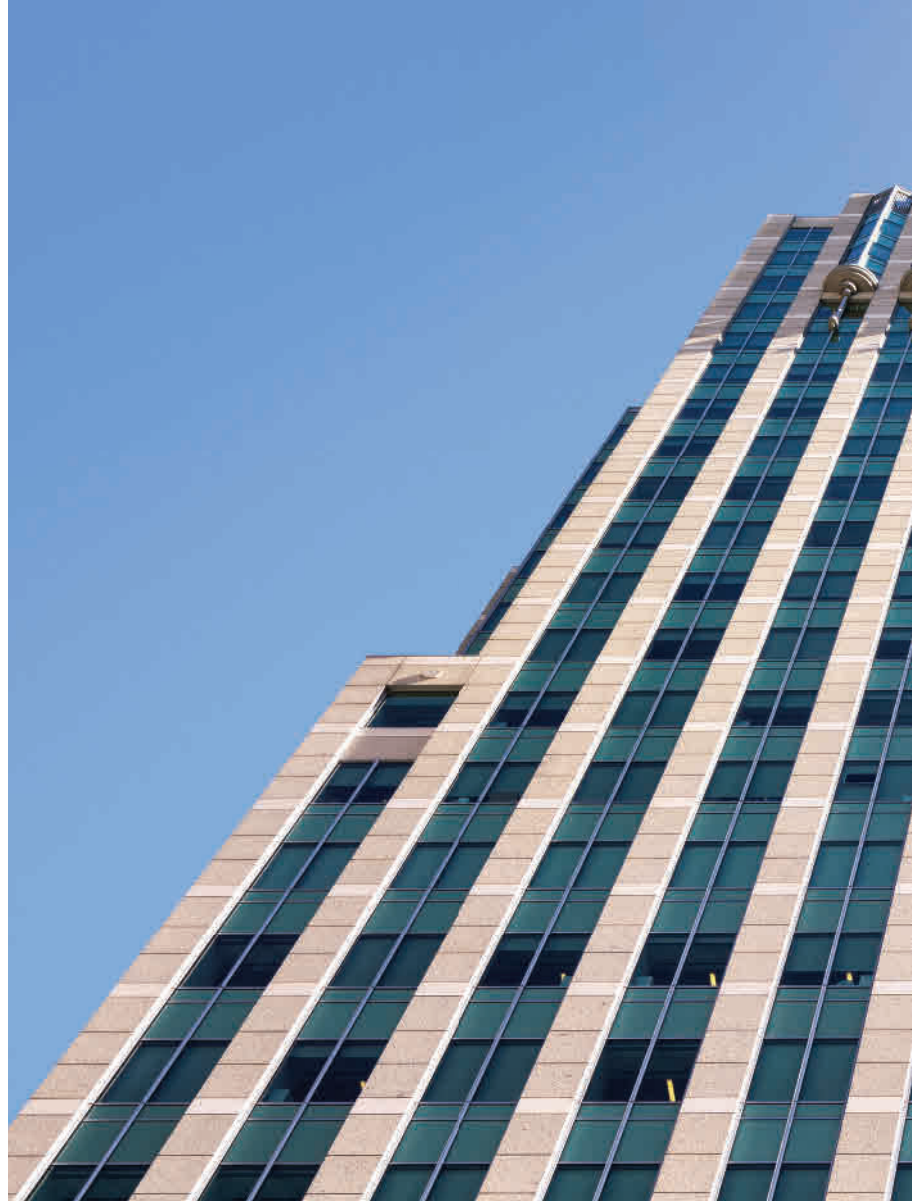


'19







95.9%*
OVERALL LEASED OCCUPANCY

13.1MM SQ FT
TOTAL SQUARE FOOTAGE

*Reflects PGRE's share.

DEAR SHAREHOLDERS,

I am writing this letter amidst unprecedented times. The pace of change and uncertainty in the current economic environment is in stark contrast to where we were just a month ago and can be unsettling for many people. The speed and severity of the COVID-19 pandemic has eliminated virtually all of the 2019 gains for the S&P 500 and pushed the economy from boom to talk of recession in a matter of weeks. At the same time, the degree and speed at which federal and local governments have responded to both health and economic concerns are encouraging. The willingness of the Federal Reserve and the federal government to take aggressive monetary and fiscal measures to “bridge the gap” during the difficult weeks ahead are a source of optimism. While it is likely that it will be some time before the outlook for the country improves, I am confident that it will improve. Our highest priority right now is the health and safety of our tenants and employees. We are doing everything to support CDC guidelines and comply with all directives from federal, state and local health and government authorities to help protect the public and those most at risk. And of course, we will continue to operate our business prudently as we have through multiple past economic cycles.

While I recognize that as a country and as an economy, certain challenges lie ahead and there are many things that we cannot control, what we are certain of is that we have built one of the highest-quality portfolios of trophy and Class A assets in two of the most resilient markets in the world. We have long-term leases with larger, high-credit tenants that produce durable cash flows. Furthermore, we ended the year with roughly \$1.3 billion in liquidity and no corporate debt that is recourse, a very important yet underappreciated fact. This, coupled with our stable and durable long-term cash flows, gives us confidence in our ability to navigate through a difficult economic environment. With that as a backdrop, let me touch upon some of our key accomplishments during 2019.

We had an outstanding year in 2019. In addition to posting record financial results, we continued to advance our strategic initiatives and build an enduring company designed to perform well throughout the economic cycle and in any environment. Since inception, we have stayed on course with our straightforward, yet proven, strategy: focus on the best markets, own the best assets, remain opportunistic and disciplined in buying and selling those assets, provide superior tenant service and retain the best people.

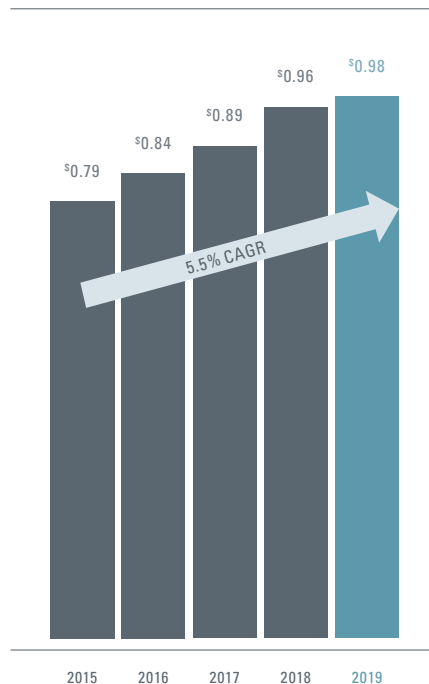
Operationally, we hit every goal we set in 2019. We completed our best leasing year on record as a public company, with over 1.5 million square feet of leases signed, a level that was more than double the midpoint of the original goal we set at the beginning of the year. Same-store Cash NOI grew a robust 7.3% and we again ended the year with portfolio-wide same store leased occupancy above 96.0%, full by any measure.

We furthered our disciplined and nimble capital allocation strategy, harvesting value by selling our assets in the Washington, D.C. market and reinvesting that capital into higher-growth opportunities—specifically value-add assets in San Francisco. With our expanding presence, we are excited to now be the second largest landlord in the San Francisco CBD. We also recycled a portion of these sale proceeds into our own stock. As frustrating and unsettling as

episodic periods of extreme public market dislocation can be for all of us, we view such periods as a tremendous opportunity. In the past we have deliberately taken advantage of the volatility with our share buyback program to the benefit of our shareholders.

Heading into 2020, our strategy remains unchanged. We will continue to maximize value through the lease-up of remaining availabilities in the portfolio and by allocating shareholder capital prudently and effectively for the long-term. Over the coming year, we once again expect healthy earnings growth for Paramount as execution on our strategic initiatives over the past few years continues to bear fruit. Our initial 2020 guidance calls for Core FFO per share to rise +5.1% at the midpoint of the range.

CORE FFO PER SHARE*



* 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 62–67 of our Annual Report on Form 10-K for the year ended December 31, 2019.

LEASING

Leasing remains one of Paramount’s greatest strengths, as our fully integrated, “on-the-ground” leasing platform in two of the best gateway markets—New York and San Francisco—continues to achieve tremendous results ahead of expectations. We began 2019 with a stated goal of leasing between 600,000 and 900,000 square feet, a realistic and constructive goal given our limited availabilities within the portfolio. Our leasing team, however, started the year off very strong,

signing New Mountain Capital in February to two floors at our headquarters at 1633 Broadway, bringing the office space at that 2.5 million square foot building to 100.0% leased. From there, they never slowed down, addressing near- and long-term roll throughout the portfolio. As a result of their commendable efforts, we ended the year with over 1.5 million square feet leased and roughly 80.0% of our 2020 roll in San Francisco and New York eliminated. We signed leases at weighted average starting rents of nearly \$90 per square foot, with robust cash mark-to-markets on second-generation space approaching positive 15.0%. These terrific leasing results continue to demonstrate the superior quality of our assets and affirm the strength of our strategy.

In **New York**, fundamentals continue to remain strong, highlighted by lower unemployment and consistent job growth. This underlying strength has helped maintain availability rates at consistent levels and stabilized concessions in the marketplace. We signed an impressive 540,000 square feet of leases and completed the year with leased occupancy at 95.5%, largely in line with already elevated levels at the beginning of the year. These results highlight our ability to effectively address near-term availabilities and maintain high portfolio-wide occupancy levels over the long term. We also see increasing demand from technology tenants across the city, which should serve to absorb future availabilities and grow asking rents over time. With the quality and location of our portfolio, we are very well-positioned to capitalize on this positive trend and attract high quality tenants that require large amounts of space. We are now laser-focused on addressing our largest near-term availability: the upcoming expiration of the 500,000 square foot Barclays lease, 50% of which we continue to target for lease-up by the end of 2020. Due to the slowdown in Spring 2020 from the evolving COVID-19 pandemic, this may push into early 2021.

In **San Francisco**, our position has never been better. Given the ever-lower availability rate and high demand for space in the San Francisco CBD, combined with the high quality of our assets, we were able to re-lease and roll-up below-market leases to be more in line with the broader market. As a result of our leasing efforts, we closed out the year with almost one million square feet of leases signed at positive cash mark-to-markets of nearly 25.0%. These results clearly demonstrate our ability to address future roll and reliably lease up assets at rates that are well ahead of our underwriting expectations. In fact, looking back at full year results since 2017 when we really began addressing the roll in our San Francisco assets, our cash mark-to-markets have been nearly 30.0% positive on average.

We began our expansion into San Francisco with the acquisition of One Front Street in 2016, and since that time the results have exceeded our expectations. This is why we have continued to expand our exposure there, more than tripling San Francisco’s contribution from nearly 8.0% of annualized rent-at-share at the start of 2015 to 26.0% at the end of 2019. Last year we leased the remaining available 265,000 square feet at One Front Street by expanding the First Republic Bank lease, and signed three additional leases at 300 Mission Street totaling 262,000 square feet of space set to expire by year-end. We look to carry this leasing momentum into 2020 and beyond with the opportunities we have in our recently acquired Market Center, 55 Second Street and 111 Sutter Street assets. We expect the market to remain tight and favorable for existing landlords.

ACQUISITIONS & DISPOSITIONS

We remain disciplined and opportunistic when evaluating potential acquisition targets, with an uncompromising focus on maximizing the long-term value for our shareholders. Our acquisitions strategy is straightforward and consistent—remain opportunistic and nimble. We typically like to:

Capitalize on Opportunity—Harvest capital from fully-stabilized assets and recycle that capital to selectively acquire underappreciated or under-leased assets in high barrier-to-entry markets with strong fundamentals.

Create Value—Reposition assets to Paramount's standards by leveraging our best-in-class vertically integrated operating platform, improving the property's growth profile and attractiveness in the market, thereby creating value.

In 2019, we continued our approach and executed on several new and exciting acquisition opportunities, further growing our footprint in the San Francisco CBD by recycling additional equity capital from Washington, D.C. and never issuing new equity. Over and above the potential upside we saw from releasing the assets, we structured these acquisitions as joint ventures where we could further enhance our returns through the fees we generate by managing and leasing the assets:

- » **111 Sutter Street:** In February 2019, we recycled a portion of the capital harvested from Washington, D.C. asset sales completed in 2018, and acquired a 49.0% stake in 111 Sutter Street. In just a year's time we have managed to grow leased occupancy by 15.7% to 86.3% leased. The quick pace at which we have leased the asset at rates ahead of our underwriting expectations is an encouraging sign.
- » **55 Second Street:** In August 2019, we acquired a 44.1% stake in 55 Second Street, a 384,000 square foot trophy office building located in the South Financial District. The asset is rated LEED Platinum, stands 95.7% leased and is well-located within a block of the new Transbay Transit Center in San Francisco's South Financial District. With a majority of in-place leases scheduled to roll through 2023, we see significant opportunities to increase revenue through our leasing efforts.
- » **Market Center:** In December 2019, we acquired a 67.0% interest in Market Center, a two-building Class A office complex comprising 747,000 square feet. The asset is nearly full at 95.6% leased, but like our previous acquisitions in this market the in-place rents are significantly below-market and we see an opportunity for value creation by managing the upcoming roll.

Most recently in early 2020, we entered into contracts to sell 1899 Pennsylvania Avenue and a 10.0% JV interest in 1633 Broadway. The transactions are scheduled to close in the fourth quarter and second quarter of 2020, respectively. As in the past, we will look to redeploy those proceeds accretively into stock repurchases and value-add acquisitions. We will continue to stay disciplined and opportunistic in managing the portfolio and evaluating potential acquisition and disposition opportunities, remaining prudent with shareholder capital in order to maximize stable, long-term returns.

CAPITAL MARKETS

We maintain a balanced approach to capital allocation, specifically in determining the most effective way to deploy proceeds from recent dispositions. While we chose in 2019 to invest much of the proceeds into high-growth opportunities in the San Francisco CBD, we have also paid close attention to periodic dislocations in our share price. Unfortunately, share prices for CBD office REITs continue to be depressed, and these dislocations have appeared more often than we or any of our investors would like. This dynamic presented us with opportunities, however, to put capital to work by executing on our share buyback program and repurchasing shares at very attractive yields. We completed our initial \$200.0 million repurchase program late in 2019. All in, we repurchased a total of 14.7 million shares representing about 6.0% of our public float before repurchases began. We repurchased these shares at a weighted average price of \$13.59 per share, which is significantly below even the most conservative estimates of net asset value (NAV). As promised, we funded these buybacks in a leverage-neutral manner. Late last year, our Board also approved a new \$200.0 million share buyback program, right before the first quarter of 2020 which saw severe volatility resurface that to us resembled conditions seen in late 2018. Shareholders should remain confident that we will remain prudent and disciplined, but never hesitate to take advantage of severe dislocations in our share price to buyback shares at attractive prices. In our view, Paramount stock has never represented a more attractive long-term investment. We are proud to say that we have acted on that belief rather than simply speaking to how cheap our stock is.

In November 2019, we also took advantage of attractive credit markets to improve our balance sheet through the \$1.25 billion refinancing of 1633 Broadway. The financing of the 2.5 million square foot trophy office building received tremendous reception as evidenced by its execution. We were able to capitalize on recent leasing success to improve our debt maturity profile, lower our interest cost to 2.99% at the asset and increase our corporate financial flexibility. Through this transaction we effectively refinanced out cash proceeds, right-sized leverage on the asset, and added seven years of term, all while keeping annual cash interest costs unchanged. As always, we keep a sharp eye on the capital markets and evaluate potential opportunities to improve our balance sheet.

SUSTAINABILITY

Sustainability, environmental efficiency, tenant service and property management are central to our operating principles at Paramount. We continue to be a sector leader in terms of maintaining some of the most environmentally friendly assets in the markets where we operate. Our leadership in sustainability also allows us to manage operating costs and attract discerning, high-quality tenants. We are proud to note that all of our assets are rated as either LEED Gold or Platinum, a distinction among office REITs, and the majority of our portfolio is Energy Star-rated. This certifies that we own some of the most energy efficient buildings across the country. In addition to the inherent environmental benefits of ensuring our assets remain eco-friendly, our portfolio remains well

positioned to meet the evolving standards of an increasingly energy conscious world.

