,037	26,381	411,683
Pro rata share of square feet leased:	766,509	555,969	26,381	184,159
Initial rent ⁽¹⁾	\$ 84.44	\$ 84.01	\$ 76.15	\$ 86.65
Weighted average lease term (in years)	9.1	10.0	11.1	6.2
Tenant improvements and leasing commissions:				
Per square foot	\$ 88.95	\$ 95.13	\$ 129.56	\$ 66.44
Per square foot per annum	\$ 9.77	\$ 9.49	\$ 11.69	\$ 10.72
Percentage of initial rent	11.6%	11.3%	15.3%	12.4%
Rent concessions:				
Average free rent period (in months)	7.3	8.9	10.1	2.3
Average free rent period per annum (in months)	0.8	0.9	0.9	0.4
Second generation space: ⁽²⁾				
Square feet	469,463	325,646	7,076	136,741
GAAP basis:				
Straight-line rent	\$ 86.25	\$ 84.68	\$ -	\$ 89.77
Prior straight-line rent	\$ 76.19	\$ 79.21	\$ -	\$ 69.46
Percentage increase	13.2%	6.9%	-	29.3%
Cash basis:				
Initial rent ⁽¹⁾	\$ 87.45	\$ 87.29	\$ -	\$ 87.81
Prior escalated rent ⁽³⁾	\$ 77.20	\$ 81.29	\$ -	\$ 68.08
Percentage increase	13.3%	7.4%	-	29.0%

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

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

Financial Results – Year Ended December 31, 2018 and 2017

Net Income, FFO and Core FFO

Net income attributable to common stockholders was \$9,147,000, or \$0.04 per diluted share, for the year ended December 31, 2018, compared to \$86,381,000, or \$0.37 per diluted share, for the year ended December 31, 2017. Net income attributable to common stockholders for the year ended December 31, 2018 includes \$32,222,000, or \$0.13 per diluted share, of gain on sale of real estate, net of “sting” taxes and \$41,618,000, or \$0.17 per diluted share, of real estate impairment loss. Net income attributable to common stockholders for the year ended December 31, 2017 includes \$98,107,000, or \$0.42 per diluted share, of gain on sale of real estate.

FFO attributable to common stockholders was \$224,465,000, or \$0.94 per diluted share, for year ended December 31, 2018, compared to \$205,558,000, or \$0.87 per diluted share, for the year ended December 31, 2017. FFO attributable to common stockholders for the years ended December 31, 2018 and 2017 includes the impact of non-core items, which are listed in the table on page 74. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common stockholders for the years ended December 31, 2018 and 2017 by \$5,435,000 and \$4,514,000, respectively, or \$0.02 per diluted share.

Core FFO attributable to common stockholders, which excludes the impact of the non-core items listed on page 74, was \$229,900,000 or \$0.96 per diluted share, for the year ended December 31, 2018, compared to \$210,072,000, or \$0.89 per diluted share, for the year ended December 31, 2017.

Same Store NOI

The table below summarizes the percentage increase in our share of Same Store NOI and Same Store Cash NOI, by segment, for year ended December 31, 2018 versus December 31, 2017

	Total	New York	Washington, D.C.	San Francisco
Same Store NOI	9.1%	10.8%	5.2%	5.2%
Same Store Cash NOI	10.3%	10.1%	4.8%	13.6%

See pages 70-75 “*Non-GAAP Financial Measures*” for a reconciliation of these measures to the most directly comparable GAAP measure and the reasons why we believe these non-GAAP measures are useful.

Results of Operations – Year Ended December 31, 2018 Compared to December 31, 2017

The following pages summarize our consolidated results of operations for the years ended December 31, 2018 and 2017.

(Amounts in thousands)	For the Year Ended December 31,		Change
	2018	2017	
REVENUES:			
Rental income	\$ 667,360	\$ 628,883	\$ 38,477
Tenant reimbursement income	56,950	52,418	4,532
Fee and other income	34,651	37,666	(3,015)
Total revenues	758,961	718,967	39,994
EXPENSES:			
Operating	274,078	266,136	7,942
Depreciation and amortization	258,225	266,037	(7,812)
General and administrative	57,563	61,577	(4,014)
Transaction related costs	1,471	2,027	(556)
Real estate impairment loss	46,000	-	46,000
Total expenses	637,337	595,777	41,560
Operating income	121,624	123,190	(1,566)
Income from unconsolidated joint ventures	3,468	20,185	(16,717)
Loss from unconsolidated real estate funds	(269)	(6,143)	5,874
Interest and other income (loss), net	8,117	(9,031)	17,148
Interest and debt expense	(147,653)	(143,762)	(3,891)
Loss on early extinguishment of debt	-	(7,877)	7,877
Gain on sale of real estate	36,845	133,989	(97,144)
Unrealized gain on interest rate swaps	-	1,802	(1,802)
Net income before income taxes	22,132	112,353	(90,221)
Income tax expense	(3,139)	(5,177)	2,038
Net income	18,993	107,176	(88,183)
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(8,182)	10,365	(18,547)
Consolidated real estate fund	(720)	(19,797)	19,077
Operating Partnership	(944)	(11,363)	10,419
Net income attributable to common stockholders	\$ 9,147	\$ 86,381	\$ (77,234)

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$758,961,000 for the year ended December 31, 2018, compared to \$718,967,000 for the year ended December 31, 2017, an increase of \$39,994,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$ 19,202	\$ -	\$ -	\$ 19,202	\$ -
Dispositions ⁽²⁾	(19,618)	-	(19,618)	-	-
Same store operations	39,858	34,240 ⁽³⁾	(232)	7,225 ⁽⁴⁾	(1,375)
Other, net	(965)	184	-	(1,149)	-
Increase (decrease) in rental income	\$ 38,477	\$ 34,424	\$ (19,850)	\$ 25,278	\$ (1,375)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	\$ 965	\$ -	\$ -	\$ 965	\$ -
Dispositions ⁽²⁾	(2,618)	-	(2,618)	-	-
Same store operations	6,185	3,476	1,623	1,086	-
Increase (decrease) in tenant reimbursement income	\$ 4,532	\$ 3,476	\$ (995)	\$ 2,051	\$ -
Fee and other income					
Property management	\$ (173)	\$ -	\$ -	\$ -	\$ (173)
Asset management	(669)	-	-	-	(669)
Acquisition and disposition	(4,610)	-	-	-	(4,610) ⁽⁵⁾
Other	(131)	-	-	-	(131)
Decrease in fee income	(5,583)	-	-	-	(5,583)
Acquisitions ⁽¹⁾	347	-	-	347	-
Dispositions ⁽²⁾	(119)	-	(119)	-	-
Lease termination income	796	(143)	-	939	-
Other income	1,544	(292)	111	1,779	(54)
Increase (decrease) in other income	2,568	(435)	(8)	3,065	(54)
(Decrease) increase in fee and other income	\$ (3,015)	\$ (435)	\$ (8)	\$ 3,065	\$ (5,637)
Total increase (decrease) in revenues	\$ 39,994	\$ 37,465	\$ (20,853)	\$ 30,394	\$ (7,012)

⁽¹⁾ Represents revenues attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.

⁽²⁾ Represents revenues attributable to Waterview, 2099 Pennsylvania Avenue and 425 Eye Street in Washington, D.C. (sold in May 2017, August 2018 and September 2018, respectively) for the months in which they were not owned by us in both reporting periods.

⁽³⁾ Primarily due to an increase in occupancy at 1633 Broadway, 1301 Avenue of the Americas and 31 West 52nd Street.

⁽⁴⁾ Primarily due to an increase in occupancy at One Front Street.

⁽⁵⁾ Primarily due to \$5,320 of fees relating to the sale of 60 Wall Street in January 2017.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, transaction related costs and real estate impairment loss, were \$637,337,000 for year ended December 31, 2018, compared to \$595,777,000 for the year ended December 31, 2017, an increase of \$41,560,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	<u>Total</u>	<u>New York</u>	<u>Washington, D.C.</u>	<u>San Francisco</u>	<u>Other</u>
Operating					
Acquisitions ⁽¹⁾	\$ 6,797	\$ -	\$ -	\$ 6,797	\$ -
Dispositions ⁽²⁾	(7,875)	-	(7,875)	-	-
Same store operations	8,819	6,887	(86)	2,405	(387)
Bad debt expense	201	266	-	(65)	-
Increase (decrease) in operating	\$ 7,942	\$ 7,153	\$ (7,961)	\$ 9,137	\$ (387)
Depreciation and amortization					
Acquisitions ⁽¹⁾	\$ 11,154	\$ -	\$ -	\$ 11,154	\$ -
Dispositions ⁽²⁾	(3,796)	-	(3,796)	-	-
Operations	(15,170)	1,483	(331)	(16,896) ⁽³⁾	574
(Decrease) increase in depreciation and amortization	\$ (7,812)	\$ 1,483	\$ (4,127)	\$ (5,742)	\$ 574
General and administrative					
Stock-based compensation	\$ 4,854	\$ -	\$ -	\$ -	\$ 4,854 ⁽⁴⁾
Mark-to-market of investments in our deferred compensation plan	(6,036)	-	-	-	(6,036) ⁽⁵⁾
Severance costs	(2,626)	-	-	-	(2,626)
Operations	(206)	-	-	-	(206)
Decrease in general and administrative	\$ (4,014)	\$ -	\$ -	\$ -	\$ (4,014)
Decrease in transaction related costs	\$ (556)	\$ -	\$ -	\$ -	\$ (556)
Real estate impairment loss in 2018	\$ 46,000	\$ -	\$ 46,000	\$ -	\$ -
Total increase (decrease) in expenses	\$ 41,560	\$ 8,636	\$ 33,912	\$ 3,395	\$ (4,383)

⁽¹⁾ Represents expenses attributable to 50 Beale Street in San Francisco (acquired in July 2017) for the months in which it was not owned by us in both reporting periods.

⁽²⁾ Represents expenses attributable to Waterview, 2099 Pennsylvania Avenue and 425 Eye Street in Washington, D.C. (sold in May 2017, August 2018 and September 2018, respectively) for the months in which they were not owned by us in both reporting periods.

⁽³⁾ Primarily due to accelerated amortization of acquired in-place lease assets in connection with certain tenants' lease modifications.

⁽⁴⁾ Primarily due to additional expense from stock awards granted in 2018.

⁽⁵⁾ Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in "interest and other income (loss), net".

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$3,468,000 for the year ended December 31, 2018, compared to \$20,185,000 for the year ended December 31, 2017, a decrease of \$16,717,000. This decrease resulted from:

(Amounts in thousands)

712 Fifth Avenue (\$3,901 in 2018, compared to \$20,072 in 2017) ⁽¹⁾	\$	(16,171)
Other		(546)
Total decrease	\$	(16,717)

- ⁽¹⁾ As of December 31, 2018, our basis in the partnership that owns 712 Fifth Avenue, was negative \$17,611 resulting from distributions made to us in excess of our share of earnings recognized. Accordingly, we no longer recognize our proportionate share of earnings from the venture because we have no further obligation to fund additional capital to the venture. Instead, we only recognize earnings to the extent we receive cash distributions from the venture.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$269,000 for the year ended December 31, 2018, compared to \$6,143,000 for the year ended December 31, 2017, a decrease in loss of \$5,874,000. This decrease was primarily due to a reversal of carried interest in the year ended December 31, 2017 of \$5,590,000.

Interest and Other Income (Loss), net

Interest and other income was \$8,117,000 for the year ended December 31, 2018, compared to a loss of \$9,031,000 for the year ended December 31, 2017, an increase in income of \$17,148,000. This increase resulted from:

(Amounts in thousands)

Valuation allowance on preferred equity investment in 2017 ⁽¹⁾	\$	19,588
Decrease in the value of investments in our deferred compensation plan (which is offset by a decrease in “general and administrative”)		(6,036)
Decrease in preferred equity investment income (\$3,655 in 2018, compared to \$4,187 in 2017) ⁽²⁾		(532)
Other, net (primarily higher interest income)		4,128
Total increase	\$	17,148

- ⁽¹⁾ Represents the valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share was \$4,780, and \$14,808 was attributable to noncontrolling interests. In May 2018, the senior lender foreclosed out our interest and accordingly, we wrote off our preferred equity investment.
- ⁽²⁾ Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$890 and \$1,029 for the years ended December 31, 2018 and 2017, respectively.

Interest and Debt Expense

Interest and debt expense was \$147,653,000 for the year ended December 31, 2018, compared to \$143,762,000 for the year ended December 31, 2017, an increase in expense of \$3,891,000. This increase resulted from:

(Amounts in thousands)	
Assumption of \$228 million of existing debt at 50 Beale Street upon acquisition in July 2017	\$ 4,519
Higher interest on variable rate debt at 1301 Avenue of the Americas and 1633 Broadway	3,982
\$171 million of debt repayments at 1899 Pennsylvania Avenue and Liberty Place in May 2017	(2,724)
Lower amounts outstanding under our revolving credit facility	(973)
\$975 million refinancing of One Market Plaza in January 2017	(767)
Other, net	(146)
Total increase	\$ 3,891

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was \$7,877,000 for the year ended December 31, 2017 and represents costs related to (i) the early repayment of One Market Plaza's debt in January 2017, in connection with its refinancing and (ii) the early repayment of debt at 1899 Pennsylvania Avenue and Liberty Place in May 2017.

Gain on Sale of Real Estate

In the year ended December 31, 2018, we recognized a \$36,845,000 gain on sale of real estate, comprised of (i) a \$35,836,000 gain on sale of 2099 Pennsylvania Avenue, which was sold for \$219,900,000 in August 2018 and (ii) a \$1,009,000 gain on sale of 425 Eye Street, which was sold for \$157,000,000 in September 2018. In the year ended December 31, 2017, we recognized a \$133,989,000 gain on sale of real estate, comprised of (i) an \$110,583,000 gain on sale of Waterview, which was sold for \$460,000,000 in May 2017 and (ii) a \$23,406,000 gain on sale of an 80.0% equity interest in One Steuart Lane in May 2017.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$1,802,000 for the year ended December 31, 2017 and represents gains relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017.

Income Tax Expense

Income tax expense was \$3,139,000 for the year ended December 31, 2018, compared to \$5,177,000 for the year ended December 31, 2017, a decrease of \$2,038,000. This decrease was primarily due to (i) higher taxable income on our taxable REIT subsidiaries in the prior year and (ii) \$1,838,000 of tax on the gain on sale of an 80.0% equity interest in One Steuart Lane in the year ended December 31, 2017, partially offset by (iii) \$1,248,000 of "sting" taxes in connection with the sale of real estate in the year ended December 31, 2018.

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

Net income attributable to noncontrolling interest in consolidated joint ventures was \$8,182,000 for the year ended December 31, 2018, compared to net loss of \$10,365,000 for the year ended December 31, 2017, an increase in income allocated to noncontrolling interests in consolidated joint ventures of \$18,547,000. This increase resulted from:

(Amounts in thousands)	
Valuation allowance on preferred equity investment in 2017	\$ 14,808
Higher income attributable to One Market Plaza (\$6,854 in 2018, compared to \$3,389 in 2017) ⁽¹⁾	3,465
Decrease in loss attributable to 50 Beale Street (\$1,437 in 2018, compared to \$2,104 in 2017)	667
Lower preferred equity investment income (\$2,765 in 2018, compared to \$3,158 in 2017)	(393)
Total increase	\$ 18,547

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

Net Income Attributable to Noncontrolling Interests in Consolidated Real Estate Fund

Net income attributable to noncontrolling interests in consolidated real estate fund was \$720,000 for the year ended December 31, 2018, compared to \$19,797,000 for the year ended December 31, 2017, a decrease in income attributable to the noncontrolling interests of \$19,077,000. This decrease was primarily due to noncontrolling interests' share of the gain on the sale of an 80.0% equity interest in One Steuart Lane in May 2017.

Net Income Attributable to Noncontrolling Interests in Operating Partnership

Net income attributable to noncontrolling interests in Operating Partnership was \$944,000 for the year ended December 31, 2018, compared to \$11,363,000 for the year ended December 31, 2017, a decrease in income attributable to noncontrolling interests of \$10,419,000. This decrease resulted from a lower net income subject to allocation to the unitholders of the Operating Partnership for the year ended December 31, 2018.

Results of Operations – Year Ended December 31, 2017 Compared to December 31, 2016

The following pages summarize our consolidated results of operations for the years ended December 31, 2017 and 2016.