During 2019, we made several significant strides in progressing the Company's sustainability initiatives. First, Paramount achieved the maximum of five Green Stars and ranked in the top quartile of all participants in the 2019 GRESB Assessment. GRESB is the leading environmental, social and governance assessment for real estate, covering a comprehensive set of key performance indicators, and is widely recognized as the most rigorous standard for real estate companies. Additionally, four of Paramount's assets aggregating 3.7 million square feet achieved Fitwel certifications as administered by the Center for Active Design. Fitwel is the leading global health certification that recognizes each property's ability to support the physical, mental and social health of its occupants. For 2020, we intend to work to further improve our GRESB scoring and to pursue six additional Fitwel certifications, which would earn Paramount the coveted Fitwel Champion designation.

While some companies push sustainability to the background, we at Paramount know that these issues will continue to gain importance among our tenants, policymakers in our markets, and among our current and future shareholders. As such, every year we work to better the energy profile of our assets and improve the quality and efficiency of our portfolio. We continue to maintain that enhancing the portfolio's sustainability profile is not only in the best interest of shareholders, but of all stakeholders, and we will continue to evaluate how we can best prepare the portfolio for the future.

THE PARAMOUNT TEAM & SHAREHOLDERS

Looking back, we are proud of the strides we have made in achieving our strategic goals. Looking ahead, we are excited to continue our progress and carry this momentum into 2020 and beyond. Our strategy remains straightforward and unchanged: to manage our portfolio to the highest standards and allocate shareholder capital towards the best fundamentals and highest risk-adjusted returns, both with an eye towards creating long-term value for our shareholders and building an enduring company.

Every day I am privileged to work with each and every member of the Paramount team in realizing our goals. At every level of Paramount, we benefit from some of the best personnel in the industry, all working in tandem to better the Company, themselves and our shareholders. We would not be anywhere without the tireless efforts and unwavering support of our teams, led by Wilbur, Peter, and David. I look forward to another year of progress and remain excited at the opportunities for growth and success that lay ahead.

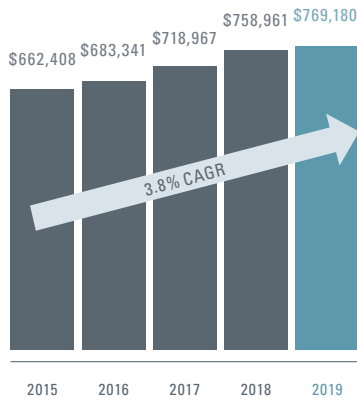
Sincerely,



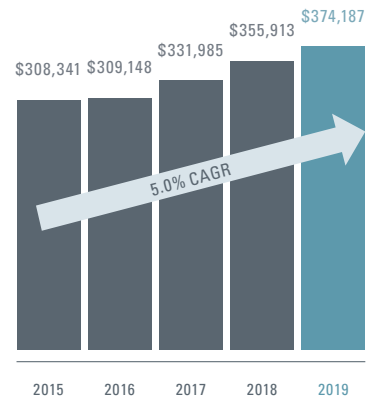
ALBERT BEHLER
Chairman, CEO & President

Corporate Highlights

CONSOLIDATED REVENUES (\$ in thousands)

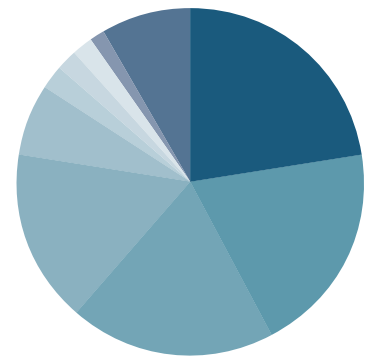
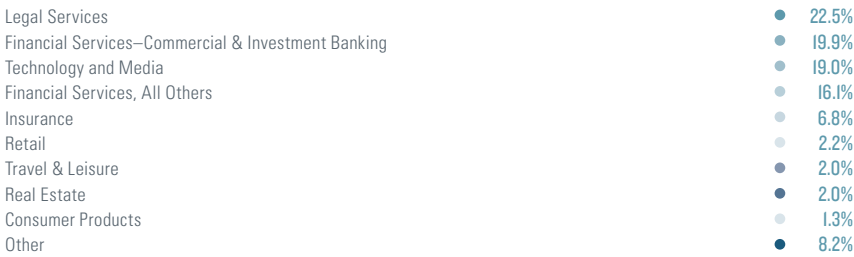


PGRE'S SHARE OF CASH NOI (\$ in thousands)



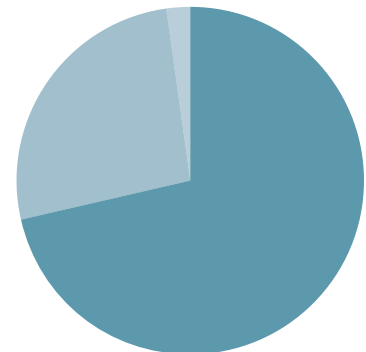
DIVERSIFIED TENANTS (% of Annualized Rent)

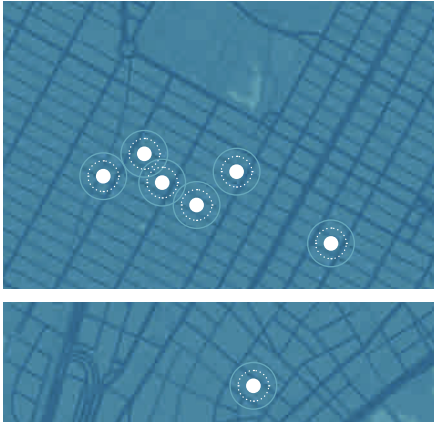
*Figures based on PGRE's share of annualized rent.



GEOGRAPHIC EXPOSURE (% of Annualized Rent)

*Figures based on PGRE's share of annualized rent.





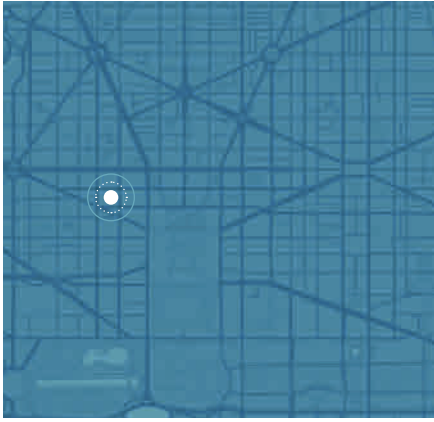
95.5% Leased*
New York—8.6MM Square Feet

PROPERTY	LEASED %
1633 Broadway	98.4%
1301 Avenue of the Americas	99.4%
1325 Avenue of the Americas	91.1%
31 West 52nd Street	97.5%
900 Third Avenue	83.4%
712 Fifth Avenue	74.2%
60 Wall Street	100.0%



97.5% Leased*
San Francisco—4.3MM Square Feet

PROPERTY	LEASED %
One Market Plaza	98.4%
Market Center	95.6%
300 Mission Street	100.0%
One Front Street	100.0%
55 Second Street	95.7%
111 Sutter Street	86.3%

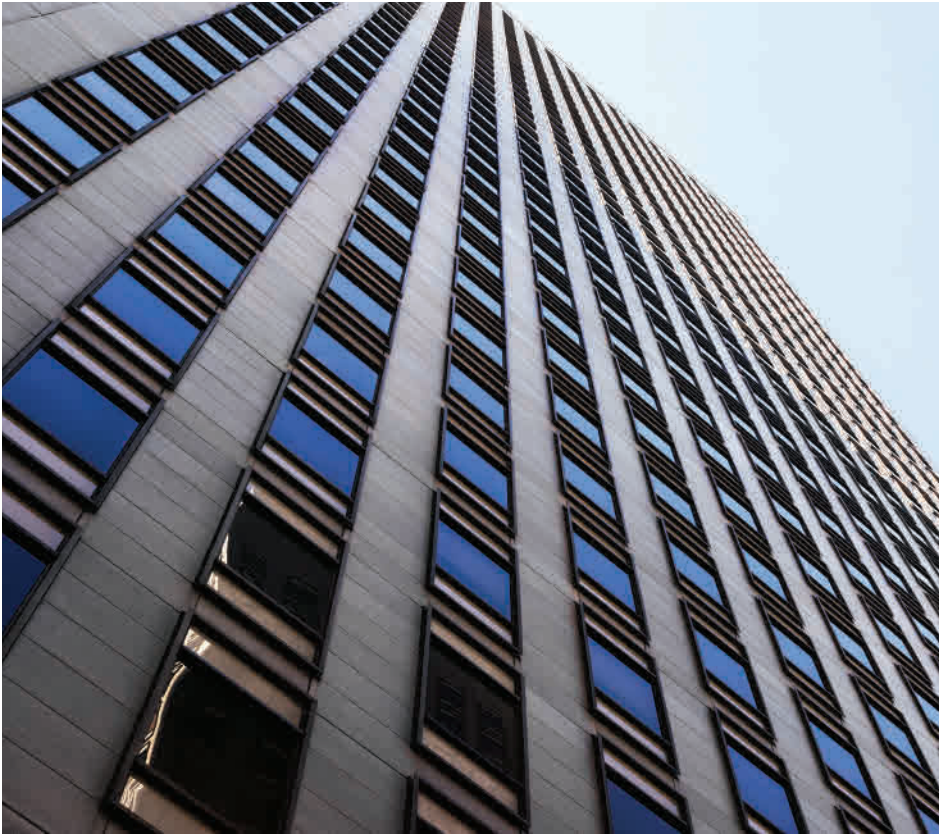


90.4% Leased*
Washington, D.C.—191k Square Feet

PROPERTY	LEASED %
1899 Pennsylvania Avenue	90.4%

*Reflects PGRE's share.

Sustainability Highlights



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 (13.1 million sq. ft) has earned LEED EB Gold or Platinum.

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, 2019

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)

32-0439307
(IRS Employer
Identification No.)

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

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	Trading Symbol	Name of each exchange on which registered
Common Stock of Paramount Group, Inc., \$0.01 par value per share	PGRE	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 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"/>
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, 2020, there were 227,505,492 shares of the registrant’s common stock outstanding.

As of June 30, 2019, the aggregate market value of the 200,315,392 shares of common stock held by non-affiliates of the Registrant was \$2,806,419,000 based on the June 28, 2019 closing share price of our common stock of \$14.01 per share on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Stockholders’ Meeting (which is scheduled to be held on May 19, 2020) 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, LP.

Table of Contents

Item	Financial Information	Page Number
Part I.		
Item 1.	Business	6
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	35
Item 2.	Properties	36
Item 3.	Legal Proceedings	40
Item 4.	Mine Safety Disclosures	40
Part II.		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity	41
Item 6.	Selected Financial Data	44
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	45
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 8.	Financial Statements and Supplementary Data	69
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	109
Item 9A.	Controls and Procedures	109
Item 9B.	Other Information	111
Part III.		
Item 10.	Directors, Executive Officers and Corporate Governance ⁽¹⁾	111
Item 11.	Executive Compensation ⁽¹⁾	111
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ⁽¹⁾	111
Item 13.	Certain Relationships and Related Transactions, and Director Independence ⁽¹⁾	111
Item 14.	Principal Accounting Fees and Services ⁽¹⁾	111
Part IV.		
Item 15.	Exhibits, Financial Statements Schedules	112
Item 16.	Form 10-K Summary	112

⁽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, 2019, 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, San Francisco and Washington, D.C.;
- risks associated with our high concentrations of properties in New York City, San Francisco and Washington, D.C.;
- 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, San Francisco and Washington, D.C. 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 90.2% of the Operating Partnership as of December 31, 2019. As of December 31, 2019, our portfolio consisted of 14 Class A office properties aggregating approximately 13.1 million square feet that was 96.1% leased and 94.6% 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, San Francisco and Washington, D.C. 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 and technology. 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 22 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, Credit Agricole Corporate & Investment Bank, First Republic Bank, Google Inc., Morgan Stanley, Norton Rose Fulbright, Showtime Networks Inc., TD Bank, N.A., and Warner Music Group.

- **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, 2019, our share of net debt to enterprise value was 49.4% and we had \$306.2 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 23 years, and has worked at our company for an average of 13 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, San Francisco and Washington, D.C.;
- 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, 2019, 2018 and 2017.

Employees

As of December 31, 2019, we had 317 employees, including 97 corporate employees and 220 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.

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”) with respect to such qualified shareholder. Thus, gain treated as gain from the sale or exchange of our stock (including distributions treated as gain from the sale or exchange of our stock) will not be subject to tax unless such gain is treated as effectively connected with the qualified shareholder’s conduct of a U.S. trade or business. 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 (other than a qualified shareholder) 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” (as defined below) nor a “qualified controlled entity” (as defined below) is treated as a non-U.S. stockholder. Accordingly, the U.S. federal income tax treatment of ordinary dividends received by qualified foreign pension funds and qualified controlled entities will be determined without regard to the FIRPTA rules, and their gain from the sale or exchange of our stock, as well as our capital gain dividends and distributions treated as gain from the sale or exchange of our stock, will not be subject to U.S. federal income tax unless such gain is treated as effectively connected with the qualified foreign pension fund’s (or the qualified controlled entity’s) conduct of a U.S. trade or business. 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. A “qualified controlled entity” for purposes of the above summary means an entity all of the interests of which are held by a qualified foreign pension fund. Alternatively, under proposed Treasury Regulations that taxpayers generally may rely on, but which are subject to change, a “qualified controlled entity” is a trust or corporation organized under the laws of a foreign country all of the interests of which are held by one or more qualified foreign pension funds either directly or indirectly through one or more qualified controlled entities or partnerships.

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, San Francisco and Washington, D.C. 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 services, professional services and technology and media 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, San Francisco and Washington, D.C., 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.

Our properties are located in New York City, in particular midtown Manhattan, as well as San Francisco and Washington, D.C. 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, San Francisco and Washington, D.C. 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, 2019, approximately 60% 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, 2019, the vacancy rate of our portfolio was 3.9%. In addition, 2.2% of the square footage of the properties in our portfolio will expire by the end of 2020. 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 any asset we acquire from a C corporation in a transaction in which our basis in such asset is determined by reference to the basis of the asset in the hands of the C corporation for a period of up to 5 years following the acquisition of such asset, 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 2019 (“TRIPRA”).

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 occurs, there are multiple scenarios where our business could be impacted. Climate change could lead to, among other effects in our target markets, rising sea levels, extreme weather, increased flooding, and changes in precipitation and temperature. Any of these developments could result in physical damage or a decrease in rent from, and the value of, our properties located in the areas affected by these conditions. We own a number of assets in low-lying areas close to sea level, making those assets, and the economies in which they reside, susceptible to adverse effects from a rise in sea level and any associated increase in episodic storm surges. If sea levels near our target markets were to rise, we may incur material costs to protect our low-lying assets or sustain damage, a decrease in demand for or total loss to those assets.

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, among other things, 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, San Francisco, and Washington, D.C. 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, 300 Mission Street and 111 Sutter Street 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, 300 Mission Street (formerly 50 Beale Street) and 111 Sutter Street 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, (iii) August 12, 2024, with respect to 300 Mission Street, and (iv) February 7, 2026, with respect to 111 Sutter Street, 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, 300 Mission Street and 111 Sutter Street, 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, 2019, including debt of our unconsolidated joint ventures, we had \$5.5 billion of total debt, of which our share is \$3.8 billion, substantially all of which was secured debt, and we have \$963.1 million 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 co-investments, 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. If the U.S. Federal Reserve attempts to raise interest rates, this could 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.” 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 stock in excess of the ownership limits (which waiver currently allows them to own up to 21.0% of our outstanding common stock in the aggregate, which can be automatically increased to an amount greater than 21.0% 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. Our charter also contains a “foreign ownership limit.” The foreign ownership limit is intended to help us qualify as a “domestically controlled qualified investment entity.” The foreign ownership limit contained in our charter prohibits persons from directly or indirectly owning shares of our capital stock to the extent such ownership would cause more than 49.8% of the value of the shares of our capital stock to be owned, directly or indirectly, by Non-U.S. Persons. For this purpose, a “Non-U.S. Person” is defined as a person other than a “United States person,” as defined in Section 7701(a)(30) of the Code (a “U.S. Person”), and it includes a “foreign person” as such term is used in the provision of the Code defining a domestically controlled qualified investment entity. The ownership limits and the foreign ownership limit 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 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, 2019, \$386.9 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.

We may be adversely affected by the potential discontinuation of LIBOR.

In July 2017, the Financial Conduct Authority (“FCA”) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. As a result, the Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee which identified the Secured Overnight Financing Rate (“SOFR”) as its preferred alternative to LIBOR. We are not able to predict when LIBOR will cease to be published or precisely how SOFR will be calculated and published. Any changes adopted by FCA or other governing bodies in the method used for determining LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR. If that were to occur, our interest payments could change. In addition, uncertainty about the extent and manner of future changes may result in interest rates and/or payments that are higher or lower than if LIBOR were to remain available in its current form.

We have contracts that are indexed to LIBOR and are monitoring and evaluating the related risks, which include interest rates on our variable rate debt and interest rates for our variable rate debt and interest rate swaps of our unconsolidated joint ventures. In the event that LIBOR is discontinued, the interest rates will be based on a fallback reference rate specified in the applicable documentation governing such debt or swaps or as otherwise agreed upon. Such an event would not affect our ability to borrow or maintain already outstanding borrowings or swaps, but the alternative reference rate could be higher and more volatile than LIBOR.

Certain risks arise in connection with transitioning contracts to an alternative reference rate, including any resulting value transfer that may occur. The value of loans, securities, or derivative instruments tied to LIBOR could also be impacted if LIBOR is limited or discontinued. For some instruments, the method of transitioning to an alternative rate may be challenging, as they may require substantial negotiation with each respective counterparty.

If a contract is not transitioned to an alternative reference rate and LIBOR is discontinued, the impact is likely to vary by contract. If LIBOR is discontinued or if the method of calculating LIBOR changes from its current form, interest rates on our current or future indebtedness may be adversely affected.

While we expect LIBOR to be available in substantially its current form until the end of 2021, it is possible that LIBOR will become unavailable prior to that point. This could result, for example, if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified.

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.

A number of 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, 2019, 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 event we acquire assets on a tax-deferred basis from C corporations, we would be 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.

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 20% of the value of our total assets at the close of any calendar quarter. Further, even though 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.

Preferred equity and certain debt investments could impact our compliance with REIT income and assets tests.

We indirectly hold certain preferred equity investments in entities that are treated as partnerships for U.S. federal income tax purposes that directly or indirectly own real property, and we may acquire (directly or indirectly) additional such investments in the future. Given such treatment as a partnership for U.S. federal income tax purposes, we will generally be treated as owning an interest in the underlying real estate and other assets of the partnership for tax purposes. As a result, absent sufficient controls to ensure that the underlying real property is operated in compliance with the REIT rules, preferred equity investments may impact our compliance with the REIT income and asset tests. Moreover, the treatment of interest-like preferred returns in a partnership is not clear under the REIT rules and such returns could be treated as non-qualifying income. In addition, in some cases, the proper characterization of debt-like preferred equity investments as unsecured indebtedness or as equity for U.S. federal income tax purposes may be unclear. If the IRS successfully re-characterized a preferred equity investment as unsecured debt for U.S. federal income tax purposes, the investment would be subject to various asset test limitations on unsecured debt and our preferred return would be treated as non-qualifying income for purposes of the 75% gross income test. Accordingly, such a recharacterization could impact our compliance with the REIT income and asset tests and/or be subject to substantial penalty taxes to cure the resulting violations.

Conversely, we may make investments that we treat as indebtedness for U.S. federal income tax purposes (and the REIT qualification rules) that have certain equity characteristics. If the IRS successfully recharacterized a debt investment in a non-corporate borrower as equity for U.S. federal income tax purposes, we would generally be required to include our share of the gross assets and gross income of the borrower in our REIT asset and income tests as described above. Inclusion of such items could impact our compliance with REIT income and asset tests. Moreover, to the extent a borrower holds its assets as dealer property or inventory, if we are treated as holding equity in a borrower for U.S. federal income tax purposes, our share of gains from sales by the borrower would be subject to the 100% tax on prohibited transactions (except to the extent earned through a TRS). To the extent an investment we treat as a loan to a corporate borrower is recharacterized as equity for U.S. federal income tax purposes, it could also cause us to fail one or more of the asset tests applicable to REITs.

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 20% 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 so that such securities will represent less than 20% 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, including under the TCJA, which made major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders, 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, or technical corrections made, which could result in an increase in our, or our stockholders’, tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income and/or be subject to additional restrictions. These increased tax costs could, among other things, adversely affect our financial condition, the results of operations and the amount of cash available for the payment of dividends. Stockholders are urged to consult with their own tax advisors with respect to the impact that recent legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

Our Portfolio Summary

As of December 31, 2019, our portfolio consisted of 14 Class A office properties aggregating approximately 13.1 million square feet that was 96.1% leased and 94.6% occupied. The following table presents an overview of our portfolio as of December 31, 2019.

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

Property	Submarket	Paramount Ownership	Number of Buildings	Square Feet	% Leased ⁽¹⁾	% Occupied ⁽²⁾	Annualized Rent ⁽³⁾	
							Amount	Per Square Foot ⁽⁴⁾
New York:								
1633 Broadway	West Side	100.0%	1	2,499,105	98.4%	98.4%	\$183,766	\$ 76.41
1301 Avenue of the Americas	Sixth Avenue / Rock Center	100.0%	1	1,776,972	99.4%	98.1%	137,411	79.31
1325 Avenue of the Americas	Sixth Avenue / Rock Center	100.0%	1	810,662	91.1%	86.7%	46,150	67.11
31 West 52nd Street	Sixth Avenue / Rock Center	100.0%	1	763,140	97.5%	97.5%	71,075	93.01
900 Third Avenue	East Side	100.0%	1	591,401	83.4%	77.4%	31,976	70.15
712 Fifth Avenue	Madison / Fifth Avenue	50.0%	1	543,411	74.2%	70.3%	43,680	114.67
60 Wall Street	Downtown	5.0%	1	1,625,483	100.0%	100.0%	73,600	45.28
Subtotal / Weighted Average			7	8,610,174	95.6%	94.3%	587,658	72.92
Paramount's Ownership Interest			7	6,794,422	95.5%	93.9%	495,905	78.62
San Francisco:								
One Market Plaza	South Financial District	49.0%	2	1,586,616	98.4%	94.1%	128,257	84.70
Market Center ⁽⁵⁾	South Financial District	67.0%	2	747,165	95.6%	94.7%	54,975	78.04
300 Mission Street	South Financial District	31.1%	1	665,254	100.0%	99.6%	43,424	65.93
One Front Street	North Financial District	100.0%	1	643,307	100.0%	98.8%	49,408	77.05
55 Second Street ⁽⁶⁾	South Financial District	44.1%	1	379,897	95.7%	95.7%	27,306	75.25
111 Sutter Street ⁽⁷⁾	North Financial District	49.0%	1	275,506	86.3%	86.1%	17,516	74.41
Subtotal / Weighted Average			8	4,297,745	97.4%	95.4%	320,886	77.93
Paramount's Ownership Interest			8	2,430,776	97.5%	95.6%	183,217	78.44
Washington, D.C.:								
1899 Pennsylvania Avenue	CBD	100.0%	1	190,955	90.4%	90.4%	15,024	86.66
Subtotal / Weighted Average			1	190,955	90.4%	90.4%	15,024	86.66
Paramount's Ownership Interest			1	190,955	90.4%	90.4%	15,024	86.66
Total / Weighted Average			16	13,098,874	96.1%	94.6%	\$923,568	\$ 74.80
Paramount's Ownership Interest			16	9,416,153	95.9%	94.3%	\$694,146	\$ 78.73

⁽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.

⁽⁵⁾ Acquired on December 11, 2019.

⁽⁶⁾ Acquired on August 21, 2019.

⁽⁷⁾ Acquired on February 7, 2019.

Tenant Diversification

As of December 31, 2019, 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, 2019.

(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		
					Annualized Rent ⁽¹⁾	Per Square Foot	% of Annualized Rent
Barclays Capital, Inc.	Dec-2020	497,418	497,418	5.3%	\$ 32,980	\$ 66.30	4.8%
Allianz Global Investors, LP	Jan-2031	320,911	320,911	3.4%	29,295	91.29	4.2%
Clifford Chance LLP	Jun-2024	328,992	328,992	3.5%	29,160	88.63	4.2%
Credit Agricole Corporate & Investment Bank	Feb-2023	312,679	312,679	3.3%	27,031	86.45	3.9%
Norton Rose Fulbright	Sep-2034 ⁽²⁾	320,325 ⁽²⁾	320,325 ⁽²⁾	3.4%	26,850	83.82	3.9%
First Republic Bank	Jun-2025 ⁽³⁾	338,602 ⁽³⁾	338,602 ⁽³⁾	3.6%	25,648	75.75	3.7%
Morgan Stanley & Company	Mar-2032	260,829	260,829	2.8%	19,933	76.42	2.9%
WMG Acquisition Corporation (Warner Music Group)	Jul-2029	296,344	296,344	3.1%	19,475	65.72	2.8%
Showtime Networks, Inc.	Jan-2026	261,196	261,196	2.8%	16,734	64.07	2.4%
Kasowitz Benson Torres & Friedman, LLP	Mar-2037	203,394	203,394	2.2%	14,993	73.71	2.2%

(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.

(3) 76,999 and 10,952 of the square feet leased expire on December 31, 2029 and December 31, 2030, respectively.

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, 2019.

Industry	Our Share of			
	Square Feet Occupied	% of Occupied Square Feet	Annualized Rent ⁽¹⁾	% of Annualized Rent
Legal Services	1,908,055	21.6%	\$ 156,086	22.5%
Financial Services - Commercial and Investment Banking	1,847,655	20.9%	138,024	19.9%
Technology and Media	1,797,924	20.3%	132,216	19.0%
Financial Services, all others	1,275,747	14.4%	111,856	16.1%
Insurance	564,970	6.4%	47,005	6.8%
Retail	155,518	1.8%	15,353	2.2%
Travel & Leisure	203,575	2.3%	14,189	2.0%
Real Estate	167,014	1.9%	13,782	2.0%
Consumer Products	128,715	1.5%	9,020	1.3%
Other	798,350	9.0%	56,615	8.2%

(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, 2019 for each of the ten calendar years beginning with the year ending December 31, 2020. 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	17,462	13,427	\$ 988	\$ 54.81	0.1%
2020	268,982	179,057	14,479	79.23	2.0%
2021	1,364,302	1,128,027	78,915	71.57	10.9%
2022	2,211,084	436,143	29,838	78.65	4.1%
2023	1,061,048	901,154	72,566	82.94	10.0%
2024	776,235	695,410	57,916	83.36	8.0%
2025	1,401,886	886,033	69,539	78.58	9.6%
2026	1,091,794	852,390	66,459	75.24	9.2%
2027	268,075	176,146	15,026	85.29	2.1%
2028	243,323	208,493	16,459	79.46	2.3%
2029	550,781	531,137	40,064	75.85	5.5%
Thereafter	3,334,988	3,021,827	261,959	86.59	36.2%

(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, 2019, the vacancy rate of our portfolio was 3.9%. In addition, 286,444 square feet (including month-to-month tenants), or 2.2% of the square footage of our portfolio is scheduled to expire during the year ending December 31, 2020, which represents approximately 2.1% 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. The following is a summary of our ownership in these funds.

Alternative Investment Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VIII, LP (“Fund VIII”) and Paramount Group Real Estate Fund X, LP and its parallel fund, Paramount Group Real Estate Fund X-ECI, LP, (collectively “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 \$613,897,000 has been invested as of December 31, 2019 and an additional \$32,841,000 is reserved for funding future draws on existing mezzanine loans. These investments have various stated interest rates ranging from 5.50% to 9.25% and maturities ranging from June 2020 to December 2027. Fund VIII’s investment period is scheduled to end in April 2020. As of December 31, 2019, our ownership interest in Fund VIII was approximately 1.3%.

Fund X completed its initial closing in December 2018 and has \$192,000,000 in capital commitments, of which \$78,600,000 has been invested as of December 31, 2019. The investments have stated interest rates ranging from 6.44% to 7.76% and maturity dates ranging from June 2021 to January 2023. As of December 31, 2019, our ownership interest in Fund X was approximately 7.8%.

Residential Development Fund

We also serve as the general partner of the Residential Development Fund (“RDF”). RDF owns a 35.0% interest in One Steuart Lane, a residential condominium development project, in San Francisco, California. As of December 31, 2019, our ownership interest in RDF was approximately 7.4%.

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 535,401 square foot art deco style building located on the corner of 5th Avenue and 58th Street, in New York, 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, 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, 2019, there were approximately 258 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

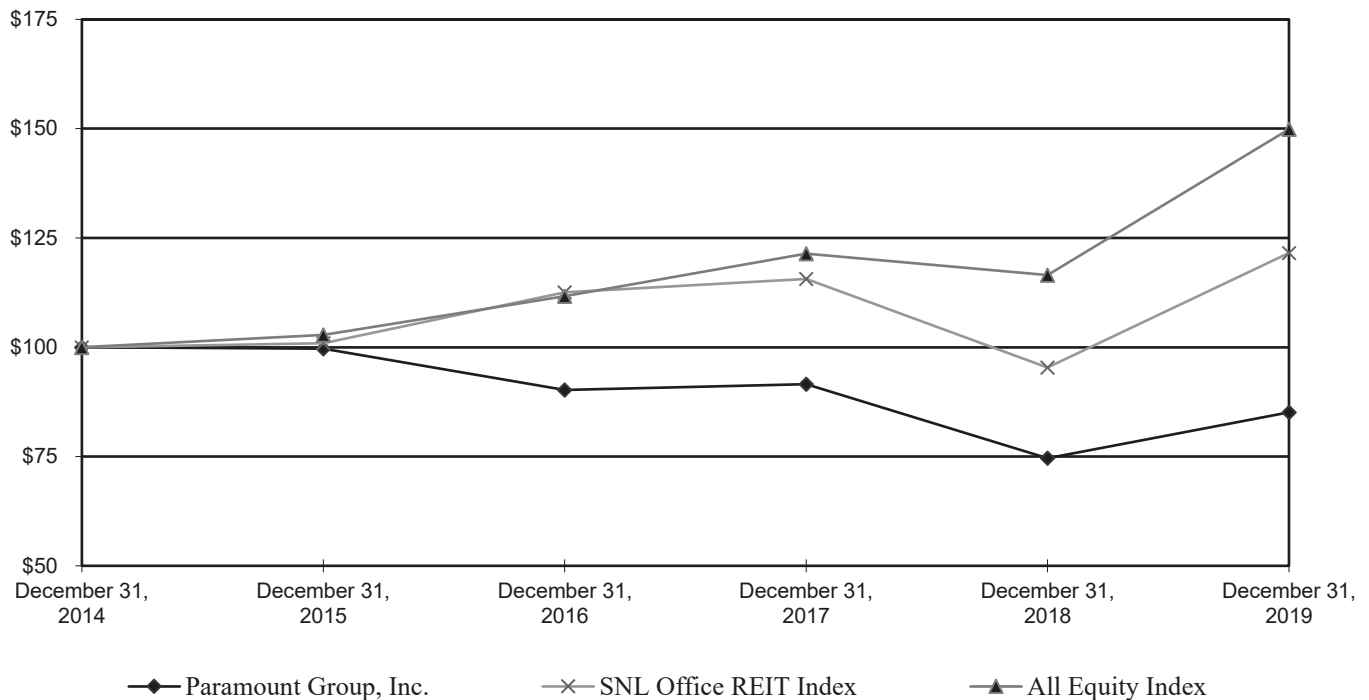
In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to shareholders. We intend to pay dividends on a quarterly basis to holders of our common stock. Any dividend distributions we pay in the future will depend upon our 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 13, 2019, we declared a regular quarterly cash dividend of \$0.10 per share of common stock for the fourth quarter ended December 31, 2019, which was paid on January 15, 2020 to stockholders of record as of the close of business on December 31, 2019.

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 December 31, 2014 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 Return



	December 31,					
	2014	2015	2016	2017	2018	2019
Paramount Group, Inc.	\$ 100.00	\$ 99.70	\$ 90.20	\$ 91.55	\$ 74.61	\$ 85.13
SNL Office REIT Index	100.00	100.88	112.58	115.61	95.36	121.57
All Equity Index	100.00	102.83	111.70	121.39	116.48	149.86

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, 2019.