(Amounts in thousands)	For the Year Ended December 31,		
	2017	2016	Change
REVENUES:			
Rental income	\$ 628,883	\$ 590,161	\$ 38,722
Tenant reimbursement income	52,418	44,943	7,475
Fee and other income	37,666	48,237	(10,571)
Total revenues	718,967	683,341	35,626
EXPENSES:			
Operating	266,136	250,040	16,096
Depreciation and amortization	266,037	269,450	(3,413)
General and administrative	61,577	53,510	8,067
Transaction related costs	2,027	2,404	(377)
Total expenses	595,777	575,404	20,373
Operating income	123,190	107,937	15,253
Income from unconsolidated joint ventures	20,185	7,413	12,772
Loss from unconsolidated real estate funds	(6,143)	(498)	(5,645)
Interest and other (loss) income, net	(9,031)	6,934	(15,965)
Interest and debt expense	(143,762)	(153,138)	9,376
Loss on early extinguishment of debt	(7,877)	(4,608)	(3,269)
Gain on sale of real estate	133,989	-	133,989
Unrealized gain on interest rate swaps	1,802	39,814	(38,012)
Net income before income taxes	112,353	3,854	108,499
Income tax expense	(5,177)	(1,785)	(3,392)
Net income	107,176	2,069	105,107
Less net (income) loss attributable to noncontrolling interests:			
Consolidated joint ventures	10,365	(15,423)	25,788
Consolidated real estate fund	(19,797)	1,316	(21,113)
Operating Partnership	(11,363)	2,104	(13,467)
Net income (loss) attributable to common stockholders	\$ 86,381	\$ (9,934)	\$ 96,315

Revenues

Our revenues, which consist primarily of rental income, tenant reimbursement income, and fee and other income, were \$718,967,000 for the year ended December 31, 2017, compared to \$683,341,000 for the year ended December 31, 2016, an increase of \$35,626,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Rental income					
Acquisitions ⁽¹⁾	\$ 52,020	\$ -	\$ -	\$ 52,020	\$ -
Dispositions ⁽²⁾	(22,021)	-	(22,021)	-	-
Other, net	4,607	3,878	22	707	-
Same store operations	4,116	(3,423) ⁽³⁾	5,107 ⁽⁴⁾	4,501	(2,069)
Increase (decrease) in rental income	\$ 38,722	\$ 455	\$ (16,892)	\$ 57,228	\$ (2,069)
Tenant reimbursement income					
Acquisitions ⁽¹⁾	\$ 5,871	\$ -	\$ -	\$ 5,871	\$ -
Dispositions ⁽²⁾	(1,629)	-	(1,629)	-	-
Same store operations	3,233	(620)	3,730 ⁽⁴⁾	123	-
Increase (decrease) in tenant reimbursement income	\$ 7,475	\$ (620)	\$ 2,101	\$ 5,994	\$ -
Fee and other income					
Property management	\$ 388	\$ -	\$ -	\$ -	\$ 388
Asset management	827	-	-	-	827
Acquisition and disposition ⁽⁵⁾	5,744	-	-	-	5,744
Other	322	-	-	-	322
Increase in fee income	\$ 7,281	\$ -	\$ -	\$ -	\$ 7,281
Acquisitions ⁽¹⁾	704	-	-	704	-
Dispositions ⁽²⁾	(204)	-	(204)	-	-
Lease termination income	(14,821)	(16,013)	-	1,192	-
Other income	(3,531)	(3,068)	749	(1,254)	42
(Decrease) increase in other income	(17,852)	(19,081)	545	642	42
(Decrease) increase in fee and other income	\$ (10,571)	\$ (19,081)	\$ 545	\$ 642	\$ 7,323
Total increase (decrease) in revenues	\$ 35,626	\$ (19,246)	\$ (14,246)	\$ 63,864	\$ 5,254

- (1) Represents revenues attributable to One Front Street and 50 Beale Street in San Francisco (acquired in December 2016 and July 2017, respectively) for the months in which they were not owned by us in both reporting periods.
- (2) Represents revenues attributable to Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.
- (3) Primarily due to a decrease in occupancy at 31 West 52nd Street and 1325 Avenue of the Americas.
- (4) Primarily due to an increase in occupancy at 2099 Pennsylvania Avenue and Liberty Place.
- (5) Primarily due to \$5,320 of fees relating to the sale of 60 Wall Street in January 2017.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$595,777,000 for the year ended December 31, 2017, compared to \$575,404,000 for the year ended December 31, 2016, an increase of \$20,373,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Operating					
Acquisitions ⁽¹⁾	\$ 18,589	\$ -	\$ -	\$ 18,589	\$ -
Dispositions ⁽²⁾	(7,231)	-	(7,231)	-	-
Bad debt expense	(192)	(261)	(4)	73	-
Same store operations	4,930	4,671	1,856	1,355	(2,952)
Increase (decrease) in operating	\$ 16,096	\$ 4,410	\$ (5,379)	\$ 20,017	\$ (2,952)
Depreciation and amortization					
Acquisitions ⁽¹⁾	\$ 39,928	\$ -	\$ -	\$ 39,928	\$ -
Dispositions ⁽²⁾	(6,897)	-	(6,897)	-	-
Operations	(36,444)	(29,979) ⁽³⁾	(2,687) ⁽³⁾	(3,949) ⁽³⁾	171
(Decrease) increase in depreciation and amortization	\$ (3,413)	\$ (29,979)	\$ (9,584)	\$ 35,979	\$ 171
General and administrative					
Stock-based compensation	\$ 5,369	\$ -	\$ -	\$ -	\$ 5,369 ⁽⁴⁾
Mark-to-market of investments in our deferred compensation plan	4,670	-	-	-	4,670 ⁽⁵⁾
Severance costs	(248)	-	-	-	(248)
Operations	(1,724)	-	-	-	(1,724)
Increase in general and administrative	\$ 8,067	\$ -	\$ -	\$ -	\$ 8,067
Decrease in transaction related costs	\$ (377)	\$ -	\$ -	\$ -	\$ (377)
Total increase (decrease) in expenses	\$ 20,373	\$ (25,569)	\$ (14,963)	\$ 55,996	\$ 4,909

⁽¹⁾ Represents expenses attributable to One Front Street and 50 Beale Street in San Francisco (acquired in December 2016 and July 2017, respectively) for the months in which they were not owned by us in both reporting periods.

⁽²⁾ Represents expenses attributable Waterview in Washington, D.C. (sold in May 2017) for the months in which it was not owned by us in both reporting periods.

⁽³⁾ Decrease primarily due to lower amortization of in-place lease assets due to the expiration of such leases.

⁽⁴⁾ Primarily due to additional expense from stock awards granted in 2017.

⁽⁵⁾ Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included as a component of "interest and other (loss) income, net" on our consolidated statements of income.

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures was \$20,185,000 for the year ended December 31, 2017, compared to \$7,413,000 for the year ended December 31, 2016, an increase of \$12,772,000. This increase resulted from:

(Amounts in thousands)	
712 Fifth Avenue (\$20,072 in 2017, compared to \$7,335 in 2016)	\$ 12,737 ⁽¹⁾
60 Wall Street (acquired in January 2017)	(152)
One Steuart Lane (acquired in May 2017)	182 ⁽²⁾
Oder-Center, Germany (\$83 in 2017, compared to \$78 in 2016)	5
Total increase	\$ 12,772

- (1) Prior to June 30, 2017, our basis in the partnership that owns 712 Fifth Avenue, was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of net proceeds from refinancing the property. Because the distributions resulted in our basis becoming negative and because we have no further obligation to fund additional capital to the venture, we can no longer recognize our proportionate share of earnings from the venture until our basis is above zero. Accordingly, we are only recognizing income to the extent we receive cash distributions from the venture.
- (2) Represents our residential fund's 20% share of income from the property, of which our 7.4% share is \$14.

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$6,143,000 for the year ended December 31, 2017, compared to \$498,000 for the year ended December 31, 2016, an increase in loss of \$5,645,000. This increase resulted primarily from a decrease in carried interest of \$7,122,000, partially offset by a decrease in unrealized losses of \$1,043,000.

Interest and Other (Loss) Income, net

Interest and other loss was \$9,031,000 for the year ended December 31, 2017, compared to income of \$6,934,000 for the year ended December 31, 2016, a decrease in income of \$15,965,000. This decrease resulted from:

(Amounts in thousands)	
Valuation allowance on preferred equity investment in 2017 ⁽¹⁾	\$ (19,588)
Decrease in preferred equity investment income (\$4,187 in 2017, compared to \$5,716 in 2016) ⁽²⁾	(1,529)
Increase in the value of investments in our deferred compensation plan (which is offset by an increase in "general and administrative")	4,670
Other, net	482
Total decrease	\$ (15,965)

- (1) Represents the valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share is \$4,780.
- (2) Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$1,029 and \$1,393 for the years ended December 31, 2017 and 2016, respectively.

Interest and Debt Expense

Interest and debt expense was \$143,762,000 for the year ended December 31, 2017, compared to \$153,138,000 for the year ended December 31, 2016, a decrease of \$9,376,000. This decrease resulted from:

(Amounts in thousands)	
\$445 million of debt repayments (\$274 million at 900 Third Avenue in October 2016 and \$171 million at 1899 Pennsylvania Avenue and Liberty Place in May 2017)	\$ (14,359)
\$975 million refinancing of One Market Plaza in January 2017	(15,202)
\$210 million defeasance of Waterview in October 2016	(9,442)
\$850 million financing of 1301 Avenue of the Americas in October 2016	20,225
\$228 million assumption of existing debt at 50 Beale upon acquisition in July 2017	3,803
Amortization of deferred financing costs	4,384
Other, net	1,215
Total decrease	<u>\$ (9,376)</u>

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was \$7,877,000 for the year ended December 31, 2017, compared to \$4,608,000 for the year ended December 31, 2016, an increase in loss of \$3,269,000. The loss for the year ended December 31, 2017 represents costs related to (i) the early repayment of One Market Plaza's debt in January 2017, in connection with its refinancing and (ii) the early repayment of debt at 1899 Pennsylvania Avenue and Liberty Place in May 2017. The loss for the year ended December 31, 2016 represents costs in connection with the defeasance of debt at Waterview.

Gain on Sale of Real Estate

In the year ended December 31, 2017, we recognized \$133,989,000 of gains on sale of real estate, comprised of an \$110,583,000 net gain on sale of Waterview in May 2017 and a \$23,406,000 net gain on sale of an 80.0% equity interest in One Steuart Lane in May 2017.

Unrealized Gain on Interest Rate Swaps

Unrealized gain on interest rate swaps was \$1,802,000 for the year ended December 31, 2017, compared to an unrealized gain of \$39,814,000 for the year ended December 31, 2016, a decrease of \$38,012,000. This decrease was primarily due to (i) \$32,376,000 of lower unrealized gains in 2017 relating to swaps aggregating \$840,000,000 on One Market Plaza that were settled upon the refinancing in January 2017, (ii) \$4,016,000 of unrealized gains in 2016 relating to swaps aggregating \$162,000,000 on 900 Third Avenue that were settled upon the repayment in October 2016 and (iii) \$1,620,000 of unrealized gains in 2016 relating to swaps aggregating \$237,600,000 on 31 West 52nd Street that were settled upon the refinancing in May 2016.

Income Tax Expense

Income tax expense was \$5,177,000 for the year ended December 31, 2017, compared to \$1,785,000 for the year ended December 31, 2016, an increase in expense of \$3,392,000. This increase in expense was primarily due to higher fee income on our taxable REIT subsidiaries for the year ended December 31, 2017 and \$1,838,000 of tax on the gain on sale of an 80.0% equity interest in One Steuart Lane in May 2017.

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

Net loss attributable to noncontrolling interest in consolidated joint ventures was \$10,365,000 for the year ended December 31, 2017, compared to income of \$15,423,000 for the year ended December 31, 2016, a decrease in income attributable to noncontrolling interests in consolidated joint ventures of \$25,788,000. This decrease resulted from:

(Amounts in thousands)	
Valuation allowance on preferred equity investment in 2017	\$ (14,808)
Lower preferred equity investment income (\$3,158 in 2017, compared to income of \$4,323 in 2016)	(1,165)
Lower income attributable to One Market Plaza (\$3,389 in 2017, compared to \$11,100 in 2016) ⁽¹⁾	(7,711)
Loss attributable to 50 Beale (acquired in July 2017)	(2,104)
Total decrease	\$ (25,788)

⁽¹⁾ The decrease in income is primarily due to lower unrealized gains in 2017 relating to interest rate swaps that were settled in connection with the refinancing of property level debt in January 2017, partially offset by lower interest expense resulting from such refinancing.

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

Net income attributable to noncontrolling interests in consolidated real estate fund was \$19,797,000 for the year ended December 31, 2017, compared to a loss of \$1,316,000 for the year ended December 31, 2016, an increase in income attributable to the noncontrolling interests of \$21,113,000. This increase was primarily due to the noncontrolling interests' \$20,288,000 share of the gain on the sale of an 80.0% equity interest in One Steuart Lane in May 2017.

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

Net income attributable to noncontrolling interests in Operating Partnership was \$11,363,000 for the year ended December 31, 2017, compared to a loss of \$2,104,000 for the year ended December 31, 2016, an increase in income attributable to noncontrolling interests of \$13,467,000. This increase resulted from higher income subject to allocation to the unitholders of the Operating Partnership for the year ended December 31, 2017.

Liquidity and Capital Resources

Liquidity

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

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

As of December 31, 2018, we had \$1.365 billion of liquidity comprised of \$339,653,000 of cash and cash equivalents, \$25,756,000 of restricted cash and \$1.0 billion of borrowing capacity under our revolving credit facility. As of December 31, 2018, our outstanding consolidated debt aggregated \$3.6 billion. We had no amounts outstanding under our revolving credit facility as of December 31, 2018 and none of our debt matures until 2021.

On February 7, 2019, we completed the acquisition of 111 Sutter Street, a 293,000 square foot office building in San Francisco, California. Simultaneously with closing, we brought in a joint venture partner to acquire 51.0% of the equity interest. We will retain the remaining 49.0% equity interest and manage and lease the asset. The purchase price was \$227,000,000. In connection with the acquisition, the joint venture completed a \$138,200,000 financing of the property. The four-year loan is interest only at LIBOR plus 215 basis points and has three one-year extension options. Accordingly, our share of equity funded was approximately \$45,000,000, of which \$10,000,000 was funded as a deposit in December 2018.

We may refinance our maturing debt when it comes due or refinance or repay it early depending on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

Revolving Credit Facility

On January 10, 2018, we amended and restated the credit agreement governing our revolving credit facility. The maturity date of the revolving credit facility was extended from November 2018 to January 2022, with two six-month extension options, and the capacity was increased to \$1.0 billion from \$800,000,000. The interest rate on the extended facility, at current leverage levels, was lowered by 10 basis points from LIBOR plus 125 basis points to LIBOR plus 115 basis points, and the facility fee was reduced by 5 basis points from 25 basis points to 20 basis points. We also have an option, subject to customary conditions and incremental lender commitments, to increase the capacity under the facility to \$1.5 billion at any time prior to the maturity date of the facility.

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

Dividend Policy

On December 14, 2018, we declared a regular quarterly cash dividend of \$0.10 per share of common stock for the fourth quarter ending December 31, 2018, which was paid on January 15, 2019 to stockholders of record as of the close of business on December 31, 2018. During 2018, we paid an aggregate of \$105,055,000 in dividends and distributions to our common stockholders and common unitholders. These dividends were paid utilizing the cash flow from operations. If we were to continue our current dividend policy for all of 2019, we would pay out approximately \$104,000,000 to common stockholders and unitholders during 2019.

Contractual Obligations

The following table provides a summary of our contractual obligations and commitments as of December 31, 2018.

(Amounts in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Our share of:					
Consolidated debt (including interest expense) ⁽¹⁾	\$ 3,427,940	\$ 109,816	\$ 1,134,323	\$ 1,159,105	\$ 1,024,696
Unconsolidated debt (including interest expense) ⁽¹⁾	230,327	7,421	13,384	41,385	168,137
Tenant obligations	78,957	65,166	13,546	245	-
Leasing commissions	4,301	4,301	-	-	-
Total ⁽²⁾	\$ 3,741,525	\$ 186,704	\$ 1,161,253	\$ 1,200,735	\$ 1,192,833

⁽¹⁾ Interest expense is calculated using contractual rates for fixed rate debt and the rates in effect as of December 31, 2018 for variable rate debt.

⁽²⁾ The total above does not include various standing or renewal service contracts with vendors in connection with the operations of our properties.

Off Balance Sheet Arrangements

As of December 31, 2018, our unconsolidated joint ventures had \$896,803,000 of outstanding indebtedness, of which our share was \$180,879,000. We do not guarantee the indebtedness of our unconsolidated joint ventures other than providing customary environmental indemnities and guarantees of specified non-recourse carve outs relating to specified covenants and representations; however, we may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans in order to enable the joint venture to repay this indebtedness upon maturity.

Stock Repurchase Program

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. As of December 31, 2018, we have repurchased an aggregate of 7,555,601 shares, or \$105,383,000 of our common stock, at a weighted average price of \$13.95 per share. We currently have \$94,617,000 available for future repurchases. The amount and timing of future repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

Insurance

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

Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2018, we believe we are in compliance with all of our covenants.

Transfer Tax Assessments

During 2017, the New York City Department of Finance issued Notices of Determination (“Notices”) assessing additional transfer taxes (including interest and penalties) in connection with the transfer of interests in certain properties during our 2014 initial public offering. Prior to February 16, 2018, we believed that the likelihood of a loss related to these assessments was remote. On February 16, 2018, the New York City Tax Appeals Tribunal issued a decision against a publicly traded REIT in a case interpreting the same provisions of the transfer tax statute, on similar but distinguishable facts. As a result, after consultation with legal counsel, we now believe the likelihood of loss is reasonably possible, and while it is not possible to predict the outcome of these Notices, we estimate the range of loss could be between \$0 and \$39,800,000. Since no amount in this range is a better estimate than any other amount within the range, we have not accrued any liability arising from potential losses relating to these Notices in our consolidated financial statements.

Inflation

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

Cash Flows

Cash and cash equivalents and restricted cash were \$365,409,000, \$250,425,000, \$192,339,000 and \$185,707,000 as of December 31, 2018, 2017, 2016 and 2015, respectively. Cash and cash equivalents and restricted cash increased by \$114,984,000 and \$58,086,000 for the years ended December 31, 2018 and 2017, respectively. Our December 31, 2015 cash and cash equivalents and restricted cash included \$7,987,000 relating to our real estate funds, which were deconsolidated as of January 1, 2016. Excluding the impact of deconsolidation of these real estate funds, cash and cash equivalents and restricted cash increased by \$14,619,000 for the year ended December 31, 2016. The following table sets forth the changes in cash flow.

(Amount in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Net cash provided by (used in):			
Operating activities	\$ 156,523	\$ 190,111	\$ 148,283
Investing activities	156,610	295,731	(652,658)
Financing activities	(198,149)	(427,756)	518,994

Operating Activities

Year Ended December 31, 2018 – We generated \$156,523,000 of cash from operating activities for the year ended December 31, 2018, primarily from (i) \$240,615,000 of net income (before \$212,467,000 of noncash adjustments, \$46,000,000 of real estate impairment loss and \$36,845,000 of gain on sale of real estate) and (ii) \$6,537,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$90,629,000 of net changes in operating assets and liabilities. Noncash adjustments of \$212,467,000 were primarily comprised of depreciation and amortization, straight-lining of rental income, amortization of above and below market leases and amortization of stock-based compensation. The changes in operating assets and liabilities were primarily due to prepaid real estate taxes of \$57,905,000 and additions to deferred charges of \$31,861,000.

Year Ended December 31, 2017 – We generated \$190,111,000 of cash from operating activities for the year ended December 31, 2017, primarily from (i) \$198,845,000 of net income (before \$225,658,000 of noncash adjustments and \$133,989,000 of gain on sale of real estate) and (ii) \$6,042,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$14,776,000 of net changes in operating assets and liabilities. Noncash adjustments of \$225,658,000 were primarily comprised of depreciation and amortization, income from unconsolidated joint ventures, straight-lining of rental income, amortization of above and below market leases, impairment loss on preferred equity investment and amortization of stock based compensation.

Year Ended December 31, 2016 – We generated \$148,283,000 of cash from operating activities for the year ended December 31, 2016, primarily from (i) \$155,848,000 of net income (before \$153,779,000 of noncash adjustments) and (ii) \$8,513,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$16,078,000 of net changes in operating assets and liabilities. Noncash adjustments of \$153,779,000 were primarily comprised of depreciation and amortization, straight-lining of rental income and unrealized gain on interest rate swaps. The changes in operating assets and liabilities were primarily due to additions to deferred charges of \$15,701,000.

Investing Activities

Year Ended December 31, 2018 – We generated \$156,610,000 of cash from investing activities for the year ended December 31, 2018, primarily from (i) \$349,013,000 of proceeds from the sales of real estate and (ii) \$4,775,000 from the net sales of marketable securities (which are held in our deferred compensation plan), partially offset by (iii) \$137,915,000 for additions to real estate, which were comprised of spending for tenant improvements and other building improvements, (iv) \$29,883,000 for investments in and contributions to unconsolidated joint ventures, (v) \$15,680,000 for escrow deposits and loans receivable for RDF, (vi) \$10,000,000 for deposit in connection with the acquisition of 111 Sutter Street and (vii) \$3,700,000 for net contributions to our unconsolidated real estate funds.