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	13,310,148 ⁽¹⁾	\$ 17.07 ⁽²⁾	8,358,300
Equity compensation plans not approved by stockholders	-	-	-
Total	13,310,148	\$ 17.07	8,358,300

⁽¹⁾ Includes an aggregate of (i) 2,084,943 shares of common stock issuable upon the exercise of outstanding options granted pursuant to our 2014 Equity Incentive Plan (the "Plan"), (ii) 7,424,538 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) 3,800,667 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 7,424,538 LTIP units include 3,595,834 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 16,716,600.

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. Prior to 2019, we had repurchased 7,555,601 common shares at a weighted average price of \$13.95 per share, or \$105,383,000 in the aggregate. During 2019, we repurchased an additional 7,158,804 common shares at a weighted average price of \$13.22, or \$94,617,000 in the aggregate, of which 432,601 shares were repurchased in October 2019, at a weighted average price of \$12.97 per share, or \$5,612,000 in the aggregate. As a result, we completed our \$200,000,000 stock repurchase program by repurchasing 14,714,405 common shares at a weighted average price of \$13.59 per share.

On November 5, 2019, we received authorization from our Board of Directors to repurchase up to an additional \$200,000,000 of our common stock, from time to time, in the open market or in privately negotiated transactions. We have not repurchased any of our common stock under the new program. 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.

The following table summarizes our purchases of equity securities in the three months ended December 31, 2019.

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 2019	432,601	\$ 12.97	432,601	\$ -
November 2019	697 ⁽¹⁾	13.47	-	200,000,000
December 2019	-	-	-	200,000,000

⁽¹⁾ Represents common shares surrendered by employees for the satisfaction of tax withholding obligations in connection with the vesting of restricted common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating data for the years ended December 31, 2019, 2018, 2017, 2016, and 2015. 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)	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Revenues:					
Rental revenue	\$ 734,477	\$ 727,295	\$ 683,490	\$ 652,114	\$ 638,286
Fee and other income	34,703	31,666	35,477	31,227	24,122
Total revenues	769,180	758,961	718,967	683,341	662,408
Expenses:					
Operating	274,836	274,078	266,136	250,040	244,754
Depreciation and amortization	248,347	258,225	266,037	269,450	294,624
General and administrative	68,556	57,563	61,577	53,510	42,056
Transaction related costs	1,999	1,471	2,027	2,404	10,355
Total expenses	593,738	591,337	595,777	575,404	591,789
Other income (expense):					
(Loss) income from unconsolidated joint ventures	(4,706)	3,468	20,185	7,413	6,850
Loss from unconsolidated real estate funds	(343)	(269)	(6,143)	(498)	-
Income from real estate fund investments	-	-	-	-	37,975
Interest and other income (loss), net	9,844	8,117	(9,031)	6,934	871
Interest and debt expense	(156,679)	(147,653)	(143,762)	(153,138)	(168,366)
Loss on early extinguishment of debt	(11,989)	-	(7,877)	(4,608)	-
Real estate impairment loss	(42,000)	(46,000)	-	-	-
Gain on sale of real estate	1,140	36,845	133,989	-	-
Unrealized gain on interest rate swaps	-	-	1,802	39,814	75,760
Net (loss) income before income taxes	(29,291)	22,132	112,353	3,854	23,709
Income tax expense	(312)	(3,139)	(5,177)	(1,785)	(2,566)
Net (loss) income	(29,603)	18,993	107,176	2,069	21,143
Less net (income) loss attributable to noncontrolling interests:					
Consolidated joint ventures	(11,022)	(8,182)	10,365	(15,423)	(5,459)
Consolidated real estate funds	(313)	(720)	(19,797)	1,316	(21,173)
Operating Partnership	4,039	(944)	(11,363)	2,104	1,070
Net (loss) income attributable to common stockholders	\$ (36,899)	\$ 9,147	\$ 86,381	\$ (9,934)	\$ (4,419)
Per Share Data					
(Loss) income per Common Share - Basic:	\$ (0.16)	\$ 0.04	\$ 0.37	\$ (0.05)	\$ (0.02)
(Loss) income per Common Share - Diluted:	\$ (0.16)	\$ 0.04	\$ 0.37	\$ (0.05)	\$ (0.02)
Dividends per common share	\$ 0.400	\$ 0.400	\$ 0.380	\$ 0.380	\$ 0.419 ⁽¹⁾
Balance Sheet Data:					
Total assets	\$ 8,734,135	\$ 8,755,978	\$ 8,917,661	\$ 8,867,168	\$ 8,775,229
Real estate, at cost	7,984,136	8,101,651	8,329,475	7,849,093	7,652,117
Accumulated depreciation and amortization	(790,216)	(644,639)	(487,945)	(318,161)	(243,089)
Debt, net	3,783,851	3,566,917	3,541,300	3,594,898	2,942,610
Total equity	4,630,962	4,891,664	5,022,084	4,885,947	5,310,550
Other Data:					
Funds from operations attributable to common stockholders ("FFO") ⁽²⁾	\$ 208,187	\$ 224,465	\$ 205,558	\$ 195,140	\$ 209,349
Core funds from operations attributable to common stockholders ("Core FFO") ⁽²⁾	227,164	229,900	210,072	183,579	167,091

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

⁽²⁾ For a reconciliation of net (loss) income to FFO and Core FFO and why we view these measures to be useful supplemental performance measures, see page 66.

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, San Francisco and Washington D.C. 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 90.2% of the Operating Partnership as of December 31, 2019.

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, San Francisco and Washington D.C.;
- 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 revenue, 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. 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.

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

Our revenues consist of rental revenues and revenues from contracts with customers.

Rental Revenue

Rental revenue is recognized in accordance with ASC Topic 842, *Leases*, and consists of (i) cash rents, which represents revenue each tenant pays in accordance with the terms of its respective lease and that is recognized on a straight-line basis over the non-cancellable term of the lease, and includes the effects of rent steps and rent abatements under the leases, (ii) amortization of acquired above and below-market leases, net, (iii) tenant reimbursements, which are recoveries of all or a portion of the operating expenses and real estate taxes of the property and is recognized in the same period as the expenses are incurred and (iv) lease termination income. Our leases, which comprise the lease-up of office, retail and storage space to tenants, primarily under non-cancellable operating leases, have terms generally ranging from five to fifteen years. Most of our leases provide tenants with extension options at either fixed or market rates and a number of our leases provide tenants with options to early terminate, but such options generally impose an economic penalty on the tenant upon exercising.

We evaluate the collectibility of our tenant receivables for payments required under the lease agreements. If we determine that collectibility is not probable, the difference between rental revenue recognized and rental payments received is recorded as an adjustment to “rental revenue” in our consolidated statements of income.

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.

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

Acquisitions

On February 7, 2019, we completed the acquisition of 111 Sutter Street, a 293,000 square foot Class A 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 have retained 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.

On August 21, 2019, we acquired a 44.1% equity interest in a joint venture that owns 55 Second Street, a 384,000 square foot Class A office building in San Francisco, California. The transaction valued the property at \$401,700,000. In connection with the acquisition, the joint venture assumed the existing \$137,500,000 mortgage loan and upsized it by an additional \$50,000,000. The \$187,500,000 mortgage loan is interest only at a fixed rate of 3.88% and matures in October 2026.

On December 11, 2019, we completed the acquisition of Market Center, a two-building Class A office complex comprising 747,000 square feet, in San Francisco, California, through a joint venture in which we own a 67.0% interest. The transaction valued the property at \$722,000,000. In connection with the acquisition, the joint venture completed a \$402,000,000 financing of the property for an initial term of five years, with two one-year extension options. The loan is interest only at LIBOR plus 150 basis points and was swapped for an all-in fixed rate of 3.07% over the initial term.

Dispositions

On September 26, 2019, we sold Liberty Place, a 172,000 square foot Class A office building in Washington, D.C., for \$154,500,000. In connection therewith, we recognized a gain of \$1,140,000.

Financings

On November 25, 2019, we completed a \$1.25 billion refinancing of 1633 Broadway, a 2.5 million square foot Class A office building located in New York, New York. The new 10-year interest-only loan has a fixed rate of 2.99% and matures in December 2029. The proceeds from the refinancing were used to repay the existing \$1.05 billion loan that bore interest at a weighted average rate of 3.55% and was scheduled to mature in December 2022. We realized net proceeds of \$179,000,000 after the repayment of the existing loan, swap breakage costs and closing costs.

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. Prior to 2019, we had repurchased 7,555,601 common shares at a weighted average price of \$13.95 per share, or \$105,383,000 in the aggregate. During 2019, we repurchased an additional 7,158,804 common shares at a weighted average price of \$13.22 or \$94,617,000 in the aggregate. As a result, we completed our \$200,000,000 stock repurchase program by repurchasing 14,714,405 common shares at a weighted average price of \$13.59 per share.

On November 5, 2019, we received authorization from our Board of Directors to repurchase up to an additional \$200,000,000 of our common stock, from time to time, in the open market or in privately negotiated transactions. We have not repurchased any of our common stock under the new program. The amount and timing of repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

Leasing Results – Year Ended December 31, 2019

In the year ended December 31, 2019, we leased 1,549,059 square feet, of which our share was 1,069,954 square feet that was leased at a weighted average initial rent of \$89.94 per square foot. This leasing activity, offset by lease expirations in the year, and including the occupancy impact of acquired and sold properties discussed below, decreased leased occupancy by 50 basis points to 95.9% at December 31, 2019 from 96.4% at December 31, 2018. Same store leased occupancy (properties owned by us during both reporting periods), which excludes the occupancy impact of acquired properties (111 Sutter Street, 55 Second Street and Market Center) and sold properties (Liberty Place), decreased by 30 basis points to 96.1% at December 31, 2019 from 96.4% at December 31, 2018. The 30 basis points decrease in same store leased occupancy was driven by a lease termination in our New York portfolio (712 Fifth Avenue) in January 2019 that impacted the leased occupancy in our portfolio by 40 basis points. Excluding this termination, same store leased occupancy of the portfolio would have increased by 10 basis points.

Of the 1,549,059 square feet leased in the year, 901,312 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 14.8% on a cash basis and 17.1% on a GAAP basis. The rental rates for leases signed during the year were impacted by the execution of an 18,300 square foot lease in the mid-rise of 900 Third Avenue, which was previously leased on a short-term basis (nine months) to a tenant that was paying well above market rents in excess of \$93.50 per square foot. Excluding this lease, we achieved rental rate increases of 15.6% on a cash basis and 18.1% on a GAAP basis. The weighted average lease term for leases signed during the year was 8.7 years and weighted average tenant improvements and leasing commissions on these leases were \$10.59 per square foot per annum, or 11.8% of initial rent.

New York

In the year ended December 31, 2019, we leased 540,668 square feet in our New York portfolio, of which our share was 466,426 square feet that was leased at a weighted average initial rent of \$83.89 per square foot. This leasing activity, offset by lease expirations during the year, decreased our leased occupancy and same store leased occupancy by 50 basis points to 95.5% at December 31, 2019 from 96.0% at December 31, 2018. As discussed above, the decrease in leased and same store leased occupancy was driven by a lease termination at 712 Fifth Avenue in January 2019. The impact of this lease termination to our New York portfolio was 70 basis points. Excluding this termination, leased occupancy and same store leased occupancy would have increased by 20 basis points. Of the 540,668 square feet leased in the year, 323,179 square feet represented our share of second generation space for which rental rates decreased by 0.8% on a cash basis and 3.0% on a GAAP basis. The rental rates for leases signed during the year in our New York portfolio were impacted by the execution of an 18,300 square foot lease in the mid-rise of 900 Third Avenue, which was previously leased on a short-term basis (nine months) to a tenant that was paying well above market rents in excess of \$93.50 per square foot. Excluding this lease, rental rates increased by 0.5% on a cash basis and decreased by 1.6% on a GAAP basis. The weighted average lease term for leases signed during the year was 8.9 years and weighted average tenant improvements and leasing commissions on these leases were \$10.63 per square foot per annum, or 12.7% of initial rent.

San Francisco

In the year ended December 31, 2019, we leased 990,946 square feet in our San Francisco portfolio, of which our share was 586,083 square feet that was leased at a weighted average initial rent of \$94.47 per square foot. This leasing activity, offset by lease expirations in the year, and including the occupancy impact of the acquisition of 111 Sutter Street, 55 Second Street and Market Center, decreased our leased occupancy by 50 basis points to 97.5% at December 31, 2019 from 98.0% at December 31, 2018. Same store leased occupancy, which excludes the occupancy impact from the acquisition of 111 Sutter Street, 55 Second Street and Market Center, increased by 130 basis points to 99.3% at December 31, 2019 from 98.0% at December 31, 2018. Of the 990,946 square feet leased in the year, 563,330 square feet represented our share of second generation space for which we achieved rental rate increases of 24.8% on a cash basis and 28.9% on GAAP basis. The weighted average lease term for leases signed during the year was 8.6 years and weighted average tenant improvements and leasing commissions on these leases were \$10.62 per square foot per annum, or 11.2% of initial rent.

Washington, D.C.

In the year ended December 31, 2019, we leased 17,445 square feet in our Washington, D.C. portfolio, at a weighted average initial rent of \$88.97 per square foot. This leasing activity, offset by lease expirations in the year, and including the occupancy impact of the sale of Liberty Place, decreased leased occupancy by 760 basis points to 90.4% at December 31, 2019 from 98.0% at December 31, 2018. Same store leased occupancy, which excludes the occupancy impact from the sale of Liberty Place, decreased by 960 basis points to 90.4% at December 31, 2019 from 100.0% at December 31, 2018. Of the 17,445 square feet leased in the year, 14,803 represented our share of second generation space for which we achieved rental rate increases of 3.5% on a cash basis and 7.5% on GAAP basis. The weighted average lease term for leases signed during the year was 6.9 years and weighted average tenant improvements and leasing commissions on these leases were \$7.91 per square foot per annum, or 8.9% of initial rent.

The following table presents additional details on the leases signed during the year ended December 31, 2019. 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, 2019	Total	New York	San Francisco	Washington, D.C.
Total square feet leased	1,549,059	540,668	990,946	17,445
Pro rata share of square feet leased:	1,069,954	466,426	586,083	17,445
Initial rent ⁽¹⁾	\$ 89.94	\$ 83.89	\$ 94.47	\$ 88.97
Weighted average lease term (in years)	8.7	8.9	8.6	6.9
Tenant improvements and leasing commissions:				
Per square foot	\$ 92.08	\$ 94.67	\$ 91.28	\$ 54.59
Per square foot per annum	\$ 10.59	\$ 10.63	\$ 10.62	\$ 7.91
Percentage of initial rent	11.8%	12.7%	11.2%	8.9%
Rent concessions:				
Average free rent period (in months)	5.5	8.7	3.1	7.1
Average free rent period per annum (in months)	0.6	1.0	0.4	1.0
Second generation space: ⁽²⁾				
Square feet	901,312	323,179	563,330	14,803
Cash basis:				
Initial rent ⁽¹⁾	\$ 90.77	\$ 83.74	\$ 94.75	\$ 89.22
Prior escalated rent ⁽³⁾	\$ 79.08	\$ 84.38	\$ 75.93	\$ 86.24
Percentage increase (decrease)	14.8% ⁽⁴⁾	(0.8%) ⁽⁴⁾	24.8%	3.5%
GAAP basis:				
Straight-line rent	\$ 94.22	\$ 79.31	\$ 102.71	\$ 88.19
Prior straight-line rent	\$ 80.43	\$ 81.74	\$ 79.66	\$ 82.07
Percentage increase (decrease)	17.1% ⁽⁴⁾	(3.0%) ⁽⁴⁾	28.9%	7.5%

⁽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.

⁽⁴⁾ Includes the impact from the execution of an 18,300 square foot lease in the mid-rise of 900 Third Avenue, which was previously leased on a short-term basis (nine months) to a tenant that was paying well above market rents in excess of \$93.50 per square foot. Excluding this lease, the cash basis and GAAP basis rents increased by 15.6% and 18.1%, respectively, for the total portfolio, and the cash basis rents increased by 0.5% and GAAP basis rents decreased by 1.6% for our New York portfolio.

Financial Results – Years Ended December 31, 2019 and 2018

Net (Loss) Income, FFO and Core FFO

Net loss attributable to common stockholders was \$36,899,000, or \$0.16 per diluted share, for the year ended December 31, 2019, compared to net income attributable to common stockholders of \$9,147,000 or \$0.04 per diluted share, for the year ended December 31, 2018. Net loss attributable to common stockholders for the year ended December 31, 2019 includes (i) a \$37,877,000, or \$0.16 per diluted share, real estate impairment loss, (ii) a \$10,812,000, or \$0.05 per diluted share, loss on early extinguishment of debt, (iii) a \$7,409,000, or \$0.03 per diluted share, expense from the write-off of deferred financing costs and (iv) an \$1,030,000, or \$0.00 per diluted share, gain on sale of real estate (Liberty Place). The loss on early extinguishment of debt and the write-off of deferred financing costs were incurred in connection with the \$1.25 billion refinancing of 1633 Broadway in November 2019. Net income attributable to common stockholders for the year ended December 31, 2018 included (i) \$32,222,000, or \$0.13 per diluted share, of gain on sale of real estate, net of “sting” taxes, and (ii) a \$41,618,000, or \$0.17 per diluted share, real estate impairment loss.

FFO attributable to common stockholders was \$208,187,000, or \$0.90 per diluted share, for year ended December 31, 2019, compared to \$224,465,000, or \$0.94 per diluted share, for the year ended December 31, 2018. FFO attributable to common stockholders for the years ended December 31, 2019 and 2018 includes the impact of non-core items, which are listed in the table on page 66. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO attributable to common stockholders for the years ended December 31, 2019 and 2018 by \$18,977,000 and \$5,435,000, respectively, or \$0.08 and \$0.02 per diluted share, respectively.

Core FFO attributable to common stockholders, which excludes the impact of the non-core items listed on page 66, was \$227,164,000 or \$0.98 per diluted share, for the year ended December 31, 2019, compared to \$229,900,000, or \$0.96 per diluted share, for the year ended December 31, 2018.

Same Store Results

The table below summarizes the percentage increase (decrease) in our share of Same Store NOI and Same Store Cash NOI, by segment, for the year ended December 31, 2019 versus December 31, 2018.

	Total	New York	San Francisco	Washington, D.C.
Same Store NOI	2.7%	1.9%	3.3%	(8.1%)
Same Store Cash NOI	7.3%	5.0%	13.1%	(6.0%)

See pages 62-67 “*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, 2019 Compared to December 31, 2018

The following pages summarize our consolidated results of operations for the years ended December 31, 2019 and 2018. The results of operations for the years ended December 31, 2018 compared to December 31, 2017 was included in our Annual Report on Form 10-K for the year ended December 31, 2018 on page 53, under Part II, Item 7, “*Management’s Discussion and Analysis of Financial Conditions and Results of Operations*” which was filed with the SEC on February 13, 2019.

(Amounts in thousands)	For the Year Ended December 31,		Change
	2019	2018	
Revenues:			
Rental revenue	\$ 734,477	\$ 727,295	\$ 7,182
Fee and other income	34,703	31,666	3,037
Total revenues	769,180	758,961	10,219
Expenses:			
Operating	274,836	274,078	758
Depreciation and amortization	248,347	258,225	(9,878)
General and administrative	68,556	57,563	10,993
Transaction related costs	1,999	1,471	528
Total expenses	593,738	591,337	2,401
Other income (expense):			
(Loss) income from unconsolidated joint ventures	(4,706)	3,468	(8,174)
Loss from unconsolidated real estate funds	(343)	(269)	(74)
Interest and other income, net	9,844	8,117	1,727
Interest and debt expense	(156,679)	(147,653)	(9,026)
Loss on early extinguishment of debt	(11,989)	-	(11,989)
Real estate impairment loss	(42,000)	(46,000)	4,000
Gain on sale of real estate	1,140	36,845	(35,705)
Net (loss) income before income taxes	(29,291)	22,132	(51,423)
Income tax expense	(312)	(3,139)	2,827
Net (loss) income	(29,603)	18,993	(48,596)
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(11,022)	(8,182)	(2,840)
Consolidated real estate fund	(313)	(720)	407
Operating Partnership	4,039	(944)	4,983
Net (loss) income attributable to common stockholders	\$ (36,899)	\$ 9,147	\$ (46,046)

Revenues

Our revenues, which consist primarily of rental revenue and fee and other income, were \$769,180,000 for the year ended December 31, 2019, compared to \$758,961,000 for the year ended December 31, 2018, an increase of \$10,219,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	<u>Total</u>	<u>New York</u>	<u>San Francisco</u>	<u>Washington, D.C.</u>	<u>Other</u>
Rental revenue					
Acquisitions / Dispositions ⁽¹⁾	\$ (24,243)	\$ -	\$ -	\$ (24,243)	\$ -
Same store operations	31,671	16,587 ⁽²⁾	16,106 ⁽³⁾	(945)	(77)
Other, net	(246)	(39)	(207)	-	-
Increase (decrease) in rental income	\$ 7,182	\$ 16,548	\$ 15,899	\$ (25,188)	\$ (77)
Fee and other income					
Fee income					
Property management	\$ 689	\$ -	\$ -	\$ -	\$ 689
Asset management	2,530	-	-	-	2,530
Acquisition, disposition and leasing	275	-	-	-	275
Other	621	-	-	-	621
Increase in fee income	4,115	-	-	-	4,115
Other income					
Acquisitions / Dispositions ⁽¹⁾	(682)	-	-	(682)	-
Same store operations	(396)	(1,913)	838	6	673
(Decrease) increase in other income	(1,078)	(1,913)	838	(676)	673
Increase (decrease) in fee and other income	\$ 3,037	\$ (1,913)	\$ 838	\$ (676)	\$ 4,788
Total increase (decrease) in revenues	\$ 10,219	\$ 14,635	\$ 16,737	\$ (25,864)	\$ 4,711

⁽¹⁾ Represents revenues attributable to 2099 Pennsylvania Avenue, 425 Eye Street and Liberty Place in Washington, D.C. (sold in August 2018, September 2018 and September 2019, respectively) for the months in which they were not owned by us in both reporting periods.

⁽²⁾ Primarily due to an increase in occupancy at 31 West 52nd Street, 1633 Broadway and 1325 Avenue of the Americas.

⁽³⁾ Primarily due to an increase in occupancy at 300 Mission Street (formerly 50 Beale Street) and One Front Street, and higher tenant reimbursement income resulting primarily from the new “gross receipts” tax in 2019 (see note 2 on page 54).

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization, general and administrative, and transaction related costs, were \$593,738,000 for year ended December 31, 2019, compared to \$591,337,000 for the year ended December 31, 2018, an increase of \$2,401,000. Below are the details of the increase (decrease) by segment.

(Amounts in thousands)	Total	New York	San Francisco	Washington, D.C.	Other
Operating					
Acquisitions / Dispositions ⁽¹⁾	\$ (9,663)	\$ -	\$ -	\$ (9,663)	\$ -
Same store operations	10,745	3,519	9,780 ⁽²⁾	416	(2,970)
Other, net	(324)	(316)	(8)	-	-
Increase (decrease) in operating	\$ 758	\$ 3,203	\$ 9,772	\$ (9,247)	\$ (2,970)
Depreciation and amortization					
Acquisitions / Dispositions ⁽¹⁾	\$ (8,909)	\$ -	\$ -	\$ (8,909)	\$ -
Operations	(969)	4,233	(5,532)	(205)	535
(Decrease) increase in depreciation and amortization	\$ (9,878)	\$ 4,233	\$ (5,532)	\$ (9,114)	\$ 535
General and administrative					
Mark-to-market of investments in our deferred compensation plan	\$ 4,828	\$ -	\$ -	\$ -	\$ 4,828 ⁽³⁾
Stock-based compensation	3,214	-	-	-	3,214
Operations	2,951	-	-	-	2,951 ⁽⁴⁾
Increase in general and administrative	\$ 10,993	\$ -	\$ -	\$ -	\$ 10,993
Increase in transaction related costs	\$ 528	\$ -	\$ -	\$ -	\$ 528
Total increase (decrease) in expenses	\$ 2,401	\$ 7,436	\$ 4,240	\$ (18,361)	\$ 9,086

⁽¹⁾ Represents expenses attributable to 2099 Pennsylvania Avenue, 425 Eye Street and Liberty Place in Washington, D.C. (sold in August 2018, September 2018 and September 2019, respectively) for the months in which they were not owned by us in both reporting periods.

⁽²⁾ Primarily due to the new “gross receipts” tax in 2019, which is partially offset by higher reimbursement income (see note 3 on page 53).

⁽³⁾ Represents the change in the mark-to-market of investments in our deferred compensation plan liabilities. This change is entirely offset by the change in plan assets which is included in “interest and other income, net”.

⁽⁴⁾ Increased primarily due to change in accounting rules that no longer permit the capitalization of internal leasing payroll costs.

(Loss) Income from Unconsolidated Joint Ventures

In the year ended December 31, 2019, we recognized a \$4,706,000 net loss from unconsolidated joint ventures compared to \$3,468,000 of net income in the year ended December 31, 2018, a decrease in income of \$8,174,000. This decrease resulted from:

(Amounts in thousands)	
Net loss attributable to properties acquired in 2019 ⁽¹⁾	\$ (5,964) ⁽²⁾
Lower income on 712 Fifth Avenue (\$1,849 in 2019, compared to \$3,901 in 2018) ⁽³⁾	(2,052)
Other, net	(158)
Total decrease	\$ (8,174)

⁽¹⁾ Includes 111 Sutter Street (acquired in February 2019), 55 Second Street (acquired in August 2019) and Market Center (acquired in December 2019).

⁽²⁾ Results primarily from depreciation and amortization expense.

⁽³⁾ Primarily resulted from lower cash distributions in the year ended December 31, 2019 (since we only recognize earnings from 712 Fifth Avenue to the extent we receive cash distributions from the joint venture).

Loss from Unconsolidated Real Estate Funds

Loss from unconsolidated real estate funds was \$343,000 for the year ended December 31, 2019, compared to \$269,000 for the year ended December 31, 2018, an increase in loss of \$74,000.

Interest and Other Income, net

Interest and other income was \$9,844,000 for the year ended December 31, 2019, compared to \$8,117,000 for the year ended December 31, 2018, an increase of \$1,727,000. This increase resulted from:

(Amounts in thousands)	
Increase in the value of investments in our deferred compensation plan (which is offset by an increase in "general and administrative")	\$ 4,828
Decrease in preferred equity investment income (\$454 in 2019, compared to \$3,655 in 2018) ⁽¹⁾	(3,201)
Other, net	100
Total increase	\$ 1,727

⁽¹⁾ Represents income from our preferred equity investments in PGRESS Equity Holdings LP, of which our 24.4% share is \$111 and \$890 for the years ended December 31, 2019 and 2018, respectively. On March 1, 2019, our only remaining preferred equity investment was redeemed.

Interest and Debt Expense

Interest and debt expense was \$156,679,000 for the year ended December 31, 2019, compared to \$147,653,000 for the year ended December 31, 2018, an increase of \$9,026,000. This increase resulted from (i) \$8,215,000 of expense from the non-cash write-off of deferred financing costs in connection with the \$1.25 billion refinancing of 1633 Broadway in November 2019 and (ii) higher interest on variable rate debt due to an increase in average LIBOR rates in the year ended December 31, 2019 compared to 2018.

Loss on Early Extinguishment of Debt

In the year ended December 31, 2019, we recognized an \$11,989,000 loss on early extinguishment of debt comprised primarily of swap breakage costs in connection with the \$1.25 billion refinancing of 1633 Broadway in November 2019.

Real Estate Impairment loss

In the years ended December 31, 2019 and 2018, we wrote down the value of certain real estate assets in our Washington, D.C. portfolio and recorded non-cash impairment losses of \$42,000,000 and \$46,000,000, respectively. The non-cash impairment losses were determined based on the excess of the assets' carrying value over its estimated fair value.

Gain on Sale of Real Estate

In the year ended December 31, 2019, we recognized a \$1,140,000 gain on sale of Liberty Place, which was sold for \$154,500,000 in September 2019. 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.

Income Tax Expense

Income tax expense was \$312,000 for the year ended December 31, 2019, compared to \$3,139,000 for the year ended December 31, 2018, a decrease of \$2,827,000. This decrease was primarily due to (i) \$1,248,000 of "sting" taxes in connection with the sale of real estate in the year ended December 31, 2018 and (ii) lower taxable income on our taxable REIT subsidiaries in the year ended December 31, 2019.

Net Income Attributable to Noncontrolling Interests in Consolidated Joint Ventures

Net income attributable to noncontrolling interest in consolidated joint ventures was \$11,022,000 for the year ended December 31, 2019, compared to \$8,182,000 for the year ended December 31, 2018, an increase in income allocated to noncontrolling interests in consolidated joint ventures of \$2,840,000. This increase resulted from:

(Amounts in thousands)	
Higher income attributable to 300 Mission Street (\$1,786 of income in 2019, compared to \$1,437 of loss in 2018)	\$ 3,223 ⁽¹⁾
Other, net	(383)
Total increase	\$ 2,840

⁽¹⁾ Primarily due to an increase in occupancy.

Net Income Attributable to Noncontrolling Interests in Consolidated Real Estate Fund

Net income attributable to noncontrolling interests in consolidated real estate fund was \$313,000 for the year ended December 31, 2019, compared to \$720,000 for the year ended December 31, 2018, a decrease in income attributable to the noncontrolling interests of \$407,000.

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

Net loss attributable to noncontrolling interests in Operating Partnership was \$4,039,000 for the year ended December 31, 2019, compared to net income of \$944,000 for the year ended December 31, 2018, a decrease in income attributable to noncontrolling interests of \$4,983,000. This decrease resulted from a lower net income subject to allocation to the unitholders of the Operating Partnership for the year ended December 31, 2019.

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, 2019, we had approximately \$1.3 billion of liquidity comprised of \$306,215,000 of cash and cash equivalents, \$25,272,000 of restricted cash and \$963,082,000 of borrowing capacity under our revolving credit facility. As of December 31, 2019, our outstanding consolidated debt aggregated \$3.85 billion, including \$36,918,000 outstanding under our revolving credit facility as of December 31, 2019 and none of our debt matures until 2021. We may refinance our maturing debt when it comes due or refinance or repay it early depending on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

Revolving Credit Facility

Our \$1.0 billion revolving credit facility matures in January 2022 and has two six-month extension options. The interest rate on the facility, at current leverage levels, is LIBOR plus 115 basis points and has a 20 basis points facility fee. 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 ratio of at least 1.50, (iv) an unsecured leverage ratio to not 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 13, 2019, we declared a regular quarterly cash dividend of \$0.10 per share of common stock for the fourth quarter ended December 31, 2019, which was paid on January 15, 2020 to stockholders of record as of the close of business on December 31, 2019. During 2019, we paid an aggregate of \$103,111,000 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 2020, we would pay out approximately \$102,000,000 to common stockholders and unitholders during 2020.

Contractual Obligations

The following table provides a summary of our contractual obligations and commitments as of December 31, 2019.

(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⁾	\$ 3,828,238	\$ 108,226	\$ 1,069,492	\$ 688,102	\$ 1,962,418
Unconsolidated debt (including interest expense) ⁽¹⁾	717,660	20,875	71,137	104,919	520,729
Tenant obligations	83,476	73,501	9,730	245	-
Construction	34,726	30,957	3,769	-	-
Leasing commissions	6,886	4,780	2,106	-	-
Other	8,552	63	131	139	8,219
Total ⁽²⁾	\$ 4,679,538	\$ 238,402	\$ 1,156,365	\$ 793,405	\$ 2,491,366

⁽¹⁾ Interest expense is calculated using contractual rates for fixed rate debt and the rates in effect as of December 31, 2019 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, 2019, our unconsolidated joint ventures had \$1.63 billion of outstanding indebtedness, of which our share was \$603,525,000. 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. Prior to 2019, we had repurchased 7,555,601 common shares at a weighted average price of \$13.95 per share, or \$105,383,000 in the aggregate. During 2019, we repurchased an additional 7,158,804 common shares at a weighted average price of \$13.22 or \$94,617,000 in the aggregate. As a result, we completed our \$200,000,000 stock repurchase program by repurchasing 14,714,405 common shares at a weighted average price of \$13.59 per share.