Year Ended December 31, 2017 – We generated \$295,731,000 of cash from investing activities for the year ended December 31, 2017, primarily from (i) \$540,333,000 of proceeds from the sales of real estate and (ii) \$34,584,000 of distributions from unconsolidated joint ventures and real estate funds, partially offset by (iii) \$161,184,000 for acquisition of real estate; (iv) \$86,434,000 for additions to real estate, which were comprised of spending for tenant improvements and other building improvements (v) \$28,791,000 for the investments in and contributions to unconsolidated joint ventures, and (vi) \$1,987,000 for net purchases of marketable securities (which are held in our deferred compensation plan).

Year Ended December 31, 2016 – We used \$652,658,000 of cash for investing activities for the year ended December 31, 2016, primarily due to (i) \$517,823,000 for the acquisition of One Front Street, (ii) \$132,686,000 of additions to real estate, which were comprised of spending for tenant improvements and other building improvements, (iii) \$1,780,000 for contributions to our unconsolidated real estate funds and (iv) \$369,000 for the net purchases of marketable securities (which are held in our deferred compensation plan).

Financing Activities

Year Ended December 31, 2018 – We used \$198,149,000 of cash for financing activities for the year ended December 31, 2018, primarily due to (i) \$105,055,000 for dividends and distributions paid to common stockholders and unitholders, (ii) \$102,863,000 for the repurchases of common shares, (iii) \$27,299,000 for repayment of loans to affiliates, (iv) \$18,184,000 for distributions to noncontrolling interests and (v) \$6,564,000 for the payment of debt issuance costs and other, partially offset by (vi) \$45,116,000 of contributions from noncontrolling interests and (vii) \$16,700,000 of proceeds from notes and mortgages payable.

Year Ended December 31, 2017 – We used \$427,756,000 of cash for financing activities for the year ended December 31, 2017, primarily due to (i) \$1,044,821,000 for repayments of notes and mortgages payable and \$7,877,000 for loss on early extinguishment of debt, primarily for the early repayments of One Market Plaza, 1899 Pennsylvania Avenue and Liberty Place loans, (ii) \$290,000,000 for repayments of the amounts borrowed under the revolving credit facility, (iii) \$119,251,000 for distributions to noncontrolling interests, (iv) \$100,780,000 for dividends and distributions paid to common stockholders and unitholders, (v) \$19,425,000 for the settlement of swap liabilities, and (vi) \$7,490,000 for the payment of debt issuance costs and other, partially offset by (vii) \$991,556,000 of proceeds from notes and mortgages payable, primarily from the refinancing of One Market Plaza, (viii) \$100,777,000 of contributions from noncontrolling interests, primarily from the acquisition of 50 Beale, (ix) \$60,000,000 of borrowings under the revolving credit facility and (x) \$9,555,000 from the refund of transfer taxes.

Year Ended December 31, 2016 – We generated \$518,994,000 of cash from financing activities for the year ended December 31, 2016, primarily from (i) \$1,362,414,000 of proceeds from notes and mortgages payable, primarily from the refinancings of 1301 Avenue of the Americas and 31 West 52nd Street, (ii) \$340,000,000 of borrowings under the revolving credit facility and (iii) \$7,651,000 of contributions from noncontrolling interests, partially offset by (iv) \$689,269,000 of repayments of notes and mortgages payable, primarily for the repayments of the 31 West 52nd Street and 900 Third Avenue, (v) \$210,000,000 for the purchase of marketable securities and \$4,608,000 for loss on early extinguishment of debt, in connections with the defeasance of Waterview's mortgage loan, (vi) \$130,000,000 of repayments of the amounts borrowed under the revolving credit facility, (vii) \$100,517,000 of dividends and distributions paid to common stockholders and unitholders, (viii) \$29,387,000 for the payment of debt issuance costs, (ix) \$23,654,000 for the settlement of swap liabilities and (x) \$3,636,000 for distributions to noncontrolling interests.

Non-GAAP Financial Measures

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

Net Operating Income (“NOI”)

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

The following tables present reconciliations of our net income (loss) to NOI and Cash NOI for the years ended December 31, 2018, 2017 and 2016.

(Amounts in thousands)	For the Year Ended December 31, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$ 18,993	\$ 35,209	\$ 5,578	\$ 30,223	\$ (52,017)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	258,225	154,820	17,357	83,346	2,702
General and administrative	57,563	-	-	-	57,563
Interest and debt expense	147,653	93,359	-	49,207	5,087
Transaction related costs	1,471	-	-	-	1,471
Income tax expense	3,139	-	-	9	3,130
NOI from unconsolidated joint ventures	20,730	20,395	-	-	335
Income from unconsolidated joint ventures	(3,468)	(3,383)	-	-	(85)
Loss from unconsolidated real estate funds	269	-	-	-	269
Fee income	(18,629)	-	-	-	(18,629)
Interest and other income, net	(8,117)	-	(181)	(757)	(7,179)
Real estate impairment loss	46,000	-	46,000	-	-
Gain on sale of real estate	(36,845)	-	(36,845)	-	-
NOI	486,984	300,400	31,909	162,028	(7,353)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(69,017)	-	-	(69,017)	-
Consolidated real estate fund	11	-	-	-	11
Paramount's share of NOI	\$ 417,978	\$ 300,400	\$ 31,909	\$ 93,011	\$ (7,342)
NOI	\$ 486,984	\$ 300,400	\$ 31,909	\$ 162,028	\$ (7,353)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(59,122)	(41,151)	(1,712)	(16,252)	(7)
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(15,408)	2,154	(1,407)	(16,155)	-
Cash NOI	412,454	261,403	28,790	129,621	(7,360)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(56,552)	-	-	(56,552)	-
Consolidated real estate fund	11	-	-	-	11
Paramount's share of Cash NOI	\$ 355,913	\$ 261,403	\$ 28,790	\$ 73,069	\$ (7,349)

For the Year Ended December 31, 2017

(Amounts in thousands)

Reconciliation of net income (loss) to NOI and Cash NOI:

	<u>Total</u>	<u>New York</u>	<u>Washington, D.C.</u>	<u>San Francisco</u>	<u>Other</u>
Net income (loss)	\$ 107,176	\$ 27,031	\$ 126,054	\$ 5,727	\$ (51,636)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	266,037	153,337	21,484	89,088	2,128
General and administrative	61,577	-	-	-	61,577
Interest and debt expense	143,762	89,358	2,724	45,366	6,314
Loss on early extinguishment of debt	7,877	-	5,162	2,715	-
Transaction related costs	2,027	-	-	-	2,027
Income tax expense	5,177	-	-	2	5,175
NOI from unconsolidated joint ventures	19,643	19,143	-	-	500
Income from unconsolidated joint ventures	(20,185)	(19,920)	-	-	(265)
Loss from unconsolidated real estate funds	6,143	-	-	-	6,143
Fee income	(24,212)	-	-	-	(24,212)
Interest and other loss (income), net	9,031	(113)	(40)	(325)	9,509
Gain on sale of real estate	(133,989)	-	(110,583)	-	(23,406)
Unrealized gain on interest rate swaps	(1,802)	-	-	(1,802)	-
NOI	448,262	268,836	44,801	140,771	(6,146)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(55,464)	-	-	(55,464)	-
Consolidated real estate fund	(154)	-	-	-	(154)
Paramount's share of NOI	\$ 392,644	\$ 268,836	\$ 44,801	\$ 85,307	\$ (6,300)
NOI	\$ 448,262	\$ 268,836	\$ 44,801	\$ 140,771	\$ (6,146)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(54,886)	(38,293)	(979)	(15,592)	(22)
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(18,912)	4,737	(2,193)	(21,456)	-
Cash NOI	374,464	235,280	41,629	103,723	(6,168)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(42,325)	-	-	(42,325)	-
Consolidated real estate fund	(154)	-	-	-	(154)
Paramount's share of Cash NOI	\$ 331,985	\$ 235,280	\$ 41,629	\$ 61,398	\$ (6,322)

For the Year Ended December 31, 2016

(Amounts in thousands)

Reconciliation of net income (loss) to NOI and Cash

	<u>Total</u>	<u>New York</u>	<u>Washington, D.C.</u>	<u>San Francisco</u>	<u>Other</u>
NOI:					
Net income (loss)	\$ 2,069	\$ 29,478	\$ 247	\$ 22,167	\$ (49,823)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	269,450	183,316	31,068	53,109	1,957
General and administrative	53,510	-	-	-	53,510
Interest and debt expense	153,138	73,729	17,798	55,817	5,794
Loss on early extinguishment of debt	4,608	-	4,608	-	-
Transaction related costs	2,404	-	-	-	2,404
Income tax expense	1,785	-	-	37	1,748
NOI from unconsolidated joint ventures	17,195	16,874	-	-	321
Income from unconsolidated joint ventures	(7,413)	(7,335)	-	-	(78)
Loss from unconsolidated real estate funds	498	-	-	-	498
Fee income	(16,931)	-	-	-	(16,931)
Interest and other income, net	(6,934)	(203)	(53)	(28)	(6,650)
Unrealized gain on interest rate swaps	(39,814)	(5,636)	-	(34,178)	-
NOI	433,565	290,223	53,668	96,924	(7,250)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(47,561)	-	-	(47,561)	-
Consolidated real estate fund	414	-	-	-	414
Paramount's share of NOI	\$ 386,418	\$ 290,223	\$ 53,668	\$ 49,363	\$ (6,836)
NOI	\$ 433,565	\$ 290,223	\$ 53,668	\$ 96,924	\$ (7,250)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(82,724)	(64,056)	(4,772)	(13,872)	(24)
Amortization of above and below-market leases, net	(9,536)	8,921	(2,204)	(16,253)	-
Cash NOI	341,305	235,088	46,692	66,799	(7,274)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(32,571)	-	-	(32,571)	-
Consolidated real estate fund	414	-	-	-	414
Paramount's share of Cash NOI	\$ 309,148	\$ 235,088	\$ 46,692	\$ 34,228	\$ (6,860)

Same Store NOI

The tables below set forth the reconciliations of our share of NOI to our share of Same Store NOI and Same Store Cash NOI for the years ended December 31, 2018 and 2017. These metrics are used to measure the operating performance of our properties that were owned by us in a similar manner during both the current and prior reporting periods, and represents our share of Same Store NOI and Same Store Cash NOI from consolidated and unconsolidated joint ventures based on our percentage ownership in the underlying assets. Same Store NOI also excludes lease termination income, bad debt expense, and certain other items that vary from period to period. Same Store Cash NOI excludes the effect of non-cash items such as the straight-lining of rental revenue and the amortization of above and below-market leases.

(Amounts in thousands)	For the Year Ended December 31, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of NOI for the year ended					
December 31, 2018 ⁽¹⁾	\$ 417,978	\$ 300,400	\$ 31,909	\$ 93,011	\$ (7,342)
Acquisitions ⁽²⁾	(5,254)	(173)	-	(5,081)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(4,303)	(3,526)	-	(777)	-
Other, net	320	316	-	4	-
Paramount's share of Same Store NOI for the year ended December 31, 2018	\$ 408,741	\$ 297,017	\$ 31,909	\$ 87,157	\$ (7,342)
(Amounts in thousands)	For the Year Ended December 31, 2017				
Total	New York	Washington, D.C.	San Francisco	Other	
Paramount's share of NOI for the year ended					
December 31, 2017 ⁽¹⁾	\$ 392,644	\$ 268,836	\$ 44,801	\$ 85,307	\$ (6,300)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(14,480)	-	(14,480)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(2,381)	(1,097)	-	(1,284)	-
Other, net	(1,053)	234	-	(1,164)	(123)
Paramount's share of Same Store NOI for the year ended December 31, 2017	\$ 374,730	\$ 267,973	\$ 30,321	\$ 82,859	\$ (6,423)

Increase (decrease) in Same Store NOI	\$ 34,011	\$ 29,044	\$ 1,588	\$ 4,298	\$ (919)
% Increase	9.1%	10.8%	5.2%	5.2%	

⁽¹⁾ See page 70 "Non-GAAP Financial Measures – NOI" for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.

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

⁽³⁾ Represents our share of NOI attributable to sold properties (Waterview, 2099 Pennsylvania Avenue and 425 Eye Street in Washington, D.C.) for the months they were not owned by us in both reporting periods.

(Amounts in thousands)	For the Year Ended December 31, 2018				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the year ended December 31, 2018 ⁽¹⁾	\$ 355,913	\$ 261,403	\$ 28,790	\$ 73,069	\$ (7,349)
Acquisitions ⁽²⁾	(4,188)	(215)	-	(3,973)	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(4,303)	(3,526)	-	(777)	-
Other, net	320	316	-	4	-
Paramount's share of Same Store Cash NOI for the year ended December 31, 2018	\$ 347,742	\$ 257,978	\$ 28,790	\$ 68,323	\$ (7,349)

(Amounts in thousands)	For the Year Ended December 31, 2017				
	Total	New York	Washington, D.C.	San Francisco	Other
Paramount's share of Cash NOI for the year ended December 31, 2017 ⁽¹⁾	\$ 331,985	\$ 235,280	\$ 41,629	\$ 61,398	\$ (6,322)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(14,160)	-	(14,160)	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(2,381)	(1,097)	-	(1,284)	-
Other, net	(50)	50	-	23	(123)
Paramount's share of Same Store Cash NOI for the year ended December 31, 2017	\$ 315,394	\$ 234,233	\$ 27,469	\$ 60,137	\$ (6,445)

Increase (decrease) in Same Store Cash NOI	\$ 32,348	\$ 23,745	\$ 1,321	\$ 8,186	\$ (904)
% Increase	10.3%	10.1%	4.8%	13.6%	

- (1) See page 70 “Non-GAAP Financial Measures – NOI” for a reconciliation to net income in accordance with GAAP and the reasons why we believe these non-GAAP measures are useful.
- (2) Represents our share of Cash NOI attributable to acquired properties (60 Wall Street in New York and 50 Beale Street in San Francisco) for the months they were not owned by us in both reporting periods.
- (3) Represents our share of Cash NOI attributable to sold properties (Waterview, 2099 Pennsylvania Avenue and 425 Eye Street in Washington, D.C.) for the months they were not owned by us in both reporting periods.

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

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

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

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

(Amounts in thousands, except share and per share amounts)	For the Year Ended December 31,		
	2018	2017	2016
Reconciliation of net income to FFO and Core FFO:			
Net income	\$ 18,993	\$ 107,176	\$ 2,069
Real estate depreciation and amortization (including our share of unconsolidated joint ventures)	266,236	273,938	275,653
Real estate impairment loss	46,000	-	-
Gain on sale of depreciable real estate	(36,845)	(110,583)	-
FFO	294,384	270,531	277,722
Less FFO attributable to noncontrolling interests in:			
Consolidated joint ventures	(45,622)	(19,748)	(41,320)
Consolidated real estate fund	(720)	(20,132)	419
Operating Partnership	(23,577)	(25,093)	(41,681)
FFO attributable to common stockholders	\$ 224,465	\$ 205,558	\$ 195,140
Per diluted share	\$ 0.94	\$ 0.87	\$ 0.89
FFO	\$ 294,384	\$ 270,531	\$ 277,722
Non-core items:			
Our share of earnings from 712 Fifth Avenue in excess of distributions received and (distributions in excess of earnings)	2,727	(14,205)	-
Transaction related costs	1,471	2,027	2,404
"Sting" taxes in connection with the sale of real estate	1,248	-	-
Realized and unrealized loss from unconsolidated real estate funds	560	6,380	607
After-tax net gain on sale of residential condominium land parcel	-	(21,568)	-
Valuation allowance on preferred equity investment	-	19,588	-
Loss on early extinguishment of debt	-	7,877	4,608
Unrealized gain on interest rate swaps (including our share of unconsolidated joint ventures)	-	(2,750)	(41,869)
Severance costs	-	2,626	2,874
Core FFO	300,390	270,506	246,346
Less Core FFO attributable to noncontrolling interests in:			
Consolidated joint ventures	(45,622)	(35,022)	(23,890)
Consolidated real estate fund	(720)	156	419
Operating Partnership	(24,148)	(25,568)	(39,296)
Core FFO attributable to common stockholders	\$ 229,900	\$ 210,072	\$ 183,579
Per diluted share	\$ 0.96	\$ 0.89	\$ 0.84
Reconciliation of weighted average shares outstanding:			
Weighted average shares outstanding	239,526,694	236,372,801	218,053,062
Effect of dilutive securities	28,942	28,747	15,869
Denominator for FFO per diluted share	239,555,636	236,401,548	218,068,931

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, 2018.

Property	Rate	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
(Amounts in thousands)									
Fixed Rate Debt:									
1633 Broadway ⁽¹⁾	3.54%	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ 1,019,734
1301 Avenue of the Americas	3.05%	-	-	500,000	-	-	-	500,000	489,633
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	490,328
One Market Plaza	4.03%	-	-	-	-	-	975,000	975,000	987,828
50 Beale Street	3.65%	-	-	228,000	-	-	-	228,000	226,986
Total Fixed Rate Debt	3.66%	\$ -	\$ -	\$ 728,000	\$ 1,000,000	\$ -	\$ 1,475,000	\$ 3,203,000	\$ 3,214,509
Variable Rate Debt:									
1633 Broadway	4.10%	\$ -	\$ -	\$ -	\$ 46,800	\$ -	\$ -	\$ 46,800	\$ 47,724
1301 Avenue of the Americas	4.18%	-	-	350,000	-	-	-	350,000	355,728
Revolving Credit Facility	n/a	-	-	-	-	-	-	-	-
Total Variable Rate Debt	4.17%	\$ -	\$ -	\$ 350,000	\$ 46,800	\$ -	\$ -	\$ 396,800	\$ 403,452
Total Consolidated Debt	3.72%	\$ -	\$ -	\$ 1,078,000	\$ 1,046,800	\$ -	\$ 1,475,000	\$ 3,599,800	\$ 3,617,961

⁽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 \$896,803,000 of outstanding indebtedness as of December 31, 2018, of which our share was \$180,879,000.