On November 5, 2019, we received authorization from our Board of Directors to repurchase up to an additional \$200,000,000 of our common stock, from time to time, in the open market or in privately negotiated transactions. We have not repurchased any of our common stock under the new program. The amount and timing of repurchases, if any, will depend on a number of factors, including, the price and availability of our shares, trading volume and general market conditions. The stock repurchase program may be suspended or discontinued at any time.

Insurance

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

Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and require compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of December 31, 2019, 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. We believe, after consultation with legal counsel that 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 \$43,500,000. 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 \$331,487,000, \$365,409,000, \$250,425,000 and \$192,339,000 as of December 31, 2019, 2018, 2017 and 2016, respectively. Cash and cash equivalents and restricted cash decreased by \$33,922,000 for the year ended December 31, 2019 and increased by \$114,984,000 and \$58,086,000 for the years ended December 31, 2018 and 2017, respectively. The following table sets forth the changes in cash flows.

(Amount in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Net cash provided by (used in):			
Operating activities	\$ 285,441	\$ 156,523	\$ 190,111
Investing activities	(323,440)	156,610	295,731
Financing activities	4,077	(198,149)	(427,756)

Operating Activities

Year Ended December 31, 2019 – We generated \$285,441,000 of cash from operating activities for the year ended December 31, 2019, primarily from (i) net income of \$248,909,000 (before \$237,652,000 of noncash adjustments, a \$42,000,000 real estate impairment loss and a \$1,140,000 gain on sale of real estate), (ii) \$5,620,000 of distributions from unconsolidated joint ventures and real estate funds, (iii) \$2,339,000 repayment of accrued interest on preferred equity investment, and (iv) \$28,573,000 of net changes in operating assets and liabilities. Noncash adjustments of \$237,652,000 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.

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, a \$46,000,000 real estate impairment loss and \$36,845,000 of gains 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 gains 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.

Investing Activities

Year Ended December 31, 2019 – We used \$323,440,000 of cash for investing activities for the year ended December 31, 2019, primarily due to (i) \$368,852,000 for investments in and contributions of capital to unconsolidated joint ventures, (ii) \$103,916,000 for additions to real estate, which were comprised of spending for tenant improvements and other building improvements, (iii) \$36,918,000 for net amounts due from affiliates, and (iv) \$1,861,000 of net distributions from and contributions to unconsolidated real estate funds, partially offset by (v) \$150,307,000 of proceeds from the sale of real estate, (vi) \$33,750,000 from the redemption of preferred equity investment and (vii) \$4,050,000 for net sales of marketable securities (which are held in our deferred compensation plan).

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).

Financing Activities

Year Ended December 31, 2019 – We generated \$4,077,000 of cash from financing activities for the year ended December 31, 2019, primarily from (i) \$1,259,843,000 of proceeds from notes and mortgages payable, primarily from the refinancing of 1633 Broadway and (ii) \$36,918,000 of net borrowings under the revolving credit facility, partially offset by (iii) \$1,050,000,000 of repayment of notes and mortgages payable in connection with the refinancing of 1633 Broadway, (iv) \$103,111,000 for dividends and distributions paid to common stockholders and unitholders, (v) \$97,461,000 for the repurchases of common shares, (vi) \$30,250,000 in net contributions and distributions to non-controlling interests, (vii) \$10,131,000 in debt issuance and other costs, (viii) \$1,000,000 for the acquisition of non-controlling interest in consolidated real estate fund, and (ix) \$731,000 of loss on early extinguishment of debt.

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 300 Mission Street, (ix) \$60,000,000 of borrowings under the revolving credit facility and (x) \$9,555,000 from the refund of transfer taxes.

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 rental revenue (which includes property rentals, tenant reimbursements and lease termination income) and certain other property-related revenues less operating expenses (which includes property-related expenses such as cleaning, security, repairs and maintenance, utilities, property administration and real estate taxes). We also present Cash NOI, which deducts from NOI, straight-line rent adjustments and the amortization of above and below-market leases, including our share of such adjustments of unconsolidated joint ventures. In addition, we present our share of NOI and Cash NOI, which represents our share of NOI and Cash NOI of consolidated and unconsolidated joint ventures, based on our percentage ownership in the underlying assets. We use 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, 2019, 2018 and 2017.

(Amounts in thousands)	For the Year Ended December 31, 2019				
	Total	New York	San Francisco	Washington, D.C.	Other
Reconciliation of net (loss) income to NOI and Cash NOI:					
Net (loss) income	\$ (29,603)	\$ 18,634	\$ 36,560	\$ (33,811)	\$ (50,986)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	248,347	159,054	77,813	8,243	3,237
General and administrative	68,556	-	-	-	68,556
Interest and debt expense	156,679	103,052	49,412	-	4,215
Loss on early extinguishment of debt	11,989	11,989	-	-	-
Income tax expense	312	-	28	-	284
NOI from unconsolidated joint ventures	22,409	13,151	9,065	-	193
Fee income	(22,744)	-	-	-	(22,744)
Interest and other (income) loss, net	(9,844)	6	(784)	-	(9,066)
Real estate impairment loss	42,000	-	-	42,000	-
Gain on sale of real estate	(1,140)	-	-	(1,140)	-
Other, net	7,048	(1,298)	5,964	-	2,382
NOI	494,009	304,588	178,058	15,292	(3,929)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(72,620)	-	(72,620)	-	-
Consolidated real estate fund	126	-	-	-	126
Paramount's share of NOI	\$421,515	\$ 304,588	\$ 105,438	\$ 15,292	\$ (3,803)
NOI	\$494,009	\$ 304,588	\$ 178,058	\$ 15,292	\$ (3,929)
Add (subtract) adjustments to arrive at Cash NOI:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(45,252)	(33,359)	(12,222)	328	1
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(11,807)	1,745	(13,658)	106	-
Cash NOI	436,950	272,974	152,178	15,726	(3,928)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(62,889)	-	(62,889)	-	-
Consolidated real estate fund	126	-	-	-	126
Paramount's share of Cash NOI	\$374,187	\$ 272,974	\$ 89,289	\$ 15,726	\$ (3,802)

For the Year Ended December 31, 2018

(Amounts in thousands)

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

	<u>Total</u>	<u>New York</u>	<u>San Francisco</u>	<u>Washington, D.C.</u>	<u>Other</u>
Net income (loss)	\$ 18,993	\$ 35,209	\$ 30,223	\$ 5,578	\$(52,017)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	258,225	154,820	83,346	17,357	2,702
General and administrative	57,563	-	-	-	57,563
Interest and debt expense	147,653	93,359	49,207	-	5,087
Income tax expense	3,139	-	9	-	3,130
NOI from unconsolidated joint ventures	20,730	20,395	-	-	335
Fee income	(18,629)	-	-	-	(18,629)
Interest and other income, net	(8,117)	-	(757)	(181)	(7,179)
Real estate impairment loss	46,000	-	-	46,000	-
Gain on sale of real estate	(36,845)	-	-	(36,845)	-
Other, net	(1,728)	(3,383)	-	-	1,655
NOI	486,984	300,400	162,028	31,909	(7,353)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(69,017)	-	(69,017)	-	-
Consolidated real estate funds	11	-	-	-	11
Paramount's share of NOI	\$417,978	\$ 300,400	\$ 93,011	\$ 31,909	\$ (7,342)

NOI	\$486,984	\$ 300,400	\$ 162,028	\$ 31,909	\$ (7,353)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(59,122)	(41,151)	(16,252)	(1,712)	(7)
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(15,408)	2,154	(16,155)	(1,407)	-
Cash NOI	412,454	261,403	129,621	28,790	(7,360)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(56,552)	-	(56,552)	-	-
Consolidated real estate funds	11	-	-	-	11
Paramount's share of Cash NOI	\$355,913	\$ 261,403	\$ 73,069	\$ 28,790	\$ (7,349)

For the Year Ended December 31, 2017

(Amounts in thousands)

	<u>Total</u>	<u>New York</u>	<u>San Francisco</u>	<u>Washington, D.C.</u>	<u>Other</u>
Reconciliation of net income (loss) to NOI and Cash NOI:					
Net income (loss)	\$ 107,176	\$ 27,031	\$ 5,727	\$ 126,054	\$(51,636)
Add (subtract) adjustments to arrive at NOI and Cash NOI:					
Depreciation and amortization	266,037	153,337	89,088	21,484	2,128
General and administrative	61,577	-	-	-	61,577
Interest and debt expense	143,762	89,358	45,366	2,724	6,314
Loss on early extinguishment of debt	7,877	-	2,715	5,162	-
Income tax expense	5,177	-	2	-	5,175
NOI from unconsolidated joint ventures	19,643	19,143	-	-	500
Fee income	(24,212)	-	-	-	(24,212)
Interest and other loss (income), net	9,031	(113)	(325)	(40)	9,509
Gain on sale of real estate	(133,989)	-	-	(110,583)	(23,406)
Other, net	(13,817)	(19,920)	(1,802)	-	7,905
NOI	448,262	268,836	140,771	44,801	(6,146)
Less NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(55,464)	-	(55,464)	-	-
Consolidated real estate funds	(154)	-	-	-	(154)
Paramount's share of NOI	\$ 392,644	\$ 268,836	\$ 85,307	\$ 44,801	\$(6,300)

NOI	\$ 448,262	\$ 268,836	\$ 140,771	\$ 44,801	\$(6,146)
Less:					
Straight-line rent adjustments (including our share of unconsolidated joint ventures)	(54,886)	(38,293)	(15,592)	(979)	(22)
Amortization of above and below-market leases, net (including our share of unconsolidated joint ventures)	(18,912)	4,737	(21,456)	(2,193)	-
Cash NOI	374,464	235,280	103,723	41,629	(6,168)
Less Cash NOI attributable to noncontrolling interests in:					
Consolidated joint ventures	(42,325)	-	(42,325)	-	-
Consolidated real estate funds	(154)	-	-	-	(154)
Paramount's share of Cash NOI	\$ 331,985	\$ 235,280	\$ 61,398	\$ 41,629	\$(6,322)

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, 2019 and 2018. 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, impairment of receivables arising from operating leases 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-line rent adjustments and the amortization of above and below-market leases.

(Amounts in thousands)	For the Year Ended December 31, 2019				
	Total	New York	San Francisco	Washington, D.C.	Other
Paramount's share of NOI for the year ended December 31, 2019 ⁽¹⁾	\$ 421,515	\$ 304,588	\$ 105,438	\$ 15,292	\$ (3,803)
Acquisitions ⁽²⁾	(9,065)	-	(9,065)	-	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(3,473)	(2,346)	(1,127)	-	-
Other, net	464	473	(9)	-	-
Paramount's share of Same Store NOI for the year ended December 31, 2019	\$ 409,441	\$ 302,715	\$ 95,237	\$ 15,292	\$ (3,803)

(Amounts in thousands)	For the Year Ended December 31, 2018				
	Total	New York	San Francisco	Washington, D.C.	Other
Paramount's share of NOI for the year ended December 31, 2018 ⁽¹⁾	\$ 417,978	\$ 300,400	\$ 93,011	\$ 31,909	\$ (7,342)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(15,263)	-	-	(15,263)	-
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	\$ 398,732	\$ 297,190	\$ 92,238	\$ 16,646	\$ (7,342)

Increase (decrease) in Same Store NOI	\$ 10,709	\$ 5,525	\$ 2,999	\$ (1,354)	\$ 3,539
% Increase (decrease)	2.7%	1.9%	3.3%	(8.1%)	

⁽¹⁾ See page 62 "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 (111 Sutter Street, 55 Second Street and Market Center 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 (2099 Pennsylvania Avenue, 425 Eye Street and Liberty Place 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, 2019				
	Total	New York	San Francisco	Washington, D.C.	Other
Paramount's share of Cash NOI for the year ended December 31, 2019 ⁽¹⁾	\$ 374,187	\$ 272,974	\$ 89,289	\$ 15,726	\$ (3,802)
Acquisitions ⁽²⁾	(6,363)	-	(6,363)	-	-
Dispositions	-	-	-	-	-
Lease termination income (including our share of unconsolidated joint ventures)	(3,473)	(2,346)	(1,127)	-	-
Other, net	464	473	(9)	-	-
Paramount's share of Same Store Cash NOI for the year ended December 31, 2019	\$ 364,815	\$ 271,101	\$ 81,790	\$ 15,726	\$ (3,802)

(Amounts in thousands)	For the Year Ended December 31, 2018				
	Total	New York	San Francisco	Washington, D.C.	Other
Paramount's share of Cash NOI for the year ended December 31, 2018 ⁽¹⁾	\$ 355,913	\$ 261,403	\$ 73,069	\$ 28,790	\$ (7,349)
Acquisitions	-	-	-	-	-
Dispositions ⁽³⁾	(12,055)	-	-	(12,055)	-
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	\$ 339,875	\$ 258,193	\$ 72,296	\$ 16,735	\$ (7,349)

Increase (decrease) in Same Store Cash NOI	\$ 24,940	\$ 12,908	\$ 9,494	\$ (1,009)	\$ 3,547
% Increase (decrease)	7.3%	5.0%	13.1%	(6.0%)	

- ⁽¹⁾ See page 62 “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 (111 Sutter Street, 55 Second Street and Market Center 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 (2099 Pennsylvania Avenue, 425 Eye Street and Liberty Place 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 net income or loss, calculated in accordance with GAAP, adjusted to exclude depreciation and amortization from real estate assets, impairment losses on certain real estate assets and gains or losses from the sale of certain real estate assets or from change in control of certain 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 (loss) income to FFO and Core FFO.

(Amounts in thousands, except share and per share amounts)	For the Year Ended December 31,		
	2019	2018	2017
Reconciliation of net (loss) income to FFO and Core FFO:			
Net (loss) income	\$ (29,603)	\$ 18,993	\$ 107,176
Real estate depreciation and amortization (including our share of unconsolidated joint ventures)	266,119	266,236	273,938
Real estate impairment loss	42,000	46,000	-
Gain on sale of depreciable real estate	(1,140)	(36,845)	(110,583)
FFO	277,376	294,384	270,531
Less FFO attributable to noncontrolling interests in:			
Consolidated joint ventures	(46,527)	(45,622)	(19,748)
Consolidated real estate fund	(313)	(720)	(20,132)
Operating Partnership	(22,349)	(23,577)	(25,093)
FFO attributable to common stockholders	\$ 208,187	\$ 224,465	\$ 205,558
Per diluted share	\$ 0.90	\$ 0.94	\$ 0.87
FFO	\$ 277,376	\$ 294,384	\$ 270,531
Non-core items:			
Loss on early extinguishment of debt	11,989	-	7,877
Non-cash write-off of deferred financing costs	8,215	-	-
Our share of (distributions received from 712 Fifth Avenue in excess of earnings) and earnings in excess of distributions received	(2,038)	2,727	(14,205)
After-tax net gain on sale of residential condominium land parcel	-	-	(21,568)
Valuation allowance on preferred equity investment	-	-	19,588
Severance costs	-	-	2,626
Unrealized gain on interest rate swaps (including our share of unconsolidated joint ventures)	-	-	(2,750)
Other, net	2,881	3,279	8,407
Core FFO	298,423	300,390	270,506
Less Core FFO attributable to noncontrolling interests in:			
Consolidated joint ventures	(46,527)	(45,622)	(35,022)
Consolidated real estate fund	(313)	(720)	156
Operating Partnership	(24,419)	(24,148)	(25,568)
Core FFO attributable to common stockholders	\$ 227,164	\$ 229,900	\$ 210,072
Per diluted share	\$ 0.98	\$ 0.96	\$ 0.89
Reconciliation of weighted average shares outstanding:			
Weighted average shares outstanding	231,538,065	239,526,694	236,372,801
Effect of dilutive securities	35,323	28,942	28,747
Denominator for FFO per diluted share	231,573,388	239,555,636	236,401,548

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, 2019.