The following table summarizes our fixed rate debt that has been swapped from floating rate to fixed as of December 31, 2018.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of December 31, 2018
(Amounts in thousands)					
1633 Broadway ⁽¹⁾	\$ 300,000	Dec-2015	Dec-2022	1.95%	\$ 5,294
1633 Broadway ⁽¹⁾	300,000	Dec-2015	Dec-2021	1.82%	5,254
1633 Broadway ⁽¹⁾	400,000	Dec-2015	Dec-2020	1.65%	6,311
Total interest rate swap assets designated as cash flow hedges (included in "other assets")					\$ 16,859
1633 Broadway ⁽¹⁾	400,000	Dec-2020	Dec-2021	2.35%	\$ 48
Total interest rate swap liabilities designated as cash flow hedges (included in "other liabilities")					\$ 48

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

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

(Amounts in thousands, except per share amount)	December 31, 2018			December 31, 2017	
	Balance	Weighted Average Interest Rate	Effect of 1% Increase in Base Rates	Balance	Weighted Average Interest Rate
Paramount's share of consolidated debt:					
Variable rate	\$ 396,800	4.17%	\$ 3,968	\$ 380,100	3.17%
Fixed rate ⁽¹⁾	2,548,658	3.59%	-	2,548,658	3.59%
	<u>\$ 2,945,458</u>	<u>3.67%</u>	<u>\$ 3,968</u>	<u>\$ 2,928,758</u>	<u>3.54%</u>
Paramount's share of debt of non-consolidated entities (non-recourse):					
Variable rate	\$ 28,808	4.91%	\$ 288	\$ 28,808	3.93%
Fixed rate ⁽¹⁾	152,071	3.41%	-	152,182	3.41%
	<u>\$ 180,879</u>	<u>3.65%</u>	<u>\$ 288</u>	<u>\$ 180,990</u>	<u>3.49%</u>
Noncontrolling interests' share of above			\$ (408)		
Total change in annual net income			<u>\$ 3,848</u>		
Per diluted share			<u>\$ 0.02</u>		

⁽¹⁾ Our fixed rate debt includes floating rate debt that has been swapped to fixed. See table on page 76.

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.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Paramount Group, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

New York, NY
February 13, 2019

We have served as the Company's auditor since 2014.

PARAMOUNT GROUP, INC.
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share, unit and per share amounts)

ASSETS	December 31, 2018	December 31, 2017
Real estate, at cost		
Land	\$ 2,065,206	\$ 2,209,506
Buildings and improvements	6,036,445	6,119,969
	8,101,651	8,329,475
Accumulated depreciation and amortization	(644,639)	(487,945)
Real estate, net	7,457,012	7,841,530
Cash and cash equivalents	339,653	219,381
Restricted cash	25,756	31,044
Investments in unconsolidated joint ventures	78,863	44,762
Investments in unconsolidated real estate funds	10,352	7,253
Preferred equity investments, net of allowance of \$0 and \$19,588	36,042	35,817
Marketable securities	22,660	29,039
Accounts and other receivables, net of allowance of \$593 and \$277	20,076	17,082
Deferred rent receivable	267,456	220,826
Deferred charges, net of accumulated amortization of \$30,129 and \$19,412	117,858	98,645
Intangible assets, net of accumulated amortization of \$245,444 and \$200,857	270,445	352,206
Other assets	109,805	20,076
Total assets ⁽¹⁾	\$ 8,755,978	\$ 8,917,661

LIABILITIES AND EQUITY

Notes and mortgages payable, net of deferred financing costs of \$32,883 and \$41,800	\$ 3,566,917	\$ 3,541,300
Revolving credit facility	-	-
Due to affiliates	-	27,299
Accounts payable and accrued expenses	124,334	117,630
Dividends and distributions payable	25,902	25,211
Intangible liabilities, net of accumulated amortization of \$89,200 and \$75,073	95,991	130,028
Other liabilities	51,170	54,109
Total liabilities ⁽¹⁾	3,864,314	3,895,577
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued and outstanding 233,135,704 and 240,427,022 shares in 2018 and 2017, respectively	2,329	2,403
Additional paid-in-capital	4,201,756	4,297,948
Earnings less than distributions	(219,906)	(133,693)
Accumulated other comprehensive income	16,621	10,083
Paramount Group, Inc. equity	4,000,800	4,176,741
Noncontrolling interests in:		
Consolidated joint ventures	394,995	404,997
Consolidated real estate fund	66,887	14,549
Operating Partnership (25,127,003 and 24,620,279 units outstanding)	428,982	425,797
Total equity	4,891,664	5,022,084
Total liabilities and equity	\$ 8,755,978	\$ 8,917,661

⁽¹⁾ Represents the consolidated assets and liabilities of Paramount Group Operating Partnership LP, a Delaware limited partnership (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which we are the sole general partner and own approximately 90.3% as of December 31, 2018. The assets and liabilities of the Operating Partnership, as of December 31, 2018, include \$1,982,679 and \$1,253,414 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 14, *Variable Interest Entities ("VIEs")*.

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except share and per share amounts)	For the Year Ended December 31,		
	2018	2017	2016
REVENUES:			
Rental income	\$ 667,360	\$ 628,883	\$ 590,161
Tenant reimbursement income	56,950	52,418	44,943
Fee and other income	34,651	37,666	48,237
Total revenues	758,961	718,967	683,341
EXPENSES:			
Operating	274,078	266,136	250,040
Depreciation and amortization	258,225	266,037	269,450
General and administrative	57,563	61,577	53,510
Transaction related costs	1,471	2,027	2,404
Real estate impairment loss	46,000	-	-
Total expenses	637,337	595,777	575,404
Operating income	121,624	123,190	107,937
Income from unconsolidated joint ventures	3,468	20,185	7,413
Loss from unconsolidated real estate funds	(269)	(6,143)	(498)
Interest and other income (loss), net	8,117	(9,031)	6,934
Interest and debt expense	(147,653)	(143,762)	(153,138)
Loss on early extinguishment of debt	-	(7,877)	(4,608)
Gain on sale of real estate	36,845	133,989	-
Unrealized gain on interest rate swaps	-	1,802	39,814
Net income before income taxes	22,132	112,353	3,854
Income tax expense	(3,139)	(5,177)	(1,785)
Net income	18,993	107,176	2,069
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(8,182)	10,365	(15,423)
Consolidated real estate fund	(720)	(19,797)	1,316
Operating Partnership	(944)	(11,363)	2,104
Net income (loss) attributable to common stockholders	\$ 9,147	\$ 86,381	\$ (9,934)
 INCOME (LOSS) PER COMMON SHARE - BASIC:			
Income (loss) per common share	\$ 0.04	\$ 0.37	\$ (0.05)
Weighted average shares outstanding	239,526,694	236,372,801	218,053,062
 INCOME (LOSS) PER COMMON SHARE - DILUTED:			
Income (loss) per common share	\$ 0.04	\$ 0.37	\$ (0.05)
Weighted average shares outstanding	239,555,636	236,401,548	218,053,062

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Net income	\$ 18,993	\$ 107,176	\$ 2,069
Other comprehensive income (loss):			
Change in value of interest rate swaps	7,273	10,618	8,161
Pro rata share of other comprehensive (loss) income of unconsolidated joint ventures	(129)	160	17
Comprehensive income	26,137	117,954	10,247
Less comprehensive (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(8,182)	10,365	(15,423)
Consolidated real estate fund	(665)	(19,797)	1,316
Operating Partnership	(1,605)	(12,430)	2,141
Comprehensive income (loss) attributable to common stockholders	\$ 15,685	\$ 96,092	\$ (1,719)

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares		Additional Paid-in- Capital	Earnings Less than Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in			Total Equity	
	Shares	Amount				Consolidated Joint Ventures	Consolidated Real Estate Fund	Operating Partnership		
(Amounts in thousands, except per share and unit amounts)										
Balance as of December 31, 2015	212,112	\$ 2,122	\$ 3,802,858	\$ (36,120)	\$ (7,843)	\$ 236,849	\$ 414,637	\$ 898,047	\$ 5,310,550	
Deconsolidation of real estate fund investments upon adoption of ASU 2015-02	-	-	-	-	-	-	(351,035)	-	(351,035)	
Balance as of January 1, 2016	212,112	2,122	3,802,858	(36,120)	(7,843)	236,849	63,602	898,047	4,959,515	
Net income (loss)	-	-	-	(9,934)	-	15,423	(1,316)	(2,104)	2,069	
Common shares issued upon redemption of common units	17,808	178	312,079	-	-	-	-	(312,257)	-	
Common shares issued under Omnibus share plan	95	-	-	-	-	-	-	-	-	
Dividends and distributions (\$0.38 per share and unit)	-	-	-	(83,805)	-	-	-	(16,796)	(100,601)	
Contributions from noncontrolling interests	-	-	-	-	-	5,151	2,500	-	7,651	
Distributions to noncontrolling interests	-	-	-	-	-	(3,636)	-	-	(3,636)	
Change in value of interest rate swaps	-	-	-	-	8,203	-	-	(42)	8,161	
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	12	-	-	5	17	
Amortization of equity awards	-	-	2,034	-	-	-	-	10,494	12,528	
Other	-	-	16	205	-	1	7	14	243	
Balance as of December 31, 2016	230,015	2,300	4,116,987	(129,654)	372	253,788	64,793	577,361	4,885,947	
Net income (loss)	-	-	-	86,381	-	(10,365)	19,797	11,363	107,176	
Common shares issued upon redemption of common units	10,359	103	172,625	-	-	-	-	(172,728)	-	
Common shares issued under Omnibus share plan, net of shares withheld for taxes	53	-	-	(154)	-	-	-	-	(154)	
Dividends and distributions (\$0.38 per share and unit)	-	-	-	(90,266)	-	-	-	(10,574)	(100,840)	
Contributions from noncontrolling interests	-	-	-	-	-	96,472	4,305	-	100,777	
Distributions to noncontrolling interests	-	-	-	-	-	(44,905)	(74,346)	-	(119,251)	
Consolidation of 50 Beale Street	-	-	-	-	-	110,007	-	-	110,007	
Change in value of interest rate swaps	-	-	-	-	9,559	-	-	1,059	10,618	
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	152	-	-	8	160	
Amortization of equity awards	-	-	3,085	-	-	-	-	15,705	18,790	
Other	-	-	5,251	-	-	-	-	3,603	8,854	
Balance as of December 31, 2017	240,427	2,403	4,297,948	(133,693)	10,083	404,997	14,549	425,797	5,022,084	

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

	Common Shares		Additional Paid-in- Capital	Earnings Less than Distributions	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in			Total Equity
	Shares	Amount				Consolidated Joint Ventures	Consolidated Real Estate Fund	Operating Partnership	
(Amounts in thousands, except per share and unit amounts)									
Balance as of December 31, 2017	240,427	\$ 2,403	\$ 4,297,948	\$ (133,693)	\$ 10,083	\$ 404,997	\$ 14,549	\$ 425,797	\$ 5,022,084
Basis adjustment upon adoption of ASU 2017-05	-	-	-	529	-	-	6,557	-	7,086
Balance as of January 1, 2018	240,427	2,403	4,297,948	(133,164)	10,083	404,997	21,106	425,797	5,029,170
Net income	-	-	-	9,147	-	8,182	720	944	18,993
Common shares issued upon redemption of common units	203	2	3,459	-	-	-	-	(3,461)	-
Common shares issued under Omnibus share plan, net of shares withheld for taxes	61	-	-	(213)	-	-	-	-	(213)
Repurchases of common shares	(7,555)	(76)	(105,307)	-	-	-	-	-	(105,383)
Dividends and distributions (\$0.40 per share and unit)	-	-	-	(95,506)	-	-	-	(10,240)	(105,746)
Contributions from noncontrolling interests	-	-	-	-	-	-	45,116	-	45,116
Distributions to noncontrolling interests	-	-	-	-	-	(18,184)	-	-	(18,184)
Change in value of interest rate swaps	-	-	-	-	6,605	-	-	668	7,273
Pro rata share of other comprehensive loss of unconsolidated joint ventures	-	-	-	-	(67)	-	(55)	(7)	(129)
Amortization of equity awards	-	-	2,943	-	-	-	-	17,994	20,937
Other	-	-	2,713	(170)	-	-	-	(2,713)	(170)
Balance as of December 31, 2018	233,136	\$ 2,329	\$ 4,201,756	\$ (219,906)	\$ 16,621	\$ 394,995	\$ 66,887	\$ 428,982	\$ 4,891,664

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 18,993	\$ 107,176	\$ 2,069
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	258,225	266,037	269,450
Straight-lining of rental income	(59,061)	(54,453)	(82,568)
Real estate impairment loss	46,000	-	-
Gain on sale of real estate	(36,845)	(133,989)	-
Amortization of stock-based compensation expense	19,646	15,922	11,278
Amortization of above and below-market leases, net	(16,059)	(19,523)	(9,536)
Amortization of deferred financing costs	11,023	11,188	6,804
Distributions of earnings from unconsolidated joint ventures	6,207	5,700	8,121
Income from unconsolidated joint ventures	(3,468)	(20,185)	(7,413)
Realized and unrealized losses (gains) on marketable securities	1,604	(4,664)	(494)
Distributions of earnings from unconsolidated real estate funds	330	342	392
Loss from unconsolidated real estate funds	269	6,143	498
Valuation allowance on preferred equity investment	-	19,588	-
Loss on early extinguishment of debt	-	7,877	4,608
Unrealized gain on interest rate swaps	-	(1,802)	(39,814)
Other non-cash adjustments	288	(470)	966
Changes in operating assets and liabilities:			
Accounts and other receivables	(2,994)	(1,000)	(4,521)
Deferred charges	(31,861)	(33,295)	(15,701)
Other assets	(57,216)	10,243	(12,037)
Accounts payable and accrued expenses	4,200	6,305	11,479
Other liabilities	(2,758)	2,971	4,702
Net cash provided by operating activities	156,523	190,111	148,283
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of real estate	349,013	540,333	-
Additions to real estate	(137,915)	(86,434)	(132,686)
Investment in and contributions of capital to unconsolidated joint ventures	(29,883)	(28,791)	-
Sales of marketable securities	24,794	27,261	2,353
Purchases of marketable securities	(20,019)	(29,248)	(2,722)
Escrow deposits and loans receivable for Residential Development Fund	(15,680)	-	-
Deposit on real estate	(10,000)	-	-
Contributions of capital to unconsolidated real estate funds	(3,779)	(790)	(1,780)
Distributions of capital from unconsolidated real estate funds	79	14,584	-
Acquisitions of real estate	-	(161,184)	(517,823)
Distributions of capital from unconsolidated joint ventures	-	20,000	-
Net cash provided by (used in) by investing activities	156,610	295,731	(652,658)

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchases of common shares	\$ (102,863)	\$ -	\$ -
Dividends paid to common stockholders	(94,991)	(89,276)	(82,105)
Contributions from noncontrolling interests	45,116	100,777	7,651
Repayment of loans to affiliates	(27,299)	-	-
Distributions to noncontrolling interests	(18,184)	(119,251)	(3,636)
Proceeds from notes and mortgages payable	16,700	991,556	1,362,414
Distributions paid to common unitholders	(10,064)	(11,504)	(18,412)
Debt issuance costs and other	(6,564)	(7,490)	(29,387)
Repayments of notes and mortgages payable	-	(1,044,821)	(689,269)
Repayment of borrowings under revolving credit facility	-	(290,000)	(130,000)
Borrowings under revolving credit facility	-	60,000	340,000
Settlement of interest rate swap liabilities	-	(19,425)	(23,654)
Transfer tax refund in connection with the acquisition of noncontrolling interests	-	9,555	-
Loss on early extinguishment of debt	-	(7,877)	(4,608)
Purchase of marketable securities in connection with the defeasance of notes and mortgages payable	-	-	(210,000)
Net cash (used in) provided by financing activities	(198,149)	(427,756)	518,994
Net increase in cash and cash equivalents and restricted cash	114,984	58,086	14,619
Cash and cash equivalents and restricted cash at beginning of period	250,425	192,339	185,707
Decrease in cash due to deconsolidation of real estate fund investments	-	-	(7,987)
Cash and cash equivalents and restricted cash at end of period	\$ 365,409	\$ 250,425	\$ 192,339
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:			
Cash and cash equivalents at beginning of period	\$ 219,381	\$ 162,965	\$ 143,884
Restricted cash at beginning of period	31,044	29,374	41,823
Cash and cash equivalents and restricted cash at beginning of period	\$ 250,425	\$ 192,339	\$ 185,707
Cash and cash equivalents at end of period	\$ 339,653	\$ 219,381	\$ 162,965
Restricted cash at end of period	25,756	31,044	29,374
Cash and cash equivalents and restricted cash at end of period	\$ 365,409	\$ 250,425	\$ 192,339
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash payments for interest	\$ 136,452	\$ 132,361	\$ 140,111
Cash payments for income taxes, net of refunds	4,049	5,048	2,095
NON-CASH TRANSACTIONS:			
Common shares issued upon redemption of commons units	\$ 3,461	\$ 172,728	\$ 312,257
Dividends and distributions declared but not yet paid	25,902	25,211	25,151
Write-off of fully amortized and/or depreciated assets	4,158	9,684	11,431
Basis adjustment to investment in unconsolidated joint ventures upon adoption of ASU 2017-05	7,086	-	-
Additions to real estate included in accounts payable and accrued expenses	19,872	10,413	12,104
Change in value of interest rate swaps	(7,273)	(10,618)	(8,161)
Consolidation (deconsolidation) of real estate and real estate fund investments	-	102,512	(396,697)
Assumption of notes and mortgages payable	-	228,000	-
Transfer of real estate to assets held for sale	-	-	(346,685)
Marketable securities transferred in connection with the defeasance of notes and mortgages payable	-	-	214,608
Defeasance of notes and mortgages payable	-	-	(210,000)

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

As used in these consolidated financial statements, unless otherwise indicated, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership. We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. As of December 31, 2018, our portfolio consisted of 12 Class A office properties aggregating approximately 11.9 million square feet. We conduct our business through, and substantially all of our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 90.3% of, the Operating Partnership as of December 31, 2018.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and with the rules and regulations of the Securities and Exchange Commission (the “SEC”). These consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Significant Accounting Policies

Real Estate

Real estate is carried at cost less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of real estate 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-market 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. Impairment analyses are based on our current plans, intended holding periods and available market information at the time the analyses are prepared. 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. Estimates of fair value are determined using discounted cash flow models, which consider, among other things, anticipated holding periods, current market conditions and utilize unobservable quantitative inputs, including appropriate capitalization and discount rates. 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 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.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Real estate and related intangibles are classified as held for sale when all the necessary criteria are met. The criteria include (i) management, having the authority to approve action, commits to a plan to sell the property in its present condition, (ii) the sale of the property is at a price reasonable in relation to its current fair value and (iii) the sale is probable and expected to be completed within one year. Real estate and the related intangibles held for sale are carried at the lower of carrying amounts or estimated fair value less disposal costs. Depreciation and amortization is not recognized on real estate and related intangibles classified as assets held for sale.

Variable Interest Entities (“VIEs”) and Investments in Unconsolidated Joint Ventures and Funds

We consolidate VIEs in which we are considered to be the primary beneficiary. Entities are considered to be the primary beneficiary if they have 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. We consolidate entities that are not VIEs where we have significant decision making control over 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, which consists of investments in unconsolidated joint ventures and funds are initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. To the extent that our cost basis is different than our share of the equity in the equity method investment, the basis difference allocated to depreciable assets is amortized into “income from unconsolidated joint ventures” over the estimated useful life of the related asset. The agreements that govern our equity method investments may designate different percentage allocations among investors for profits and losses; however, our recognition of income or loss generally follows the investment’s distribution priorities, which may change upon the achievement of certain investment return thresholds. We account for cash distributions in excess of our basis in the equity method investments as income when we have neither the requirement, nor the intent to provide financial support to the joint venture. 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 under the cost method.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term highly liquid investments with original maturities of three months or less. The majority of our cash and cash equivalents are held at major commercial banks, which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

Restricted Cash

Restricted cash consists primarily of security deposits held on behalf of our tenants, cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements and cash restricted in connection with our deferred compensation plan.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Preferred Equity Investments

Preferred equity investments are comprised of investments in certain partnerships that own real estate. We evaluate the collectibility of preferred equity investments when changes in events or circumstances, including delinquencies, loss experience and collateral quality, indicate that it is probable we will be unable to collect all amounts due under the contractual terms. If a preferred equity investment is considered impaired, a valuation allowance is measured and recorded based on the excess of the carrying amount of the investment over the net realizable value of the collateral.

Marketable Securities

Marketable securities consists of investments in trading securities that are held in our deferred compensation plan for which there is an offsetting liability. These investments are initially recorded at cost and subsequently measured at fair value at the end of each reporting period, with gains or losses resulting from changes in fair value recognized in earnings, which are included as a component of “interest and other income (loss), net” on our consolidated statements of income and the earnings are entirely offset by expenses from the mark-to-market of plan liabilities, which are included as a component of “general and administrative” expenses on our consolidated statements of income.

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, as needed. 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.

Deferred Charges

Deferred charges include deferred leasing costs and deferred financing costs related to our revolving credit facility. Deferred leasing costs consist of fees and direct costs related to successful leasing activities. Such costs are amortized on a straight-line basis over the lives of the related leases and recognized in our consolidated statements of income as a component of “depreciation and amortization”. Deferred financing costs consist of fees and direct costs incurred in obtaining our revolving credit facility. Such costs are amortized over the term of the revolving credit facility and are recognized as a component of “interest and debt expense” on our consolidated statements of income.

Deferred Financing Costs Related to Notes and Mortgages Payable

Deferred financing costs related to notes and mortgages payable consists of fees and direct costs incurred in obtaining such financing and are recorded as a reduction of our notes and mortgages payable. Such costs are amortized over the terms of the related debt agreements and recognized as a component of “interest and debt expense” on our consolidated statements of income.

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value in accordance with ASC Topic 815, *Derivatives and Hedging*. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and whether we have designated a derivative as a hedge and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We use derivative financial instruments in the normal course of business to selectively manage or hedge a portion of the risk associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps. Interest rate swaps that are designated as hedges are so designated at the inception of the contract. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. The changes in the fair value of interest rate swaps that are designated as hedges are recognized in “other comprehensive income (loss)” (outside of earnings) and subsequently reclassified to earnings over the term that the hedged transaction affects earnings.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Financial Instruments

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

We use the following methods and assumptions in estimating fair value for financial instruments that are presented at fair value on our consolidated balance sheets:

Interest Rate Swaps

Interest rate swaps are valued by a third-party specialist using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each swap. This analysis reflects the contractual terms of the interest rate swaps and uses observable market-based inputs, including interest rate curves and implied volatilities. Interest rate swaps are classified as Level 2 in the fair value hierarchy.

We use the following methods and assumptions in estimating fair value for financial instruments that are not presented at fair value on our consolidated balance sheets, but are disclosed in the notes to our consolidated financial statements:

Preferred Equity Investments

Preferred equity investments are valued by a third-party specialist using the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value. We use significant unobservable inputs in determining the discount rate used in the fair value measurement of these investments, including a credit spread and preferred rate of return. Preferred equity investments are classified as Level 3 in the fair value hierarchy.

Notes and Mortgages Payable

Notes and mortgages payable are valued by a third-party specialist using the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash payments we would be required to make under the instrument. The notes and mortgages payable are classified as Level 2 in fair value hierarchy.

The carrying value of marketable securities is determined using quoted prices in active markets. The carrying values of all other financial instruments on our consolidated balance sheets, including cash and cash equivalents, restricted cash, accounts and other receivable and accounts payable and accrued expenses, approximate their fair values due to the short-term nature of these instruments.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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” on our consolidated balance sheets. Rental income also includes the amortization of acquired above and below-market leases, net.

Tenant Reimbursement Income

Tenant reimbursement income includes revenues 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 earned in the same period as the expenses are incurred.

Fee and Other Income

Fee income includes (i) property management fees, (ii) asset management fees and (iii) fees related to acquisitions, dispositions and leasing services and (iv) other fee income earned pursuant to contractual agreements. Fee income is recognized as and when we satisfy our performance obligations pursuant to contractual agreements. Property management and asset management services are provided continuously over time and revenue is recognized over that time. Fee income relating to acquisitions, dispositions and leasing services is recognized upon completion of the acquisition, disposition or leasing services as required in the contractual agreements. The amount of fee income to be recognized is stated in the contract as a fixed price or as a stated percentage of revenues, contributed capital or transaction price.

Other income includes lease termination income, income from tenant requested services, including overtime heating and cooling and parking income. Lease termination income could result from a lessee terminating a lease prior to the stated terms in their agreements. To the extent a lease term is modified, any incremental fees or increased lease payments received as a result of the modification are recognized over the remaining lease term based on the relevant facts and circumstances.

Gains and Losses on Sale of Real Estate

Gains and losses on the sale of real estate are recognized pursuant to ASC Topic 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets* when (i) we do not have a controlling financial interest in the buyer and (ii) the buyer has obtained control of the real estate asset. Any gain or loss on sale is measured based on the difference between the amount of consideration received and the carrying amount of the real estate assets, less costs to sell. For partial sale of real estate resulting in transfer of control, we measure any noncontrolling interest retained at fair value and recognize a gain or loss on the difference between fair value and the carrying amount of the real estate assets retained.

Stock-based Compensation

We account for stock-based compensation in accordance with ASC Topic 718, *Compensation – Stock Compensation*. The fair value of the award on the date of grant (adjusted for estimated forfeitures) is ratably amortized into expense over the vesting period of the respective grants. The determination of fair value of these awards involves the use of significant estimates and assumptions, including expected volatility of our stock, expected dividend yield, expected term, and assumptions of whether these awards achieve the requisite performance criteria.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, with respect to any taxable year, we fail to maintain our qualification as a REIT, and we are not entitled to relief under the relevant statutory provisions, we would be subject to income tax at regular corporate 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 tax may be due on our undistributed taxable income.

We treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries (“TRSs”). TRSs may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to federal and state income tax at regular corporate tax rates. Our TRSs had a combined current income tax expense of approximately \$622,000, \$5,758,000 and \$780,000 for the years ended December 31, 2018, 2017 and 2016, respectively. In addition, our TRSs had a combined deferred income tax expense of \$87,000 for the year ended December 31, 2018 and deferred income tax benefits of \$922,000 and \$479,000 for the years ended December 31, 2017 and 2016, respectively.

The following table reconciles net income (loss) attributable to Paramount Group, Inc. to estimated taxable income for the years ended December 31, 2018, 2017 and 2016.

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Net income (loss) attributable to Paramount Group, Inc.	\$ 9,147	\$ 86,381	\$ (9,934)
Book to tax differences:			
Straight-lining of rents and amortization of above and below-market leases, net	(48,604)	(44,083)	(51,880)
Depreciation and amortization	92,512	96,991	95,489
Stock-based compensation	17,847	14,441	9,673
Real estate impairment loss	41,788	-	-
Gain on sale of real estate	(14,381)	(95,182)	-
Write-off of and valuation allowance on preferred equity investment	(3,574)	4,327	-
Earnings of unconsolidated joint ventures, including real estate investments	179	(8,600)	(3,513)
Swap breakage costs	-	(1,487)	(25,367)
Unrealized gain on interest rate swaps	-	(860)	(4,651)
Other, net	(8,240)	1,885	13,295
Estimated taxable income	\$ 86,674	\$ 53,813	\$ 23,112

The following table sets forth the characterization of dividend distributions for federal income tax purposes for the years ended December 31, 2018, 2017 and 2016

	For the Year Ended December 31,					
	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Ordinary income	\$ 0.286 ⁽¹⁾	72.4%	\$ 0.195	51.3%	\$ 0.107	28.2%
Long-term capital gain	0.074	18.7%	0.034	8.9%	-	-
Return of capital	0.035	8.9%	0.151	39.8%	0.273	71.8%
Total	\$ 0.395 ⁽²⁾	100.0%	\$ 0.380 ⁽²⁾	100.0%	\$ 0.380 ⁽²⁾	100.0%

⁽¹⁾ Represents amounts treated as “qualified REIT dividends” for purposes of Internal Revenue Code 199A.

⁽²⁾ The fourth quarter dividend for the years ended December 31, 2018, 2017 and 2016 of \$0.100, \$0.095 and \$0.095 per share, respectively, were paid in January of the subsequent years and are allocable to the subsequent years for federal income tax purposes.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segments

Our reportable segments are separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. Our determination of segments is aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker, makes key operating decisions, evaluates financial results and manages our business. See Note 25, *Segments*.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the notes thereto. Actual results could differ materially from those estimates.

Reclassification

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

Recently Issued Accounting Pronouncements Not Materially Impacting Our Financial Statements

In May 2014, the Financial Accounting Standard's Board ("FASB") issued ASU 2014-09, an update to ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments made in applying the guidance. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. We adopted the provisions of ASU 2014-09 on January 1, 2018, using the modified retrospective approach. The adoption of ASU 2014-09 did not impact our consolidated financial results but resulted in additional disclosures on our consolidated financial statements. See Note 16, *Revenues*.

In June 2016, the FASB issued ASU 2016-13, an update to ASC Topic 326, *Financial Instruments – Credit Losses*. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. In November 2018, the FASB issued ASU 2018-19, which clarified that receivables arising from operating leases are not within the scope of ASC Topic 326, and instead, impairment of receivables arising from operating leases (previously recorded as bad debt expense, a component of "operating expenses"), should be accounted for under the scope of ASC Topic 842, *Leases*. Accordingly, pursuant to ASU 2018-19, beginning on January 1, 2019, impairment of receivables arising from operating leases, if any, will be recorded as a reduction of rental income and no longer reflected as bad debt expense. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We do not believe the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In August 2018, the FASB issued ASU 2018-13, an update to ASC Topic 820, *Fair Value Measurements*. ASU 2018-13 modifies the disclosure requirements in ASC Topic 820, by (i) removing certain disclosure requirements related to transfers between Level 1 and Level 2 of the fair value hierarchy and the valuation processes for Level 3 fair value measurements, (ii) modifying existing disclosure requirements related to measurement uncertainty and (iii) adding new disclosure requirements related to changes in unrealized gains or losses for the periods included in other comprehensive income for recurring Level 3 fair value measurements and disclosures related to the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted. We are evaluating the impact of ASU 2018-13 but do not believe the adoption will have an impact on our consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, an update to ASC Topic 815, *Derivatives and Hedging*. ASU 2018-16 adds the Overnight Index Swap Rate (“OIS”) based on Secured Overnight Financing Rate (“SOFR”) to the list of permissible benchmark interest rates for hedge accounting purposes. ASU 2018-16 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018. The FASB permitted early adoption of ASU 2018-16 for entities that had already adopted ASU 2017-12, an earlier update to ASC Topic 815, *Derivatives and Hedging*. We adopted the provisions of ASU 2017-12 on December 31, 2017 and have adopted the provisions of ASU 2018-16 on December 31, 2018. These adoptions did not have any impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements Impacting or Potentially Impacting Our Financial Statements

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, *Leases*. ASU 2016-02 amends the existing guidance for lease accounting by requiring lessees to, among other things, (i) recognize most leases on their balance sheets, (ii) classify leases as either financing or operating, and (iii) record a right-of-use asset and a lease liability for all leases with a term greater than 12 months. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We will adopt the provisions of ASU 2016-02 on January 1, 2019, using the alternative modified retrospective method, also known as the transition relief method, permitted under ASU 2018-11. Additionally, we will elect the package of practical expedients which permits us not to reassess under ASC Topic 842 our prior conclusions about lease identification, lease classification and initial direct costs. We will record a right-of-use asset and a lease liability upon such adoption for leases in which we are a lessee. However, we do not believe that any asset and liability recorded in connection with such adoption will have a material impact to our financial statements.

While accounting for lessors under ASU 2016-02 is substantially similar to existing lease accounting guidance, lessors are required to separate payments received pursuant to a lease between lease components (rental income) and non-lease components (revenue related to various services we provide). In July 2018, the FASB issued ASU 2018-11, which provided lessors with a practical expedient to not separate lease and non-lease components, if certain criteria are met. We believe we meet such criteria and upon the adoption of ASU 2016-02, we will elect this practical expedient.

Furthermore, ASU 2016-02 also updates the definition of initial direct costs for both lessees and lessors to include only incremental costs of a lease that would not have been incurred if the lease had not been obtained. As a result, upon adoption of ASU 2016-02 on January 1, 2019, we will no longer be able to capitalize internal leasing costs and will have to expense them instead. We had capitalized internal leasing costs of \$5,653,000, \$7,003,000 and \$5,027,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

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In December 2018, the FASB issued ASU 2018-20, an update to ASC Topic 842, *Leases*. ASU 2018-20 allows lessors to make an accounting policy election not to evaluate whether sales taxes and similar taxes imposed by a governmental authority on a specific lease transaction and collected by the lessor from the lessee are the primary obligation of the lessor. A lessor that makes this election must exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes within the scope of the election and make additional disclosures. ASU 2018-20 requires a lessor to exclude lessor costs paid directly by a lessee to third parties on the lessor's behalf from variable payments, but lessor costs that are paid by the lessor and reimbursed by the lessee are required to be included in variable payments. The effective date of ASU 2018-20 is required to coincide with the effective date of ASU 2016-02. The adoption of the provisions of ASU 2018-20 on January 1, 2019 will not have an impact on our financial statements.

In November 2016, the FASB issued ASU 2016-18, an update to ASC Topic 230, *Statement of Cash Flows*, to provide guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include restricted cash with cash and cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-18 retrospectively, on December 31, 2017. This adoption resulted in (i) additional disclosures to reconcile cash and cash equivalents and restricted cash on our consolidated balance sheets to our consolidated statements of cash flows, (ii) increased cash provided by operating activities and cash used in investing activities by \$3,000,000 and \$15,449,000, respectively, for the year ended December 31, 2016.

In February 2017, the FASB issued ASU 2017-05, an update to ASC Topic 610, *Other Income*. ASU 2017-05 clarifies the scope and accounting for derecognition of a nonfinancial asset and eliminates the guidance in ASC 360-20 specific to real estate sales and partial sales. ASU 2017-05 requires an entity that transfers control of a nonfinancial asset to measure any noncontrolling interest it retains (or receives) at fair value. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for entities concurrently early adopting ASU 2014-09. We adopted the provisions of ASU 2017-05 on January 1, 2018, using the modified retrospective approach. Upon adoption, we recorded a \$7,086,000 adjustment to "investments in unconsolidated joint ventures" relating to the measurement of our consolidated Residential Development Fund's ("RDF") retained interest in One Steuart Lane (formerly 75 Howard Street) at fair value with an offset to equity. See Note 5, *Investments in Unconsolidated Joint Ventures*.

In October 2018, the FASB issued ASU 2018-17, an update to ASC Topic 810, *Consolidations*. ASU 2018-17 requires reporting entities to consider indirect interests held by related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety in determining whether a decision-making fee is a variable interest. ASU 2018-17 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted. We are evaluating the impact of ASU 2018-17 on our consolidated financial statements.

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3. Dispositions

2099 Pennsylvania Avenue

On August 9, 2018, we completed the sale of 2099 Pennsylvania Avenue, a 208,776 square foot, Class A office building in Washington, D.C. for \$219,900,000 and recognized a gain of \$35,836,000, which is included as a component of “gain on sale of real estate” on our consolidated statement of income for the year ended December 31, 2018.

425 Eye Street

On September 27, 2018, we completed the sale of 425 Eye Street, a 372,552 square foot, Class A office building in Washington, D.C. for \$157,000,000 and recognized a gain of \$1,009,000, which is included as a component of “gain on sale of real estate” on our consolidated statement of income for the year ended December 31, 2018.

Waterview

On May 3, 2017, we completed the sale of Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia for \$460,000,000 and recognized a gain of \$110,583,000, which is included as a component of “gain on sale of real estate” on our consolidated statement of income for the year ended December 31, 2017.

4. Acquisitions

111 Sutter Street

On February 7, 2019, we completed the acquisition of 111 Sutter Street, a 293,000 square foot office building in San Francisco, California. Simultaneously to closing, we brought in a joint venture partner to acquire 51.0% of the equity interest. We will retain the remaining 49.0% equity interest and manage and lease the asset. The purchase price was \$227,000,000. In connection with the acquisition, the joint venture completed a \$138,200,000 financing of the property. The four-year loan is interest only at LIBOR plus 215 basis points and has three one-year extension options.

50 Beale Street

On July 17, 2017, we and a new joint venture in which we have a 36.6% interest, acquired, through a series of transactions, a 62.2% interest in 50 Beale Street, a 660,625 square foot, Class A office building in San Francisco, California. Subsequent to the acquisition, we own a direct 13.2% interest in the property and the new joint venture owns the remaining 49.0% interest. Accordingly, our economic interest in the property is 31.1%. The acquisition valued the property at \$517,500,000 and included the assumption of \$228,000,000 of existing debt.

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5. Investments in Unconsolidated Joint Ventures

Prior to March 14, 2018, RDF, in which we have a 7.4% interest, owned 20.0% of One Steuart Lane (the “Property”). On March 14, 2018, RDF transferred its 20.0% interest to a new joint venture in which it owns a 75.0% interest. Separately on March 14, 2018, RDF acquired an additional 10.0% interest in the Property from its existing partner. Subsequent to these transactions RDF owns a 25.0% economic interest in the Property, comprised of the newly acquired 10.0% interest and an indirect 15.0% interest it owns through the joint venture. Accordingly, RDF was required to consolidate its 75.0% interest in the joint venture that owns 20.0% of the Property, and reflect the 25.0% interest in this venture (5.0% economic interest in the Property) it does not own as noncontrolling interests. We continue to consolidate our 7.4% interest in RDF and reflect the 92.6% interest we do not own as noncontrolling interests. As of December 31, 2018, our economic interest in the Property was 1.85%.

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

(Amounts in thousands)	Paramount	As of December 31,	
Our Share of Investments:	Ownership	2018	2017
712 Fifth Avenue ⁽¹⁾	50.0%	\$ -	\$ -
60 Wall Street ⁽²⁾	5.0%	22,353	25,083
One Steuart Lane ⁽²⁾	25.0% ⁽³⁾	52,923 ⁽⁴⁾	16,031
Oder-Center, Germany ⁽²⁾	9.5%	3,587	3,648
Investments in unconsolidated joint ventures		\$ 78,863	\$ 44,762

(Amounts in thousands)	For the Year Ended December 31,		
Our Share of Net Income (Loss):	2018	2017	2016
712 Fifth Avenue ⁽¹⁾	\$ 3,901	\$ 20,072	\$ 7,335
60 Wall Street ⁽²⁾	(518)	(152)	-
One Steuart Lane ⁽²⁾	(18)	182	-
Oder-Center, Germany ⁽²⁾	103	83	78
Income from unconsolidated joint ventures	\$ 3,468	\$ 20,185	\$ 7,413

⁽¹⁾ As of December 31, 2018, our basis in the partnership that owns 712 Fifth Avenue, was negative \$17,611 resulting from distributions made to us in excess of our share of earnings recognized. Accordingly, we no longer recognize our proportionate share of earnings from the venture because we have no further obligation to fund additional capital to the venture. Instead, we only recognize earnings to the extent we receive cash distributions from the venture.