Property	Rate	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
(Amounts in thousands)									
Fixed Rate Debt:									
1633 Broadway	2.99%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,250,000	\$ 1,250,000	\$ 1,240,910
1301 Avenue of the Americas	3.05%	-	500,000	-	-	-	-	500,000	498,822
31 West 52nd Street	3.80%	-	-	-	-	-	500,000	500,000	508,312
One Market Plaza	4.03%	-	-	-	-	975,000	-	975,000	1,009,106
300 Mission Street	3.65%	-	-	-	234,643	-	-	234,643	238,619
Total Fixed Rate Debt	3.45%	\$ -	\$ 500,000	\$ -	\$ 234,643	\$ 975,000	\$ 1,750,000	\$ 3,459,643	\$ 3,495,769
Variable Rate Debt:									
1301 Avenue of the Americas	3.55%	\$ -	\$ 350,000	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 352,497
Revolving Credit Facility	2.94%	-	-	36,918	-	-	-	36,918	36,919
Total Variable Rate Debt	3.49%	\$ -	\$ 350,000	\$ 36,918	\$ -	\$ -	\$ -	\$ 386,918	\$ 389,416
Total Consolidated Debt	3.46%	\$ -	\$ 850,000	\$ 36,918	\$ 234,643	\$ 975,000	\$ 1,750,000	\$ 3,846,561	\$ 3,885,185

In addition to the above, our unconsolidated joint ventures had \$1.63 billion of outstanding indebtedness as of December 31, 2019, of which our share was \$603,525,000.

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, 2019			December 31, 2018	
	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	\$ 386,918	3.49%	\$ 3,869	\$ 396,800	4.17%
Fixed rate	2,800,724	3.34%	-	2,548,658	3.59%
	<u>\$ 3,187,642</u>	<u>3.36%</u>	<u>\$ 3,869</u>	<u>\$ 2,945,458</u>	<u>3.67%</u>
Paramount's share of debt of non-consolidated entities (non-recourse):					
Variable rate	\$ 99,748	3.96%	\$ 997	\$ 28,808	4.91%
Fixed rate	503,777	3.30%	-	152,071	3.41%
	<u>\$ 603,525</u>	<u>3.41%</u>	<u>\$ 997</u>	<u>\$ 180,879</u>	<u>3.65%</u>
Noncontrolling interests' share of above			\$ (478)		
Total change in annual net income			<u>\$ 4,388</u>		
Per diluted share			<u>\$ 0.02</u>		

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	<u>Page Number</u>
Report of Independent Registered Public Accounting Firm	70
Consolidated Balance Sheets as of December 31, 2019 and 2018	73
Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017	74
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	75
Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017	76
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	78
Notes to Consolidated Financial Statements	80

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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 12, 2020, 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 US 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 audits 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Real Estate Asset Impairment – Holding Period – Refer to Notes 2 and 16 to the financial statements

Critical Audit Matter Description

The Company's real estate properties are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of a real estate asset may not be recoverable. Impairment analyses are based on the Company's current plans, intended holding periods and available market information at the time the analyses are prepared. The Company uses significant judgment in assessing events or circumstances, which might indicate impairment, including but not limited to, changes in management's intended holding periods. Such changes have a significant impact on the estimates of fair value, which are determined using discounted cash flow models.

Evaluating the judgments made by the Company in determining the hold period for real estate assets as part of their impairment analyses involved especially subjective judgment. This required a high degree of auditor judgment and extensive auditor effort, especially given the inherent unpredictability involved in the timing of sales of real estate.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the assessment of the Company's intended holding periods included, among others, the following:

- We tested the effectiveness of controls over management's identification of changes in circumstances that could indicate the carrying amounts of real estate assets may not be recoverable, including controls over management's assessment of significant judgments; specifically, the determination of whether a property was intended to be sold or otherwise disposed of.
- We evaluated the reasonableness of management's assertions regarding the intended holding period of its real estate assets, more specifically by performing the following:
 - Engaged in discussions with management, including the Chief Executive Officer and Chief Financial Officer, and inspected Board of Directors meeting minutes regarding the assumptions utilized in the determination of intended holding periods, and evaluated audit evidence to determine whether it supported or contradicted the conclusions reached by management.
 - Corroborated whether an asset is being actively marketed for sale with external tools utilized by our valuation specialists, including industry intelligence and marketing platforms.
 - Searched public records for indications of whether assets may be actively marketed for sale.

Variable Interest Entities and Investments in Real Estate Joint Ventures – Refer to Notes 2 and 4 to the financial statements

Critical Audit Matter Description

The Company routinely invests in joint ventures that own real estate. Such joint ventures may meet the definition of a variable interest entity. The Company consolidates variable interest entities in which the Company is considered the primary beneficiary. The Company accounts for investments under the equity method when the requirements for consolidation are not met and the Company has significant influence over the operations of the entity. During 2019, the Company acquired three new investments in real estate through joint ventures and performed assessments on whether the Company should consolidate or account for such investments under the equity method.

Evaluating whether a joint venture meets the definition of a variable interest entity and whether the Company's involvement conveys control over the joint venture is especially complex and involved especially subjective judgment. This required a high degree of auditor judgment and extensive auditor effort when auditing management's consolidation conclusions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of whether the joint venture meets the definition of a variable interest entity and whether the Company's investment conveys control over the operations of the joint venture included the following, among others:

- We tested the effectiveness of controls over management's evaluation of the form of its ownership interest, the Company's representation in the joint venture's governance, the size of the Company's investment, and the rights of the other investors to participate in the decision-making process.
- We obtained and read each of the joint venture partnership agreements and related agreements, when applicable, to understand the design and purpose of the joint venture, the rights conveyed through major decisions of the partnership, and the Company's role or representation in the joint venture structure.
- We evaluated management's judgments related to significant activities affecting the joint venture and decision-making rights of the Company through corroborative inquiry of other members of management involved in the design and operations of the joint venture.
- We evaluated the Company's judgments used to determine the sufficiency of equity at risk within the joint venture, including estimates of future cash flows, as applicable.
- We evaluated the Company's application of relevant accounting guidance to determine whether the entity is a variable interest entity and whether the decision-making rights within the joint venture's partnership agreements convey control to the Company through its investment.

/s/ DELOITTE & TOUCHE LLP

New York, NY
February 12, 2020

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, 2019	December 31, 2018
Real estate, at cost		
Land	\$ 2,002,425	\$ 2,065,206
Buildings and improvements	5,981,711	6,036,445
	<u>7,984,136</u>	<u>8,101,651</u>
Accumulated depreciation and amortization	(790,216)	(644,639)
Real estate, net	7,193,920	7,457,012
Cash and cash equivalents	306,215	339,653
Restricted cash	25,272	25,756
Investments in unconsolidated joint ventures	449,180	78,863
Investments in unconsolidated real estate funds	10,317	10,352
Preferred equity investments	-	36,042
Accounts and other receivables, net of allowance of \$593 in 2018	19,231	20,076
Due from affiliates	36,918	-
Deferred rent receivable	305,794	267,456
Deferred charges, net of accumulated amortization of \$42,670 and \$30,129	127,171	117,858
Intangible assets, net of accumulated amortization of \$270,913 and \$245,444	208,744	270,445
Other assets	51,373	132,465
Total assets ⁽¹⁾	\$ 8,734,135	\$ 8,755,978

Liabilities and Equity

Notes and mortgages payable, net of deferred financing costs of \$25,792 and \$32,883	\$ 3,783,851	\$ 3,566,917
Revolving credit facility	36,918	-
Accounts payable and accrued expenses	117,356	124,334
Dividends and distributions payable	25,255	25,902
Intangible liabilities, net of accumulated amortization of \$100,881 and \$89,200	73,789	95,991
Other liabilities	66,004	51,170
Total liabilities ⁽¹⁾	4,103,173	3,864,314
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued and outstanding 227,432,030 and 233,135,704 shares in 2019 and 2018, respectively	2,274	2,329
Additional paid-in-capital	4,133,184	4,201,756
Earnings less than distributions	(349,557)	(219,906)
Accumulated other comprehensive (loss) income	(171)	16,621
Paramount Group, Inc. equity	3,785,730	4,000,800
Noncontrolling interests in:		
Consolidated joint ventures	360,778	394,995
Consolidated real estate fund	72,396	66,887
Operating Partnership (24,758,472 and 25,127,003 units outstanding)	412,058	428,982
Total equity	4,630,962	4,891,664
Total liabilities and equity	\$ 8,734,135	\$ 8,755,978

⁽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 90.2% as of December 31, 2019. The assets and liabilities of the Operating Partnership, as of December 31, 2019, include \$1,959,266 and \$1,273,464 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 13, *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,		
	2019	2018	2017
Revenues:			
Rental revenue	\$ 734,477	\$ 727,295	\$ 683,490
Fee and other income	34,703	31,666	35,477
Total revenues	769,180	758,961	718,967
Expenses:			
Operating	274,836	274,078	266,136
Depreciation and amortization	248,347	258,225	266,037
General and administrative	68,556	57,563	61,577
Transaction related costs	1,999	1,471	2,027
Total expenses	593,738	591,337	595,777
Other income (expense):			
(Loss) income from unconsolidated joint ventures	(4,706)	3,468	20,185
Loss from unconsolidated real estate funds	(343)	(269)	(6,143)
Interest and other income (loss), net	9,844	8,117	(9,031)
Interest and debt expense	(156,679)	(147,653)	(143,762)
Loss on early extinguishment of debt	(11,989)	-	(7,877)
Real estate impairment loss	(42,000)	(46,000)	-
Gain on sale of real estate	1,140	36,845	133,989
Unrealized gain on interest rate swaps	-	-	1,802
Net (loss) income before income taxes	(29,291)	22,132	112,353
Income tax expense	(312)	(3,139)	(5,177)
Net (loss) income	(29,603)	18,993	107,176
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(11,022)	(8,182)	10,365
Consolidated real estate fund	(313)	(720)	(19,797)
Operating Partnership	4,039	(944)	(11,363)
Net (loss) income attributable to common stockholders	\$ (36,899)	\$ 9,147	\$ 86,381
 (Loss) income per Common Share - Basic:			
(Loss) income per common share	\$ (0.16)	\$ 0.04	\$ 0.37
Weighted average shares outstanding	231,538,065	239,526,694	236,372,801
 (Loss) income per Common Share - Diluted:			
(Loss) income per common share	\$ (0.16)	\$ 0.04	\$ 0.37
Weighted average shares outstanding	231,538,065	239,555,636	236,401,548

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Net (loss) income	\$ (29,603)	\$ 18,993	\$ 107,176
Other comprehensive (loss) income:			
Change in value of interest rate swaps	(28,069)	7,273	10,618
Pro rata share of other comprehensive income (loss) of unconsolidated joint ventures	206	(129)	160
Comprehensive (loss) income	(57,466)	26,137	117,954
Less comprehensive (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(11,022)	(8,182)	10,365
Consolidated real estate fund	(360)	(665)	(19,797)
Operating Partnership	6,726	(1,605)	(12,430)
Comprehensive (loss) income attributable to common stockholders	<u>\$ (62,122)</u>	<u>\$ 15,685</u>	<u>\$ 96,092</u>

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands, except per share and unit amounts)	Common Shares		Additional Paid-in-Capital	Earnings Less than Distributions	Accumulated Other Comprehensive (Loss) Income	Consolidated Joint Ventures	Noncontrolling Interests in		Total Equity
	Shares	Amount					Consolidated Real Estate Fund	Operating Partnership	
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 300 Mission 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
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 CHANGES IN EQUITY - CONTINUED

(Amounts in thousands, except per share and unit amounts)	Common Shares	Additional	Earnings	Accumulated	Noncontrolling Interests in				Total
					Common Shares	Other	Consolidated	Real Estate	
	Amount	Paid-in-Capital	Less than Distributions	(Loss) Income	Joint Ventures	Real Estate Fund	Partnership	Equity	
Balance as of December 31, 2018	233,136	\$ 4,201,756	\$ (219,906)	\$ 16,621	\$ 394,995	\$ 66,887	\$ 428,982	\$ 4,891,664	
Net (loss) income	-	-	(36,899)	-	11,022	313	(4,039)	(29,603)	
Common shares issued upon redemption of common units	1,409	24,016	-	-	-	-	(24,030)	-	
Common shares issued under Omnibus share plan, net of shares withheld for taxes	46	-	(327)	-	-	-	-	(324)	
Repurchases of common shares	(7,159)	(94,545)	-	-	-	-	-	(94,617)	
Dividends and distributions (\$0.40 per share and unit)	-	-	(92,425)	-	-	-	(10,039)	(102,464)	
Contributions from noncontrolling interests	-	-	-	-	-	14,989	-	14,989	
Distributions to noncontrolling interests	-	-	-	-	(45,239)	-	-	(45,239)	
Change in value of interest rate swaps	-	-	-	(25,367)	-	-	(2,702)	(28,069)	
Settlement of interest rate swap liabilities	-	-	-	8,431	-	-	2,827	11,258	
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	144	-	47	15	206	
Amortization of equity awards	-	2,564	-	-	-	-	20,437	23,001	
Acquisition of noncontrolling interest	-	(607)	-	-	-	(9,840)	-	(9,840)	
Other	-	-	-	-	-	-	607	-	
Balance as of December 31, 2019	227,432	\$ 4,133,184	\$ (349,557)	\$ (171)	\$ 360,778	\$ 72,396	\$ 412,058	\$ 4,630,962	

See notes to consolidated financial statements.

PARAMOUNT GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net (loss) income	\$ (29,603)	\$ 18,993	\$ 107,176
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	248,347	258,225	266,037
Straight-lining of rental revenue	(43,679)	(59,061)	(54,453)
Real estate impairment loss	42,000	46,000	-
Amortization of stock-based compensation expense	22,860	19,646	15,922
Amortization of deferred financing costs	19,323	11,023	11,188
Amortization of above and below-market leases, net	(10,991)	(16,059)	(19,523)
Loss (income) from unconsolidated joint ventures	4,706	(3,468)	(20,185)
Distributions of earnings from unconsolidated joint ventures	4,067	6,207	5,700
Realized and unrealized (gains) losses on marketable securities	(3,027)	1,604	(4,664)
Repayment of accrued interest on preferred equity investment	2,339	-	-
Distributions of earnings from unconsolidated real estate funds	1,553	330	342
Gain on sale of real estate	(1,140)	(36,845)	(133,989)
Loss on early extinguishment of debt	731	-	7,877
Loss from unconsolidated real estate funds	343	269	6,143
Other non-cash adjustments	(961)	288	(470)
Valuation allowance on preferred equity investment	-	-	19,588
Unrealized gain on interest rate swaps	-	-	(1,802)
Changes in operating assets and liabilities:			
Accounts and other receivables	845	(2,994)	(1,000)
Deferred charges	(23,029)	(31,861)	(33,295)
Other assets	57,318	(57,216)	10,243
Accounts payable and accrued expenses	(8,949)	4,200	6,305
Other liabilities	2,388	(2,758)	2,971
Net cash provided by operating activities	285,441	156,523	190,111
Cash Flows from Investing Activities:			
Investment in and contributions of capital to unconsolidated joint ventures	(368,852)	(29,883)	(28,791)
Due from affiliates	(217,918)	-	-
Repayment of amounts due from affiliates	181,000	-	-
Proceeds from sale of real estate	150,307	349,013	540,333
Additions to real estate	(103,916)	(137,915)	(86,434)
Redemption of preferred equity investment	33,750	-	-
Sales of marketable securities	19,282	24,794	27,261
Purchases of marketable securities	(15,232)	(20,019)	(29,248)
Contributions of capital to unconsolidated real estate funds	(3,937)	(3,779)	(790)
Distributions of capital from unconsolidated real estate funds	2,076	79	14,584
Escrow deposits and loans receivable for Residential Development Fund	-	(15,680)	-
Real estate acquisition deposits	-	(10,000)	-
Acquisitions of real estate	-	-	(161,184)
Distributions of capital from unconsolidated joint ventures	-	-	20,000
Net cash (used in) provided by investing activities	(323,440)	156,610	295,731

See notes to consolidated financial statements.