⁽²⁾ As of December 31, 2018, the carrying amount of our investment in 60 Wall Street, One Steuart Lane and Oder Center, Germany is greater than our share of equity in these investments by \$2,772, \$692, \$5,055, respectively, and primarily represents the unamortized portion of our capitalized acquisition costs. Basis differences allocated to depreciable assets are being amortized into “income from unconsolidated joint ventures” over the estimated useful life of the related assets.

⁽³⁾ Represents RDF’s economic interest in the Property.

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

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The following tables provide the combined summarized financial information of our unconsolidated joint ventures as of the dates and for the periods set forth below.

(Amounts in thousands)	As of December 31,	
Balance Sheets:	2018	2017
Real estate, net	\$ 1,236,989	\$ 1,196,116
Intangible assets	97,658	126,422
Other assets	91,552	81,596
Total assets	\$ 1,426,199	\$ 1,404,134
Notes and mortgages payable, net	\$ 887,882	\$ 886,902
Other liabilities	22,310	14,196
Total liabilities	910,192	901,098
Equity	516,007	503,036
Total liabilities and equity	\$ 1,426,199	\$ 1,404,134

(Amounts in thousands)	For the Year Ended December 31,		
Income Statements:	2018	2017	2016
Rental income	\$ 113,156	\$ 113,643	\$ 54,420
Tenant reimbursement income	27,178	25,161	4,495
Fee and other income	7,146	1,622	1,882
Total revenues	147,480	140,426	60,797
Operating	53,417	51,390	23,670
Depreciation and amortization	48,452	46,409	12,509
Total expenses	101,869	97,799	36,179
Operating income	45,611	42,627	24,618
Interest and other income	803	381	68
Interest and debt expense	(39,406)	(33,461)	(12,212)
Unrealized gain on interest rate swaps	-	1,896	4,109
Net income before income taxes	7,008	11,443	16,583
Income tax expense	(10)	(2)	(10)
Net income	\$ 6,998	\$ 11,441	\$ 16,573

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6. Investments in Unconsolidated Real Estate Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and its parallel fund, Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”), our Property Funds. As of December 31, 2018, Fund VII and Fund VII-H’s sole asset, which they collectively owned 100% of, was 0 Bond Street, a 64,532 square foot creative office building in the NoHo submarket of Manhattan. As of December 31, 2018, our combined ownership interest in Fund VII and Fund VII-H was approximately 7.2%. On January 25, 2019, Fund VII and Fund VII-H sold 0 Bond Street for \$130,500,000.

We are also the general partner and investment manager of Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”), our Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments. Fund VIII completed its final closing in April 2016 with \$775,200,000 in capital commitments, of which \$614,450,000 has been called and substantially invested as of December 31, 2018 and an additional \$74,391,000 is reserved for funding future draws on existing mezzanine loans and preferred equity investments. These investments have various stated interest rates ranging from 5.50% to 9.61% and maturities ranging from October 2019 to December 2027. Fund VIII’s investment period is scheduled to end in April 2019, unless extended by us until April 2020. As of December 31, 2018, our ownership interest in Fund VIII was approximately 1.3%.

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

(Amounts in thousands)	As of December 31,	
	2018	2017
Our Share of Investments:		
Property Funds	\$ 2,340	\$ 2,429
Alternative Investment Fund	8,012	4,824
Investments in unconsolidated real estate funds	\$ 10,352	\$ 7,253

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Our Share of Net Loss:			
Net investment income (loss)	\$ 291	\$ 236	\$ (324)
Net realized loss	-	(126)	-
Net unrealized loss	(560)	(663)	(1,706)
Carried interest	-	(5,590)	1,532
Loss from unconsolidated real estate funds	\$ (269)	\$ (6,143)	\$ (498)

In December 2018, we completed an initial closing of Paramount Group Real Estate Fund X, L.P. (“Fund X”), with \$167,000,000 in capital commitments, including \$10,000,000 from us. As of December 31, 2018, none of the capital has been called.

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The following tables provide the summarized financial information of our unconsolidated real estate funds, excluding Fund X, as of the dates and for the periods set forth below.

(Amounts in thousands)	As of December 31,	
	2018	2017
Balance Sheets:		
Real estate investments	\$ 645,013	\$ 405,931
Cash and cash equivalents	10,791	5,076
Other assets	10	74
Total assets	\$ 655,814	\$ 411,081
Other liabilities	\$ 1,483	\$ 1,308
Total liabilities	1,483	1,308
Equity	654,331	409,773
Total liabilities and equity	\$ 655,814	\$ 411,081

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Income Statements:			
Investment income	\$ 33,814	\$ 29,013	\$ 20,484
Investment expenses	10,587	7,086	7,466
Net investment income	23,227	21,927	13,018
Net realized losses	-	(72,134)	-
Previously recorded unrealized losses	-	35,682	-
Net unrealized (losses) gains	(4,656)	(6,266)	14,275
Income (loss) from real estate fund investments	\$ 18,571	\$ (20,791)	\$ 27,293

7. Preferred Equity Investments

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

The following table summarizes our preferred equity investments.

(Amounts in thousands, except square feet)	Paramount Ownership	Dividend Rate	Initial Maturity	As of December 31,	
				2018	2017
470 Vanderbilt Avenue ⁽¹⁾	24.4%	10.3%	Feb-2019	\$ 36,042	\$ 35,817
2 Herald Square ⁽²⁾	n/a	n/a	n/a	-	19,588
				36,042	55,405
Less: valuation allowance ⁽²⁾				-	(19,588)
Total preferred equity investments, net				\$ 36,042	\$ 35,817

⁽¹⁾ Represents a preferred equity investment in a partnership that owns 470 Vanderbilt Avenue, a 686,000 square foot office building in Brooklyn, New York. The preferred equity has a dividend rate of 10.3%, of which 8.0% was paid in cash through February 2016 and the unpaid portion accreted to the balance of the investment. Subsequent to February 2016, the entire 10.3% dividend is being paid in cash.

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

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8. Intangible Assets and Liabilities

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

(Amounts in thousands)	As of December 31,	
	2018	2017
Intangible assets:		
Gross amount	\$ 515,889	\$ 553,063
Accumulated amortization	(245,444)	(200,857)
	<u>\$ 270,445</u>	<u>\$ 352,206</u>
Intangible liabilities:		
Gross amount	\$ 185,191	\$ 205,101
Accumulated amortization	(89,200)	(75,073)
	<u>\$ 95,991</u>	<u>\$ 130,028</u>

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Amortization of above and below-market leases, net (component of “rental income”)	\$ 16,059	\$ 19,523	\$ 9,536
Amortization of acquired in-place leases (component of “depreciation and amortization”)	\$ 58,814	\$ 76,016	\$ 94,935

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

(Amounts in thousands)	Above and Below-Market	
	Leases, Net	In-Place Leases
For the Year Ending December 31,		
2019	\$ 11,851	\$ 49,378
2020	6,654	38,738
2021	3,361	28,150
2022	892	23,598
2023	4,407	18,917

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9. Debt

On January 10, 2018, we amended and restated the credit agreement governing our revolving credit facility. The maturity date of the revolving credit facility was extended from November 2018 to January 2022, with two six-month extension options, and the capacity was increased to \$1,000,000,000 from \$800,000,000. The interest rate on the revolving credit facility, at current leverage levels, was lowered by 10 basis points from LIBOR plus 125 basis points to LIBOR plus 115 basis points, and the facility fee was reduced by 5 basis points from 25 basis points to 20 basis points.

The following table summarizes our outstanding debt.

(Amounts in thousands)	<u>Maturity Date</u>	<u>Fixed/ Variable Rate</u>	<u>Interest Rate as of December 31, 2018</u>	<u>As of December 31,</u>	
				<u>2018</u>	<u>2017</u>
Notes and mortgages payable:					
1633 Broadway					
	Dec-2022	Fixed ⁽¹⁾	3.54%	\$ 1,000,000	\$ 1,000,000
	Dec-2022	L + 175 bps	4.10%	46,800 ⁽²⁾	30,100 ⁽²⁾
			3.56%	1,046,800	1,030,100
One Market Plaza ⁽³⁾					
	Feb-2024	Fixed	4.03%	975,000	975,000
1301 Avenue of the Americas					
	Nov-2021	Fixed	3.05%	500,000	500,000
	Nov-2021	L + 180 bps	4.18%	350,000	350,000
			3.51%	850,000	850,000
31 West 52nd Street					
	May-2026	Fixed	3.80%	500,000	500,000
50 Beale Street ⁽³⁾					
	Oct-2021	Fixed	3.65%	228,000	228,000
Total notes and mortgages payable			3.72%	3,599,800	3,583,100
Less: deferred financing costs				(32,883)	(41,800)
Total notes and mortgages payable, net				\$ 3,566,917	\$ 3,541,300
\$1.0 Billion Revolving Credit Facility	Jan-2022	L + 115 bps	n/a	\$ -	\$ -

⁽¹⁾ Represents loans with variable interest rates that have been fixed by interest rate swaps. See Note 10, *Derivative Instruments and Hedging Activities*.

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

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

The following table summarizes our principal repayments required for the next five years and thereafter in connection with our notes and mortgages payable and revolving credit facility as of December 31, 2018.

(Amounts in thousands)	Total	Notes and Mortgages Payable	Revolving Credit Facility
2019	\$ 1,052	\$ 1,052	-
2020	4,304	4,304	-
2021	1,072,644	1,072,644	-
2022	1,046,800	1,046,800	-
2023	-	-	-
Thereafter	1,475,000	1,475,000	-

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10. Derivative Instruments and Hedging Activities

Interest Rate Swaps – Designated as Cash Flow Hedges

We have interest rate swaps with an aggregate notional amount of \$1.0 billion that are designated as cash flow hedges. We also have entered into forward starting interest rate swaps with an aggregate notional amount of \$400,000,000 to extend the maturity of certain swaps for an additional year. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in “other comprehensive income (loss)” (outside of earnings). We recognized other comprehensive income of \$7,273,000, \$10,618,000, and \$8,161,000 for the years ended December 31, 2018, 2017 and 2016, respectively, from the changes in fair value of these interest rate swaps. See Note 12, *Accumulated Other Comprehensive Income (Loss)*. During the next twelve months, we estimate that \$7,489,000 of the amounts recognized in accumulated other comprehensive income will be reclassified as a decrease in interest expense.

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

	Fair Value as of December 31,	
	2018	2017
Interest rate swap assets designated as cash flow hedges (included in “other assets”)	\$ 16,859	\$ 9,855
Interest rate swap liabilities designated as cash flow hedges (included in “other liabilities”)	\$ 48	\$ 317

We have agreements with various derivative counterparties that contain provisions wherein a default on our indebtedness could be deemed a default on our derivative obligations, which would require us to either post collateral up to the fair value of our derivative obligations or settle the obligations for cash. As of December 31, 2018, we did not have such obligations relating to our swaps.

Interest Rate Swaps – Non-designated Hedges

As of December 31, 2018 and 2017, we did not have interest rate swaps that were not designated as hedges. Prior to December 31, 2017, we had interest rate swaps on One Market Plaza, 900 Third Avenue and 31 West 52nd Street that were not designated as a hedges. We recognized unrealized gains of \$1,802,000 and \$39,814,000 for the years ended December 31, 2017 and 2016, respectively, in connection with these interest rate swaps, which are included as “unrealized gain on interest rate swaps” on our consolidated statements of income.

11. Equity

Stock Repurchase Program

On August 1, 2017, we received authorization from our Board of Directors to repurchase up to \$200,000,000 of our common stock from time to time, in the open market or in privately negotiated transactions. As of December 31, 2018, we have repurchased an aggregate of 7,555,601 shares, or \$105,383,000 of our common stock, at a weighted average price of \$13.95 per share. We currently have \$94,617,000 available for future repurchases. The amount and timing of future repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

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12. Accumulated Other Comprehensive Income (Loss)

The following table sets forth changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2018, 2017 and 2016, including amounts attributable to noncontrolling interests in the Operating Partnership.

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Amount of income (loss) related to the effective portion of cash flow hedges recognized in other comprehensive income (loss)	\$ 9,203	\$ 3,360	\$ (5,150)
Amounts reclassified from accumulated other comprehensive income (decreasing) increasing interest and debt expense	(1,930)	7,258	13,311
Amount of (loss) income related to unconsolidated joint ventures recognized in other comprehensive income (loss) ⁽¹⁾	(129)	160	17

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

13. Noncontrolling Interests

Consolidated Joint Ventures

Noncontrolling interests in consolidated joint ventures consist of equity interests held by third parties in One Market Plaza, 50 Beale Street and PGRESS Equity Holdings L.P. As of December 31, 2018 and 2017, noncontrolling interests in our consolidated joint ventures aggregated \$394,995,000 and \$404,997,000, respectively.

Consolidated Real Estate Fund

Noncontrolling interests in our consolidated real estate fund consists of equity interests held by third parties in RDF. As of December 31, 2018 and 2017, the noncontrolling interest in our consolidated real estate fund aggregated \$66,887,000 and \$14,549,000, respectively.

Operating Partnership

Noncontrolling interests in the Operating Partnership represent common units of the Operating Partnership that are held by third parties, including management, and units issued to management under equity incentive plans. Common units of the Operating Partnership may be tendered for redemption to the Operating Partnership for cash. We, at our option, may assume that obligation and pay the holder either cash or common shares on a one-for-one basis. Since the number of common shares outstanding is equal to the number of common units owned by us, the redemption value of each common unit is equal to the market value of each common share and distributions paid to each common unitholder is equivalent to dividends paid to common stockholders. As of December 31, 2018 and 2017, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of \$428,982,000 and \$425,797,000, respectively, and a redemption value of \$315,595,000 and \$390,231,000, respectively.

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14. Variable Interest Entities (“VIEs”)

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

Consolidated VIEs

We are the sole general partner of, and owned approximately 90.3% of, the Operating Partnership as of December 31, 2018. The Operating Partnership is considered a VIE and is consolidated in our consolidated financial statements. Since we conduct our business through and substantially all of our interests are held by the Operating Partnership, the assets and liabilities on our consolidated financial statements represent the assets and liabilities of the Operating Partnership. As of December 31, 2018 and 2017, the Operating Partnership held interests in consolidated VIEs owning properties, a real estate fund and preferred equity investments that were determined to be VIEs. The assets of these consolidated VIEs may only be used to settle the obligations of the entities and such obligations are secured only by the assets of the entities and are non-recourse to the Operating Partnership or us. The following table summarizes the assets and liabilities of consolidated VIEs of the Operating Partnership.

(Amounts in thousands)	As of December 31,	
	2018	2017
Real estate, net	\$ 1,699,618	\$ 1,726,800
Cash and restricted cash	63,450	55,658
Investments in unconsolidated joint ventures	52,923	16,031
Preferred equity investments, net	36,042	35,817
Accounts and other receivables, net	2,107	2,550
Deferred rent receivable	51,926	44,000
Deferred charges, net	14,160	8,123
Intangible assets, net	45,818	66,112
Other assets	16,635	929
Total VIE assets	\$ 1,982,679	\$ 1,956,020
Notes and mortgages payable, net	\$ 1,197,644	\$ 1,196,607
Accounts payable and accrued expenses	24,183	21,211
Intangible liabilities, net	31,582	46,365
Other liabilities	5	155
Total VIE liabilities	\$ 1,253,414	\$ 1,264,338

Unconsolidated VIEs

As of December 31, 2018, the Operating Partnership held variable interests in entities that own our unconsolidated real estate funds that were deemed to be VIEs. The following table summarizes our investments in these unconsolidated real estate funds and the maximum risk of loss from these investments.

(Amounts in thousands)	As of December 31,	
	2018	2017
Investments	\$ 10,352	\$ 7,253
Asset management fees and other receivables	722	597
Maximum risk of loss	\$ 11,074	\$ 7,850

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value

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

(Amounts in thousands)	As of December 31, 2018			
	Total	Level 1	Level 2	Level 3
Marketable securities	\$ 22,660	\$ 22,660	\$ -	\$ -
Interest rate swap assets (included in "other assets")	16,859	-	16,859	-
Total assets	\$ 39,519	\$ 22,660	\$ 16,859	\$ -
Interest rate swap liabilities (included in "other liabilities")	\$ 48	\$ -	\$ 48	\$ -
Total liabilities	\$ 48	\$ -	\$ 48	\$ -

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

Financial Assets and Liabilities Not Measured at Fair Value

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

(Amounts in thousands)	As of December 31, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred equity investments	\$ 36,042	\$ 36,339	\$ 35,817	\$ 36,112
Total assets	\$ 36,042	\$ 36,339	\$ 35,817	\$ 36,112
Notes and mortgages payable	\$ 3,599,800	\$ 3,617,961	\$ 3,583,100	\$ 3,596,953
Revolving credit facility	-	-	-	-
Total liabilities	\$ 3,599,800	\$ 3,617,961	\$ 3,583,100	\$ 3,596,953

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Revenues

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

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Rental income	\$ 667,360	\$ 628,883	\$ 590,161
Tenant reimbursement income	56,950	52,418	44,943
Fee and other income:			
Fee income:			
Property management	6,163	6,336	5,948
Asset management	7,912	8,581	7,754
Acquisition, disposition and leasing	3,160	7,770	2,026
Other	1,394	1,525	1,203
Total fee income	18,629	24,212	16,931
Lease termination income	2,985	2,189	17,010 ⁽¹⁾
Other income ⁽²⁾	13,037	11,265	14,296
Total fee and other income	34,651	37,666	48,237
Total revenues	\$ 758,961	\$ 718,967	\$ 683,341

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

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

Property-related Revenues

Property-related revenue is recognized in accordance with ASC Topic 840, *Leases*, and consists of (i) rental income, which is generated from the lease-up of office, retail and storage space to tenants under operating leases and recognized on a straight-line basis over the non-cancellable term of the lease, (ii) tenant reimbursement income, which is comprised of reimbursement of certain operating costs and real estate taxes from tenants, (iii) lease termination income and (iv) other income.

The following table is a schedule of future minimum cash rents under non-cancelable operating leases as of December 31, 2018, for each of the five succeeding years commencing January 1, 2019.

(Amounts in thousands)	
2019	\$ 611,301
2020	606,339
2021	553,330
2022	519,559
2023	473,206
Thereafter	2,790,256
Total	\$ 5,553,991

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue from Contracts with Customers

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

Fee income is recognized as and when we satisfy our performance obligations pursuant to contractual agreements. Property management and asset management services are provided continuously over time and revenue is recognized over that time. Fee income relating to acquisitions, dispositions and leasing services is recognized upon completion of the acquisition, disposition or leasing services as required in the contractual agreements. The amount of fee income to be recognized is stated in the contract as a fixed price or as a stated percentage of revenues, contributed capital or transaction price. Fee income is reported in a non-operating segment, and therefore is shown as a reconciling item to net income in Note 25, *Segments*.

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

(Amounts in thousands)	<u>Total</u>	<u>Property Management</u>	<u>Asset Management</u>	<u>Acquisition, Disposition and Leasing</u>	<u>Other</u>
Accounts and other receivables:					
Balance as of December 31, 2017	\$ 1,558	\$ 290	\$ 762	\$ 490	\$ 16
Balance as of December 31, 2018	2,075	567	954	490	64
Increase	\$ 517	\$ 277	\$ 192	\$ -	\$ 48

As of December 31, 2018 and 2017, our consolidated balance sheets included \$400,000 and \$387,000, respectively, of deferred revenue in connection with prepayments for services we have not yet provided. These amounts are included as a components of “accounts payable and accrued expenses” on our consolidated balance sheets and will be recognized as income upon completion of the required services.

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

17. Real Estate Impairment Loss

On June 30, 2018, we wrote down the value of certain real estate assets in our Washington, D.C. portfolio. Our estimates of fair value were determined using discounted cash flow models, which considered, among other things, anticipated holding periods, current market conditions and utilized unobservable quantitative inputs, including appropriate capitalization and discount rates. Accordingly, we recorded a \$46,000,000 impairment loss based on the excess of the carrying value over the estimated fair value, which is included as “real estate impairment loss” on our consolidated statement of income for the year ended December 31, 2018.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Interest and Other Income (Loss), net

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

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Preferred equity investment income ⁽¹⁾	\$ 3,655	\$ 4,187	\$ 5,716
Interest and other income	5,384	1,256	774
Mark-to-market of investments in our deferred compensation plans ⁽²⁾	(922)	5,114	444
Valuation allowance on preferred equity investment ⁽³⁾	-	(19,588)	-
Total interest and other income (loss), net	\$ 8,117	\$ (9,031)	\$ 6,934

⁽¹⁾ Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., of which our 24.4% share is \$890, \$1,029 and \$1,393 for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 7, *Preferred Equity Investments*.

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

⁽³⁾ Represents the valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings L.P., of which our 24.4% share was \$4,780, and \$14,808 was attributable to noncontrolling interests. In May 2018, the senior lender foreclosed out our interest and accordingly, we wrote off our preferred equity investment.

19. Interest and Debt Expense

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

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Interest and debt expense	\$ 136,630	\$ 132,574	\$ 146,334
Amortization of deferred financing costs	11,023	11,188	6,804
Total interest and debt expense	\$ 147,653	\$ 143,762	\$ 153,138

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Incentive Compensation

Stock-Based Compensation

Our 2014 Equity Incentive Plan (the “Plan”), provides for grants of equity incentive awards to our executive officers, non-employee directors, eligible employees and other key persons in order to attract, motivate and retain the talent for which we compete. Under the Plan, awards may be granted up to a maximum of 17,142,857 shares, if all awards granted are “full value awards,” as defined, and up to 34,285,714 shares, if all of the awards granted are “not full value awards,” as defined. “Full value awards” are awards such as restricted stock or long-term incentive plan LTIP units of our Operating Partnership (“LTIP units”) that do not require the payment of an exercise price. “Not full value awards” are awards such as stock options or stock appreciation rights that require the payment of an exercise price. As of December 31, 2018, we have 9,643,663 shares available for future grants under the Plan, if all awards granted are full value awards, as defined in the Plan.

The following table summarizes the components of stock-based compensation expense for the years ended December 31, 2018, 2017 and 2016.

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
LTIP units	\$ 9,059	\$ 6,572	\$ 5,617
Performance-based units	7,645	6,421	3,680
Restricted stock	988	715	391
Stock options	1,954	2,214	1,590
Total stock-based compensation expense	\$ 19,646	\$ 15,922	\$ 11,278

LTIP Units

We grant our executive officers, non-employee directors and other employees LTIP units which vest over a period of three to five years and are subject to a taxable book-up event, as defined. The LTIP units granted in the years ended December 31, 2018, 2017 and 2016 had grant date fair values of \$10,145,000, \$7,467,000 and \$10,106,000, respectively, which are being amortized into expense on a straight-line basis over the vesting period. As of December 31, 2018, there was \$12,387,000 of total unrecognized compensation cost related to unvested LTIP units, which is expected to be recognized over a weighted-average period of 2.0 years. The following table summarizes our LTIP unit activity for the year ended December 31, 2018.

	Units	Weighted-Average Grant-Date Fair Value (per unit)
Unvested as of December 31, 2017	1,090,764	\$ 15.70
Granted	754,069	13.45
Vested	(516,318)	15.66
Cancelled or expired	(44,432)	15.40
Unvested as of December 31, 2018	<u>1,284,083</u>	\$ 14.41

PARAMOUNT GROUP, INC.
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Performance-Based Award Programs (“Performance Programs”)

We grant our executive officers and other employees LTIP units under multi-year performance-based long-term equity compensation programs. The purpose of these Performance Programs is to further align the interests of our stockholders with that of management by encouraging our senior officers to create stockholder value in a “pay for performance” structure. Under the Performance Programs, participants may earn LTIP units based on our Total Shareholder Return (“TSR”) over a three-year performance measurement period on both an absolute basis and relative basis. If the designated performance objectives are achieved, awards earned under the Performance Programs are subject to vesting over a period of four years and are also subject to a taxable book-up event, as defined.

The LTIPs unit activity granted under the Performance Programs in the years ended December 31, 2018, 2017 and 2016 had grant date fair values of \$7,009,000, \$10,520,000 and \$10,914,000, respectively, and are being amortized into expense over the four-year vesting period using a graded vesting attribution method. As of December 31, 2018, there was \$10,537,000 of total unrecognized compensation cost related to unvested LTIP units granted under the Performance Programs, which is expected to be recognized over a weighted average period of 2.3 years. The following table summarizes our LTIP unit activity granted under the Performance Programs for the year ended December 31, 2018.

	Units	Weighted-Average Grant-Date Fair Value (per unit)
Unvested as of December 31, 2017	3,253,991	\$ 8.72
Granted	1,382,807	5.07
Cancelled or expired	(1,263,228)	8.59
Unvested as of December 31, 2018	3,373,570	\$ 7.27

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

On February 5, 2018, the Compensation Committee of our Board of Directors (the “Compensation Committee”) approved the 2017 Performance Program. Under the 2017 Performance Program, participants may earn awards in the form of LTIP units based on our TSR over a three-year performance measurement period beginning on January 1, 2018 and continuing through December 31, 2020, on both an absolute basis and relative basis. Awards granted to our Chief Executive Officer, under the 2017 Performance Program include an additional performance feature requiring threshold TSR performance on both an absolute and a relative basis in order for any awards to be earned. If the designated performance objectives are achieved, awards earned under the 2017 Performance Program are subject to vesting based on continued employment with us through December 31, 2021, with 50.0% of each award vesting upon the conclusion of the performance measurement period, and the remaining 50.0% vesting on December 31, 2021. Furthermore, our Named Executive Officers are required to hold earned awards for an additional year following vesting. The fair value of the awards granted under the 2017 Performance Program on the date of the grant was \$7,009,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

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

On April 3, 2018, the Compensation Committee determined that the performance goals set forth in the 2015 Performance Program were not satisfied during the performance measurement period, which ended on March 31, 2018. Accordingly, all of the 779,055 LTIP units that were granted on April 1, 2015, were forfeited, with no awards being earned. As of April 3, 2018, we had \$947,000 of total unrecognized compensation cost related to these awards, which is being recognized over a weighted-average period of 1.6 years.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock

We grant shares of restricted stock to a non-employee director and certain other employees which vest over four years. The shares of restricted stock granted in the years ended December 31, 2018, 2017 and 2016 had grant date fair values of \$1,335,000, \$1,309,000 and \$1,600,000, respectively, which are being amortized into expense on a straight-line basis over the vesting period. As of December 31, 2018, there was \$1,918,000 of total unrecognized compensation cost related to restricted stock, which is expected to be recognized over a weighted-average period of 2.3 years. The table below summarizes our restricted stock activity for the year ended December 31, 2018.

	Shares	Weighted-Average Grant-Date Fair Value (per share)
Unvested as of December 31, 2017	129,005	\$ 16.33
Granted	93,961	14.21
Vested	(42,325)	16.18
Cancelled or expired	(17,660)	15.24
Unvested as of December 31, 2018	<u>162,981</u>	\$ 15.26

Stock Options

We did not grant any stock options in year ended December 31, 2018. Stock options granted in prior years to certain of our executive officers and other employees vest over periods ranging from three to five years and expire 10 years from the date of grant. The stock options granted in the years ended December 31, 2017 and 2016 had grant date fair values of \$4.02 and \$3.40 per stock option, respectively, which are being amortized into expense on a straight-line basis over the vesting period. The fair value of the option is estimated using an option-pricing model with the following weighted-average assumptions for grants in the years ended December 31, 2017 and 2016.

	For the Year Ended December 31,	
	2017	2016
Expected volatility	29.0%	29.0%
Expected life	5.9 years	5.9 years
Risk free interest rate	2.2%	1.5%
Expected dividend yield	2.3%	2.3%

As of December 31, 2018, there was \$1,370,000 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 1.0 years. The following table summarizes our stock option activity for year ended December 31, 2018.

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2017	2,448,743	\$ 17.20		
Granted	-	-		
Exercised	-	-		
Cancelled or expired	(316,800)	18.00		
Outstanding as of December 31, 2018	<u>2,131,943</u>	\$ 17.08	6.7	\$ -
Options vested and expected to vest as of December 31, 2018	2,083,994	\$ 17.14	6.5	\$ -
Options exercisable as of December 31, 2018	1,496,664	\$ 17.20	6.2	\$ -

PARAMOUNT GROUP, INC.
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21. Earnings Per Share

The following table summarizes our net income (loss) and the number of common shares used in the computation of basic and diluted income (loss) per common share, which includes the weighted average number of common shares outstanding and the effect of dilutive potential common shares, if any.

(Amounts in thousands, except per share amounts)	For the Year Ended December 31,		
	2018	2017	2016
Numerator:			
Net income (loss) attributable to common stockholders	\$ 9,147	\$ 86,381	\$ (9,934)
Earnings allocated to unvested participating securities	(79)	(98)	(37)
Numerator for income (loss) per common share - basic and diluted	<u>\$ 9,068</u>	<u>\$ 86,283</u>	<u>\$ (9,971)</u>
Denominator:			
Denominator for basic income (loss) per common share - weighted average shares	239,527	236,373	218,053
Effect of dilutive employee stock options and restricted share awards ⁽¹⁾	29	29	-
Denominator for diluted income (loss) per common share - weighted average shares	<u>239,556</u>	<u>236,402</u>	<u>218,053</u>
Income (loss) per common share - basic and diluted	<u>\$ 0.04</u>	<u>\$ 0.37</u>	<u>\$ (0.05)</u>

⁽¹⁾ The effect of dilutive securities for the years ended December 31, 2018, 2017, and 2016 excludes 27,510, 30,848 and 48,113 weighted average share equivalents, respectively, as their effect was anti-dilutive.

22. Summary of Quarterly Results (unaudited)

The following table summarizes our quarterly results of operations for the years ended December 31, 2018 and 2017.

(Amounts in thousands, except per share amounts)	<u>Revenues</u>	<u>Net income (loss) attributable to the common stockholders</u>	<u>Income (Loss) Per Common Share</u>	
			<u>Basic</u>	<u>Diluted</u>
2018:				
December 31	\$ 190,675	\$ 5,318	\$ 0.02	\$ 0.02
September 30	192,596	37,531	0.16	0.16
June 30	191,419	(34,816)	(0.14)	(0.14)
March 31	184,271	1,114	0.00	0.00
2017:				
December 31	\$ 180,257	\$ (6,793)	\$ (0.03)	\$ (0.03)
September 30	179,770	(10,214)	(0.04)	(0.04)
June 30	177,704	103,016	0.44	0.44
March 31	181,236	372	0.00	0.00

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23. Related Parties

Due to Affiliates

On November 13, 2018, we repaid the \$27,299,000 of loans that were due to affiliates. These loans were comprised of a \$24,500,000 note payable to CNBB-RDF Holdings, LP, which is an entity partially owned by Katharina Otto-Bernstein (a member of our Board of Directors), and a \$2,799,000 note payable to a different entity owned by members of the Otto Family, both of which were made in lieu of certain cash distributions prior to the completion of our initial public offering. The notes bore interest at a fixed rate of 1.40%. For the years ended December 31, 2018, 2017 and 2016, we recognized \$334,000, \$197,000 and \$139,000 of interest expense, respectively, in connection with these notes, which is included as a component of “interest and debt expense” on our consolidated statements of income.

Management Agreements

We provide property management, leasing and other related services to certain properties owned by members of the Otto Family. We recognized fee income of \$838,000, \$824,000 and \$795,000 for the years ended December 31, 2018, 2017 and 2016, respectively, in connection with these agreements, which is included as a component of “fee and other income” on our consolidated statements of income. As of December 31, 2018, we were owed \$51,000 under these agreements, which is included as a component of “accounts and other receivables, net” on our consolidated balance sheet. There were no amount owed to us under these agreements as of December 31, 2017.

We also provide property management, asset management, leasing and other related services to our unconsolidated joint ventures and real estate funds. We recognized fee income of \$15,231,000, \$20,263,000 and \$9,920,000, respectively, for the years ended December 31, 2018, 2017 and 2016, respectively, in connection with these agreements. As of December 31, 2018 and 2017, amounts owed to us under these agreements aggregated \$1,836,000 and \$1,627,000, respectively, and are included as a component of “accounts and other receivables, net” on our consolidated balance sheets.

Hamburg Trust Consulting GMBH (“HTC”)

We have an agreement with HTC, a licensed broker in Germany, to supervise selling efforts for our private equity real estate funds (or investments in feeder vehicles for these funds) to investors in Germany, including distribution of securitized notes of a feeder vehicle for Fund VIII. Pursuant to this agreement, we have agreed to pay HTC for the costs incurred to sell investments in this feeder vehicle, which primarily consist of commissions paid to third party agents, and other incremental costs incurred by HTC as a result of the engagement, plus, in each case, a mark-up of 10%. HTC is 100% owned by Albert Behler, our Chairman, Chief Executive Officer and President. We incurred expense of \$240,000, \$247,000 and \$625,000 for the years ended December 31, 2018, 2017 and 2016, respectively, in connection with these agreements, which is included as a component of “transaction related costs” on our consolidated statements of income. As of December 31, 2018 and 2017, we owed \$40,000 and \$51,000, respectively, to HTC under this agreement, which are included as a component of “accounts payable and accrued expenses” on our consolidated balance sheets.

Mannheim Trust

Dr. Martin Bussmann (a member of our Board of Directors) is also a trustee and a director of Mannheim Trust, a subsidiary of which leases office space at 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture. The Mannheim Trust, which is for the benefit of Dr. Bussmann’s children, leases 5,593 square feet, which expires in April 2023. Our share of rental income from this lease was \$366,000, \$358,000 and \$416,000, for the years ended December 31, 2018, 2017 and 2016, respectively.

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24. Commitments and Contingencies

Insurance

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

Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2018, we believe we are in compliance with all of our covenants.

718 Fifth Avenue - Put Right

Prior to the Formation Transactions, an affiliate of our predecessor owned a 25.0% interest in 718 Fifth Avenue, a five-story building containing 19,050 square feet of prime retail space that is located on the southwest corner of 56th Street and Fifth Avenue in New York, (based on its 50.0% interest in a joint venture that held a 50.0% tenancy-in-common interest in the property). Prior to the completion of the Formation Transactions, this interest was sold to its partner in the 718 Fifth Avenue joint venture, who is also our joint venture partner in 712 Fifth Avenue, New York, New York. In connection with this sale, we granted our joint venture partner a put right, pursuant to which the 712 Fifth Avenue joint venture would be required to purchase the entire direct or indirect interests then held by our joint venture partner or its affiliates in 718 Fifth Avenue at a purchase price equal to the fair market value of such interests. The put right may be exercised at any time with the actual purchase occurring no earlier than 12 months after written notice is provided. If the put right is exercised and the 712 Fifth Avenue joint venture acquires the 50.0% tenancy-in-common interest in the property by our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue based on current ownership interests.

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Transfer Tax Assessments

During 2017, the New York City Department of Finance issued Notices of Determination (“Notices”) assessing additional transfer taxes (including interest and penalties) in connection with the transfer of interests in certain properties during our 2014 initial public offering. Prior to February 16, 2018, we believed that the likelihood of a loss related to these assessments was remote. On February 16, 2018, the New York City Tax Appeals Tribunal issued a decision against a publicly traded REIT in a case interpreting the same provisions of the transfer tax statute, on similar but distinguishable facts. As a result, after consultation with legal counsel, we now believe the likelihood of loss is reasonably possible, and while it is not possible to predict the outcome of these Notices, we estimate the range of loss could be between \$0 and \$39,800,000. Since no amount in this range is a better estimate than any other amount within the range, we have not accrued any liability arising from potential losses relating to these Notices in our consolidated financial statements.

25. Segments

Our reportable segments are separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. Our determination of segments is aligned with our method of internal reporting and the way our Chief Executive Officer, who is also our Chief Operating Decision Maker, makes key operating decisions, evaluates financial results and manages our business.

The following tables provide Net Operating Income (“NOI”) for each reportable segment for the periods set forth below.

	For the Year Ended December 31, 2018				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$ 740,332	\$ 468,013	\$ 51,290	\$ 222,071	\$ (1,042)
Property-related operating expenses	(274,078)	(188,008)	(19,381)	(60,043)	(6,646)
NOI from unconsolidated joint ventures	20,730	20,395	-	-	335
NOI ⁽¹⁾	<u>\$ 486,984</u>	<u>\$ 300,400</u>	<u>\$ 31,909</u>	<u>\$ 162,028</u>	<u>\$ (7,353)</u>

	For the Year Ended December 31, 2017				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$ 694,755	\$ 430,548	\$ 72,143	\$ 191,677	\$ 387
Property-related operating expenses	(266,136)	(180,855)	(27,342)	(50,906)	(7,033)
NOI from unconsolidated joint ventures	19,643	19,143	-	-	500
NOI ⁽¹⁾	<u>\$ 448,262</u>	<u>\$ 268,836</u>	<u>\$ 44,801</u>	<u>\$ 140,771</u>	<u>\$ (6,146)</u>

	For the Year Ended December 31, 2016				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	\$ 666,410	\$ 449,794	\$ 86,389	\$ 127,813	\$ 2,414
Property-related operating expenses	(250,040)	(176,445)	(32,721)	(30,889)	(9,985)
NOI from unconsolidated joint ventures	17,195	16,874	-	-	321
NOI ⁽¹⁾	<u>\$ 433,565</u>	<u>\$ 290,223</u>	<u>\$ 53,668</u>	<u>\$ 96,924</u>	<u>\$ (7,250)</u>

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

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Amounts in thousands)	<u>For the Year Ended December 31,</u>		
	2018	2017	2016
NOI	\$ 486,984	\$ 448,262	\$ 433,565
Add (subtract) adjustments to arrive to net income (loss):			
Fee income	18,629	24,212	16,931
Depreciation and amortization expense	(258,225)	(266,037)	(269,450)
General and administrative expenses	(57,563)	(61,577)	(53,510)
Transaction related costs	(1,471)	(2,027)	(2,404)
NOI from unconsolidated joint ventures	(20,730)	(19,643)	(17,195)
Income from unconsolidated joint ventures	3,468	20,185	7,413
Loss from unconsolidated real estate funds	(269)	(6,143)	(498)
Interest and other income (loss), net	8,117	(9,031)	6,934
Interest and debt expense	(147,653)	(143,762)	(153,138)
Loss on early extinguishment of debt	-	(7,877)	(4,608)
Real estate impairment loss	(46,000)	-	-
Gain on sale of real estate	36,845	133,989	-
Unrealized gain on interest rate swaps	-	1,802	39,814
Net income before income taxes	22,132	112,353	3,854
Income tax expense	(3,139)	(5,177)	(1,785)
Net income	18,993	107,176	2,069
Less: net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(8,182)	10,365	(15,423)
Consolidated real estate fund	(720)	(19,797)	1,316
Operating Partnership	(944)	(11,363)	2,104
Net income (loss) attributable to common stockholders	\$ 9,147	\$ 86,381	\$ (9,934)

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

(Amounts in thousands)					
Total Assets as of:	Total	New York	Washington, D.C.	San Francisco	Other
December 31, 2018	\$ 8,755,978	\$ 5,583,022	\$ 305,980	\$ 2,388,094	\$ 478,882
December 31, 2017	8,917,661	5,511,061	693,408	2,421,173	292,019
December 31, 2016	8,867,168	5,617,344	1,075,350	1,913,747	260,727

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of December 31, 2018, the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures. Based on the foregoing evaluation, as of the end of the period covered by this Annual Report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on our financial statements.

As of December 31, 2018, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited our financial statements and has issued a report on the effectiveness of our internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting in connection with the evaluation referenced above that occurred in the fourth quarter of the fiscal year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Paramount Group, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Paramount Group, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 13, 2019, expressed an unqualified opinion on those financial statements and financial statement schedules.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

New York, NY
February 13, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 will be set forth in our Definitive Proxy Statement for our 2018 Annual Meeting of Stockholders (which is scheduled to be held on May 16, 2019), to be filed pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, or our Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 will be set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) The following documents are filed as part of this report

1. The consolidated financial statements are set forth in Item 8 of this Annual Report on Form 10-K
2. The following financial statement schedules should be read in conjunction with the financial statements included:

	Pages in this Annual Report on Form 10-K
Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017 and 2016	122
Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2018, 2017 and 2016	123

(b) The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 125 of this Annual Report, on Form 10-K, and is incorporated herein by reference.

ITEM 16. FORM 10-K SUMMARY

None

PARAMOUNT GROUP, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>
	Balance at Beginning of Year	Additions Charged Against Operations	Uncollectible accounts Written-off	Balance at End of Year
(Amounts in thousands)				
For the Year Ended December 31, 2018				
Allowance for doubtful accounts	\$ 277	\$ 324	\$ (8)	\$ 593
Allowance for preferred equity investments	19,588	-	(19,588)	-
Total valuation allowance	<u>\$ 19,865</u>	<u>\$ 324</u>	<u>\$ (19,596)</u>	<u>\$ 593</u>
For the Year Ended December 31, 2017				
Allowance for doubtful accounts	\$ 202	\$ 123	\$ (48)	\$ 277
Allowance for preferred equity investments	-	19,588	-	19,588
Total valuation allowance	<u>\$ 202</u>	<u>\$ 19,711</u>	<u>\$ (48)</u>	<u>\$ 19,865</u>
For the Year Ended December 31, 2016				
Allowance for doubtful accounts	<u>\$ 365</u>	<u>\$ 315</u>	<u>\$ (478)</u>	<u>\$ 202</u>

PARAMOUNT GROUP, INC.
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION

COLUMN A (Amounts in thousands)	COLUMN B		COLUMN C		COLUMN D		COLUMN E			COLUMN F	COLUMN G	COLUMN H	COLUMN I
	Encumbrances		Land	Building and Improvements	Land	Building and Improvements	Land	Improvements	Total ⁽¹⁾	Accumulated depreciation and amortization	Date of construction	Date acquired	Life on which depreciation in latest income statement is computed
1633 Broadway	\$ 1,046,800	\$ 502,846	\$ -	\$ 1,398,341	\$ -	\$ 125,286	\$ 502,846	\$ 1,523,627	\$ 2,026,473	\$ (168,325)	1971	11/2014	5 to 40 Years
1301 Avenue of the Americas	850,000	406,039	-	1,051,697	-	91,556	406,039	1,143,253	1,549,292	(128,742)	1963	11/2014	5 to 40 Years
31 West 52nd Street	500,000	221,318	-	604,994	-	44,739	221,318	649,733	871,051	(68,588)	1987	11/2014	5 to 40 Years
1325 Avenue of the Americas	-	174,688	-	370,553	-	30,395	174,688	400,948	575,636	(45,238)	1989	11/2014	5 to 40 Years
900 Third Avenue	-	103,741	-	296,031	-	14,745	103,741	310,776	414,517	(38,314)	1983	11/2014	5 to 40 Years
Total New York	2,396,800	1,408,632	-	3,721,616	-	306,721	1,408,632	4,028,337	5,436,969	(449,207)			
Liberty Place	-	46,401	-	96,422	-	12,741	46,401	109,163	155,564	(14,233)	1993	11/2014	5 to 40 Years
1899 Pennsylvania Avenue	-	52,568	-	94,874	-	4,207	52,568	99,081	151,649	(12,432)	1915	11/2014	5 to 40 Years
Total Washington, D.C.	-	98,969	-	191,296	-	16,948	98,969	208,244	307,213	(26,665)			
One Market Plaza	975,000	288,743	-	988,014	-	70,757	288,743	1,058,771	1,347,514	(125,743)	1976	11/2014	5 to 40 Years
One Front Street	-	127,765	-	376,919	-	7,731	127,765	384,650	512,415	(24,824)	1979	12/2016	5 to 40 Years
50 Beale Street	228,000	141,097	-	343,819	-	8,052	141,097	351,871	492,968	(16,868)	1968	07/2017	5 to 40 Years
Total San Francisco	1,203,000	557,605	-	1,708,752	-	86,540	557,605	1,795,292	2,352,897	(167,435)			
Other	-	-	-	-	-	4,572	-	4,572	4,572	(1,332)		11/2014	5 to 40 Years
Total	\$ 3,599,800	\$ 2,065,206	\$ -	\$ 5,621,664	\$ -	\$ 414,781	\$ 2,065,206	\$ 6,036,445	\$ 8,101,651	\$ (644,639)			

⁽¹⁾ The basis of the Company's assets for tax purposes is approximately \$2.6 billion lower than the amount reported for financial statement purposes.

PARAMOUNT GROUP, INC.
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION

(Amounts in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Real Estate:			
Beginning balance	\$ 8,329,475	\$ 7,849,093	\$ 7,652,117
Acquisitions	-	484,916	504,684
Additions during the year:			
Land	-	-	-
Buildings and improvements	146,378	82,862	116,038
Assets held for sale	-	-	(412,315)
Real estate impairment loss	(46,000)	-	-
Assets sold and written-off	(328,202)	(87,396)	(11,431)
Ending balance	\$ 8,101,651	\$ 8,329,475	\$ 7,849,093
Accumulated Depreciation:			
Beginning balance	\$ 487,945	\$ 318,161	\$ 243,089
Additions charged to expense	188,871	182,732	168,847
Accumulated depreciation related to assets held for sale	-	-	(82,344)
Accumulated depreciation related to assets sold and written-off	(32,177)	(12,948)	(11,431)
Ending balance	\$ 644,639	\$ 487,945	\$ 318,161

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of Paramount Group, Inc., incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 14, 2014.
3.2	Amended and Restated Bylaws of Paramount Group, Inc., incorporated by reference to Exhibit 3.2 to the Registrant's Form 10-K filed with the SEC on March 19, 2015.
3.3	Resolution to Change Resident Agent, incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, filed with the SEC on August 8, 2016.
4.1	Specimen Certificate of Common Stock of Paramount Group, Inc., incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.1	Amended and Restated Limited Partnership Agreement of Paramount Group Operating Partnership LP, dated as of November 21, 2014, incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.
10.2	First Amendment to Amended and Restated Limited Partnership Agreement of Paramount Group Operating Partnership LP, dated as of February 23, 2016, incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-K filed with the SEC on February 22, 2017.
10.3	Second Amendment to Amended and Restated Limited Partnership Agreement of Paramount Group Operating Partnership LP, dated as of February 22, 2017, incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed with the SEC on May 4, 2017.
10.4	Registration Rights Agreement by and among Paramount Group, Inc. and the holders named therein, dated November 6, 2014, incorporated by reference to Exhibit 10.2 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.5	Registration Rights Agreement among Paramount Group, Inc. and the persons named therein, dated November 6, 2014, incorporated by reference to Exhibit 10.3 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.6	Stockholders Agreement between Paramount Group, Inc. and Maren Otto, Alexander Otto and Katharina Otto-Bernstein, dated November 6, 2014, incorporated by reference to Exhibit 10.4 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.7†	2014 Equity Incentive Plan, incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-K filed with the SEC on March 19, 2015.
10.8	Form of Indemnification Agreement between Paramount Group, Inc. and each of its Directors and Executive Officers, incorporated by reference to Exhibit 10.6 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.09*†	Paramount Group, Inc. Executive Severance Plan.
10.10†	The Paramount Group 2005 Nonqualified Deferred Compensation Plan, incorporated by reference to Exhibit 10.44 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.
10.11	Waiver of Ownership Limits granted to The Otto Family by Paramount Group, Inc., dated as of November 18, 2014, incorporated by reference to Exhibit 10.6 to the Registrant's Form 8-K filed with the SEC on November 24, 2014.
10.12	Lease, dated as of October 27, 2014, between Paramount Group, Inc., a Delaware corporation, as Agent for PGREF I 1633 Broadway Tower, L.P. (Landlord), and CNBB-RDF Holdings, LP (Tenant), incorporated by reference to Exhibit 10.47 to Amendment No. 3 to the Registrant's Form S-11 (Registration No. 333-198392) filed with the SEC on November 12, 2014.

10.13†	Amended and Restated Employment Agreement among Paramount Group Operating Partnership LP, Paramount Group, Inc. and Albert Behler, dated as of January 1, 2018, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on January 5, 2018.
10.14†	Employment Agreement among Paramount Group, Inc., Paramount Group Operating Partnership, L.P. and Wilbur Paes, dated March 3, 2016, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on March 8, 2016.
10.15†	Amended and Restated Credit Agreement dated as of January 10, 2018, among Paramount Group Operating Partnership, L.P., and Paramount Group Inc., and certain subsidiaries of Paramount Group Inc. from time to time party thereto, as Guarantors, each lender from time to time party thereto, Bank of America, N.A., as Administrative Agent and the financial institutions party thereto as L/C Issuers and Swing Line Lenders, incorporated by reference to Exhibit 10.1 to the Registrant's 8-K filed with the SEC on January 16, 2018.
10.16†	Resignation Agreement among Paramount Group, Inc., Paramount Group Management LP, Paramount Group Operating Partnership LP and Dan Lauer, effective as of June 6, 2018, incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed with the SEC on August 8, 2018.
10.17†	Retirement and Consulting Agreement among Paramount Group, Inc., Paramount Group Management LP, Paramount Group Operating Partnership LP and Jolanta Bott, effective as of June 30, 2018, incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed with the SEC on August 8, 2018.
21.1*	List of Subsidiaries of the Registrant.
23.1*	Consent of Deloitte & Touche LLP.
23.2*	Consent of Deloitte & Touche LLP for 712 Fifth Avenue, L.P.
23.3*	Consent of Deloitte & Touche LLP for Paramount Group Real Estate Fund VII, LP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Financial Statements of 712 Fifth Avenue, L.P.
99.2*	Financial Statements of Paramount Group Real Estate Fund VII, LP
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
*	Filed herewith.
**	Furnished herewith.
†	Indicates management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Paramount Group, Inc.

Date: February 13, 2019

By: /s/ Wilbur Paes

Wilbur Paes

Executive Vice President, Chief Financial Officer and Treasurer (duly authorized officer and principal financial and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
By: <u>/s/ Albert Behler</u> (Albert Behler)	Chairman, Chief Executive Officer and President (Principal Executive Officer)	February 13, 2019
By: <u>/s/ Wilbur Paes</u> (Wilbur Paes)	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 13, 2019
By: <u>/s/ Thomas Armbrust</u> (Thomas Armbrust)	Director	February 13, 2019
By: <u>/s/ Martin Bussmann</u> (Martin Bussmann)	Director	February 13, 2019
By: <u>/s/ Dan Emmett</u> (Dan Emmett)	Director	February 13, 2019
By: <u>/s/ Lizanne Galbreath</u> (Lizanne Galbreath)	Director	February 13, 2019
By: <u>/s/ Karin Klein</u> (Karin Klein)	Director	February 13, 2019
By: <u>/s/ Peter Linneman</u> (Peter Linneman)	Director	February 13, 2019
By: <u>/s/ Katharina Otto-Bernstein</u> (Katharina Otto-Bernstein)	Director	February 13, 2019
By: <u>/s/ Mark Patterson</u> (Mark Patterson)	Director	February 13, 2019

CERTIFICATION

I, Albert Behler, certify that:

1. I have reviewed this Annual Report on Form 10-K of Paramount Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 13, 2019

/s/ Albert Behler

Albert Behler
Chairman, Chief Executive Officer and President

CERTIFICATION

I, Wilbur Paes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Paramount Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 13, 2019

/s/ Wilbur Paes

Wilbur Paes

Executive Vice President, Chief Financial Officer and Treasurer

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Paramount Group, Inc. (the “Company”), hereby certifies, to such officer’s knowledge, that:

- the Annual Report on Form 10-K for the year ended December 31, 2018 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 13, 2019

/s/ Albert Behler

Name: Albert Behler

Title: Chairman, Chief Executive Officer and President

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Paramount Group, Inc. (the “Company”), hereby certifies, to such officer’s knowledge, that:

- the Annual Report on Form 10-K for the year ended December 31, 2018 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 13, 2019

/s/ Wilbur Paes

Name: Wilbur Paes

Title: Executive Vice President, Chief Financial Officer and Treasurer

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CORPORATE DATA

BOARD OF DIRECTORS

ALBERT BEHLER
Chairman, Chief Executive
Officer & President

THOMAS ARMBRUST
Managing Director,
CURA Vermögensverwaltung

MARTIN BUSSMANN
Trustee,
Mannheim Trust

DAN EMMETT
Chairman of the Board,
Douglas Emmett, Inc.

LIZANNE GALBREATH
Managing Partner,
Galbreath & Company

KARIN KLEIN
Partner,
Bloomberg Beta

PETER LINNEMAN
Professor Emeritus,
The University of Pennsylvania,
Wharton School of Business

KATHARINA OTTO-BERNSTEIN
President,
Film Manufacturers Inc.

MARK PATTERSON
President,
MP Realty Advisors, LLC

MANAGEMENT

ALBERT BEHLER
Chairman, Chief Executive
Officer & President

WILBUR PAES
Executive Vice President,
Chief Financial Officer
& Treasurer

PETER BRINDLEY
Executive Vice President,
Leasing

DAVID ZOBEL
Executive Vice President,
Head of Acquisitions

CORPORATE HEADQUARTERS

1633 Broadway, Suite 1801
New York, New York 10019
(212) 237-3100
www.paramount-group.com

ABOUT OUR STOCK

Our Common Stock is listed on
the New York Stock Exchange
under the symbol PGRE.

ANNUAL MEETING

Thursday, May 16, 2019

INVESTOR RELATIONS INFORMATION

ir@paramount-group.com
(212) 492-2298

REGISTRAR & TRANSFER AGENT

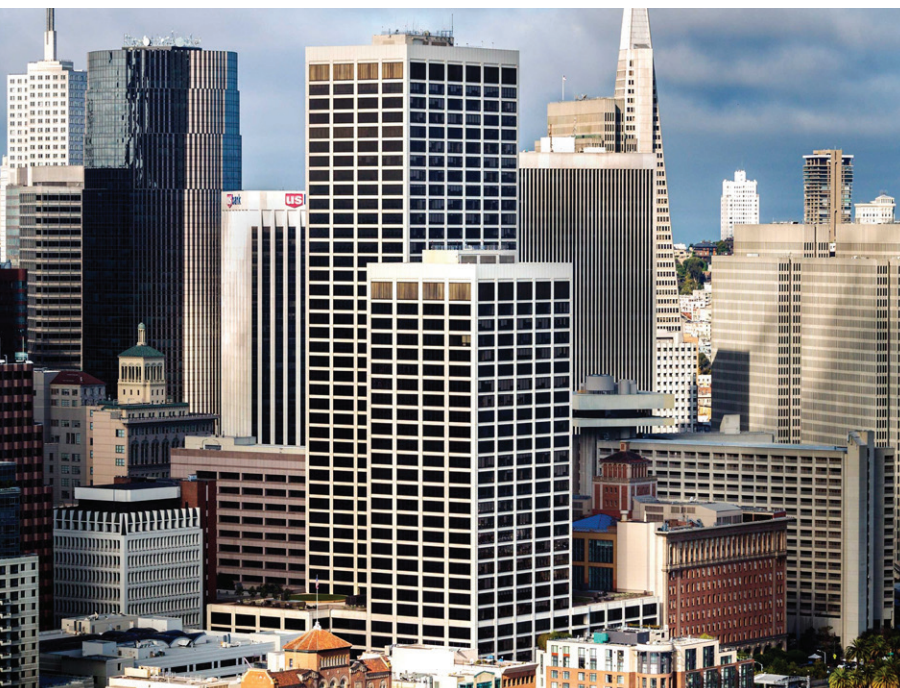
Computershare Trust Company, N.A.
<http://www.computershare.com/us/>
(800) 962-4284

CORPORATE COUNSEL

Goodwin Procter LLP
New York, NY

AUDITORS

Deloitte & Touche LLP
New York, NY



 **PARAMOUNT
GROUP, INC.**

NEW YORK

SAN FRANCISCO

WASHINGTON, D.C.