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

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Cash Flows from Financing Activities:			
Proceeds from notes and mortgages payable	\$ 1,259,843	\$ 16,700	\$ 991,556
Repayments of notes and mortgages payable	(1,050,000)	-	(1,044,821)
Borrowings under revolving credit facility	231,918	-	60,000
Repayment of borrowings under revolving credit facility	(195,000)	-	(290,000)
Repurchases of common shares	(97,137)	(102,863)	-
Dividends paid to common stockholders	(93,038)	(94,991)	(89,276)
Distributions to noncontrolling interests	(45,239)	(18,184)	(119,251)
Contributions from noncontrolling interests	14,989	45,116	100,777
Debt issuance costs and other	(10,131)	(6,564)	(7,490)
Distributions paid to common unitholders	(10,073)	(10,064)	(11,504)
Acquisition of noncontrolling interest in consolidated real estate fund	(1,000)	-	-
Loss on early extinguishment of debt	(731)	-	(7,877)
Repurchase of shares related to stock compensation agreements and related tax withholdings	(324)	-	-
Repayment of loans to affiliates	-	(27,299)	-
Transfer tax refund in connection with the acquisition of noncontrolling interests	-	-	9,555
Settlement of interest rate swap liabilities	-	-	(19,425)
Net cash provided by (used in) financing activities	4,077	(198,149)	(427,756)
Net (decrease) increase in cash and cash equivalents and restricted cash	(33,922)	114,984	58,086
Cash and cash equivalents and restricted cash at beginning of period	365,409	250,425	192,339
Cash and cash equivalents and restricted cash at end of period	\$ 331,487	\$ 365,409	\$ 250,425
Reconciliation of Cash and Cash Equivalents and Restricted Cash:			
Cash and cash equivalents at beginning of period	\$ 339,653	\$ 219,381	\$ 162,965
Restricted cash at beginning of period	25,756	31,044	29,374
Cash and cash equivalents and restricted cash at beginning of period	\$ 365,409	\$ 250,425	\$ 192,339
Cash and cash equivalents at end of period	\$ 306,215	\$ 339,653	\$ 219,381
Restricted cash at end of period	25,272	25,756	31,044
Cash and cash equivalents and restricted cash at end of period	\$ 331,487	\$ 365,409	\$ 250,425
Supplemental Disclosure of Cash Flows Information:			
Cash payments for interest	\$ 139,130	\$ 136,452	\$ 132,361
Cash payments for income taxes, net of refunds	2,474	4,049	5,048
Non-Cash Transactions:			
Change in value of interest rate swaps	\$ 28,069	\$ (7,273)	\$ (10,618)
Dividends and distributions declared but not yet paid	25,255	25,902	25,211
Common shares issued upon redemption of commons units	24,030	3,461	172,728
Additions to real estate included in accounts payable and accrued expenses	21,566	19,872	10,413
Note payable issued in connection with the acquisition of noncontrolling interest in consolidated real estate fund	8,771	-	-
Write-off of fully amortized and/or depreciated assets	8,727	4,158	9,684
Basis adjustment to investment in unconsolidated joint ventures upon adoption of ASU 2017-05	-	7,086	-
Consolidation of real estate and real estate fund investments	-	-	102,512
Assumption of notes and mortgages payable	-	-	228,000

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, San Francisco and Washington, D.C. As of December 31, 2019, our portfolio consisted of 14 Class A office properties aggregating approximately 13.1 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 90.2% of, the Operating Partnership as of December 31, 2019.

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 revenue, 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. 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 collectability 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.

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. Upon the early extinguishment of our notes and mortgages payable, any unamortized costs related to such notes and mortgages payable are written off as a component of “loss on early extinguishment of debt” 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 Accounting Standards Codification (“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 (loss) income” (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

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 receivables 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

Our revenues consist of rental revenues and revenues from contracts with customers.

Rental Revenue

Rental revenue is recognized in accordance with ASC Topic 842, *Leases*, and consists of (i) cash rents, which represents revenue each tenant pays in accordance with the terms of its respective lease and that is recognized on a straight-line basis over the non-cancelable term of the lease, and includes the effects of rent steps and rent abatements under the leases, (ii) amortization of acquired above and below-market leases, net, (iii) tenant reimbursements, which are recoveries of all or a portion of the operating expenses and real estate taxes of the property and is recognized in the same period as the expenses are incurred and (iv) lease termination income. Our leases, which comprise the lease-up of office, retail and storage space to tenants, primarily under non-cancellable operating leases, have terms generally ranging from five to fifteen years. Most of our leases provide tenants with extension options at either fixed or market rates and a number of our leases provide tenants with options to early terminate, but such options generally impose an economic penalty on the tenant upon exercising.

We evaluate the collectibility of our tenant receivables for payments required under the lease agreements. If we determine that collectibility is not probable, the difference between rental revenue recognized and rental payments received is recorded as an adjustment to “rental revenue” in our consolidated statements of income.

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.

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 \$242,000, \$622,000 and \$5,758,000 for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, our TRSs had combined deferred income tax benefit of \$28,000 and \$922,000 for the years ended December 31, 2019 and 2017, respectively, and a combined deferred income tax expense of \$87,000 for the year ended December 31, 2018.

The following table reconciles net (loss) income attributable to Paramount Group, Inc. to estimated taxable income for the years ended December 31, 2019, 2018 and 2017.

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Net (loss) income attributable to Paramount Group, Inc.	\$ (36,899)	\$ 9,147	\$ 86,381
Book to tax differences:			
Straight-lining of rents and amortization of above and below-market leases, net	(37,244)	(48,604)	(44,083)
Depreciation and amortization	79,750	92,512	96,991
Stock-based compensation	20,812	17,847	14,441
Real estate impairment loss	38,237	41,788	-
Gain on sale of real estate	12,107	(14,381)	(95,182)
Earnings of unconsolidated joint ventures, including real estate fund investments	4,597	179	(8,600)
Write-off of preferred equity investment	-	(3,574)	4,327
Unrealized gain on interest rate swaps	-	-	(860)
Other, net	8,156	(8,240)	398
Estimated taxable income	\$ 89,516	\$ 86,674	\$ 53,813

The following table sets forth the characterization of dividend distributions for federal income tax purposes for the years ended December 31, 2019, 2018 and 2017.

	For the Year Ended December 31,					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Ordinary income	\$ 0.323 ⁽¹⁾	80.7%	\$ 0.286 ⁽¹⁾	72.4%	\$ 0.195 ⁽¹⁾	51.3%
Long-term capital gain	0.062	15.5%	0.074	18.7%	0.034	8.9%
Return of capital	0.015	3.8%	0.035	8.9%	0.151	39.8%
Total	\$ 0.400 ⁽²⁾	100.0%	\$ 0.395 ⁽²⁾	100.0%	\$ 0.380 ⁽²⁾	100.0%

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

⁽²⁾ The fourth quarter dividends for the years ended December 31, 2019, 2018 and 2017 of \$0.10, \$0.10 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, San Francisco and Washington D.C. 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 24, *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 of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ 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 June 2016, the Financial Accounting Standards Board (“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 should be accounted for under the scope of ASC Topic 842, *Leases*. In May 2019, the FASB issued ASU 2019-05, which provides transition relief for entities adopting ASU 2016-13 by allowing entities to elect the fair value option on certain financial instruments. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted. We do not believe the adoption of ASU 2016-13 will have a material 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 period 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 do not believe the adoption of ASU 2018-13 will have an impact on our consolidated financial statements.

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 do not believe the adoption of ASU 2018-17 will have an impact on our consolidated financial statements.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. We adopted the provisions of ASU 2018-20 on January 1, 2019 in conjunction with the adoption of ASU 2016-02. This adoption did not have an impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, an update to ASC Topic 740, *Income Taxes*. ASU 2019-12 simplifies the accounting for income taxes by (i) eliminating certain exceptions within ASC Topic 740 and (ii) clarifying and amending the existing guidance to enable consistent application of ASC Topic 740. ASU 2019-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2020, with early adoption permitted. We are evaluating the impact of ASU 2019-12 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 adopted 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 which allows companies to not recast comparative periods in the period of adoption. Accordingly, we have applied the provisions of the standard on January 1, 2019, the date of adoption. Upon adoption of this ASU, we recorded a \$4,184,000 right-of-use asset and a lease liability for leases in which we are a lessee, which are included as components of "other assets" and "other liabilities", respectively, on our consolidated balance sheet.

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 (payments received towards the leased space) and non-lease components (payments received towards common area maintenance activities). 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. Upon the adoption of ASU 2016-02, we elected this practical expedient and accordingly, have combined lease and non-lease components into rental revenue on our consolidated statements of income. We account for both components under ASC Topic 842. ASU 2016-02 also requires companies to account for the impairment of receivables arising from operating leases (previously recorded as bad debt expense, a component of "operating expenses"), as a reduction to "rental income". Accordingly, beginning on January 1, 2019, impairment of receivables arising from operating leases have been recorded as a reduction of rental income and are no longer reflected as bad debt expense.

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. This ASU also provides a package of practical expedients which permits companies not to reassess under ASC Topic 842, its prior conclusions about lease identification, lease classification and initial direct costs. Upon adoption of ASU 2016-02, we elected this practical expedient and accordingly, effective January 1, 2019, we no longer capitalize internal leasing costs.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Dispositions

Liberty Place

On September 26, 2019, we sold Liberty Place, a 172,000 square foot Class A office building in Washington, D.C., for \$154,500,000. In connection therewith, we recognized a gain of \$1,140,000, which is included in “gain on sale of real estate” on our consolidated statement of income for the year ended December 31, 2019.

2099 Pennsylvania Avenue

On August 9, 2018, we sold 2099 Pennsylvania Avenue, a 209,000 square foot Class A office building in Washington, D.C., for \$219,900,000. In connection therewith, we recognized a gain of \$35,836,000, which is included in “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 sold 425 Eye Street, a 373,000 square foot Class A office building in Washington, D.C., for \$157,000,000. In connection therewith, we recognized a gain of \$1,009,000, which is included in “gain on sale of real estate” on our consolidated statement of income for the year ended December 31, 2018.

4. Investments in Unconsolidated Joint Ventures

111 Sutter Street

On February 7, 2019, we completed the acquisition of 111 Sutter Street, a 293,000 square foot Class A 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 have retained 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. We began accounting for our investment in 111 Sutter Street, under the equity method, from the date of the acquisition.

One Stuart Lane

Prior to 2019, our consolidated Residential Development Fund (“RDF”), in which we have a 7.4% interest, owned a 25.0% economic interest in One Stuart Lane, a residential condo development project (the “project”) in San Francisco, California. Accordingly, prior to 2019, our economic interest in the project was 1.9%. In March 2019 and again in September 2019, RDF acquired an additional 10.0% economic interest in the project, in two separate transactions, for an aggregate of \$19,110,000. Subsequent to these transactions, RDF economic interest in the project increased to 35.0% and our economic interest (based on our 7.4% ownership) increased to 2.6%. We continue to consolidate our 7.4% interest in RDF and reflect the 92.6% interest we do not own as “noncontrolling interests” in our consolidated financial statements.

55 Second Street

On August 21, 2019, we acquired a 44.1% equity interest in a joint venture that owns 55 Second Street, a 384,000 square foot Class A office building in San Francisco, California. The transaction valued the property at \$401,700,000. In connection with the acquisition, the joint venture assumed the existing \$137,500,000 mortgage loan and upsized it by an additional \$50,000,000. The \$187,500,000 mortgage loan is interest only at a fixed rate of 3.88% and matures in October 2026. We began accounting for our investment in 55 Second Street, under the equity method of accounting, from the date of the acquisition.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Market Center

On December 11, 2019, we completed the acquisition of Market Center, a two-building Class A office complex comprising 747,000 square feet, in San Francisco, California, through a joint venture in which we own a 67.0% interest. The transaction valued the property at \$722,000,000. In connection with the acquisition, the joint venture completed a \$402,000,000 financing of the property for an initial term of five years, with two one-year extension options. The loan is interest only at LIBOR plus 150 basis points and was swapped for an all-in fixed rate of 3.07% over the initial term. We began accounting for our investment in Market Center, under the equity method of accounting, from the date of acquisition.

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 Ownership	As of December 31,	
Our Share of Investments:		2019	2018
712 Fifth Avenue ⁽¹⁾	50.0%	\$ -	\$ -
Market Center	67.0%	219,593	-
55 Second Street ⁽²⁾	44.1%	95,384	-
111 Sutter Street	49.0%	41,519	-
60 Wall Street ⁽²⁾	5.0%	19,777	22,353
One Stuart Lane ⁽²⁾	35.0% ⁽³⁾	69,536	52,923 ⁽⁴⁾
Oder-Center, Germany ⁽²⁾	9.5%	3,371	3,587
Investments in unconsolidated joint ventures		\$ 449,180	\$ 78,863

(Amounts in thousands)	For the Year Ended December 31,		
Our Share of Net (Loss) Income:	2019	2018	2017
712 Fifth Avenue ⁽¹⁾	\$ 1,849	\$ 3,901	\$ 20,072
Market Center	(744) ⁽⁵⁾	-	-
55 Second Street ⁽²⁾	(826) ⁽⁵⁾	-	-
111 Sutter Street	(4,394) ⁽⁵⁾	-	-
60 Wall Street ⁽²⁾	(551)	(518)	(152)
One Stuart Lane ⁽²⁾	(118)	(18)	182
Oder-Center, Germany ⁽²⁾	78	103	83
(Loss) income from unconsolidated joint ventures	\$ (4,706)	\$ 3,468	\$ 20,185

⁽¹⁾ As of December 31, 2019, our basis in the partnership that owns 712 Fifth Avenue, was negative \$19,648 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, 2019, the carrying amount of our investment in 55 Second Street, 60 Wall Street, One Stuart Lane and Oder Center, Germany is greater than our share of equity in these investments by \$583, \$2,716, \$974, \$4,576, respectively, and primarily represents the unamortized portion of our capitalized acquisition costs. Basis differences allocated to depreciable assets are being amortized into “(loss) income from unconsolidated joint ventures” over the estimated useful life of the related assets.

⁽³⁾ Represents RDF’s economic interest in One Stuart Lane.

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

⁽⁵⁾ Represents our share of earnings from the date of acquisition through December 31, 2019.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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,	
	2019	2018
Balance Sheets:		
Real estate, net	\$ 2,581,738	\$ 1,236,989
Cash and cash equivalents and restricted cash	75,071	50,834
Intangible assets, net	172,041	97,658
Other assets	36,218	40,718
Total assets	\$ 2,865,068	\$ 1,426,199
Notes and mortgages payable, net	\$ 1,648,403	\$ 887,882
Intangible liabilities, net	38,377	-
Other liabilities	65,759	22,310
Total liabilities	1,752,539	910,192
Equity	1,112,529	516,007
Total liabilities and equity	\$ 2,865,068	\$ 1,426,199

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Income Statements:			
Revenues:			
Rental revenue	\$ 164,316	\$ 140,653	\$ 138,805
Fee and other income	2,108	6,827	1,621
Total revenues	166,424	147,480	140,426
Expenses:			
Operating	68,491	53,417	51,390
Depreciation and amortization	68,318	48,452	46,409
Total expenses	136,809	101,869	97,799
Other income (expense):			
Interest and other income, net	663	803	381
Interest and debt expense	(51,113)	(39,406)	(33,461)
Unrealized gain on interest rate swaps	-	-	1,896
Net (loss) income before income taxes	(20,835)	7,008	11,443
Income tax expense	(16)	(10)	(2)
Net (loss) income	\$ (20,851)	\$ 6,998	\$ 11,441

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Investments in Unconsolidated Real Estate Funds

We are the general partner and investment manager of Paramount Group Real Estate Fund VII, LP (“Fund VII”) and its parallel fund, Paramount Group Real Estate Fund VII-H, LP (“Fund VII-H”), our Property Funds. On January 25, 2019, Fund VII and Fund VII-H sold their only remaining asset, 0 Bond Street, a 65,000 square foot creative office building in the NoHo submarket of Manhattan, for \$130,500,000.

We are also the general partner and investment manager of Paramount Group Real Estate Fund VIII, LP (“Fund VIII”) and Paramount Group Real Estate Fund X, LP and its parallel fund, Paramount Group Real Estate Fund X-ECI, LP, (collectively “Fund X”), our Alternative Investment Funds, which invest in mortgage and mezzanine loans and preferred equity investments. As of December 31, 2019, Fund VIII has invested \$646,738,000 of the \$775,200,000 of capital committed and Fund X has invested \$78,600,000 of the \$192,000,000 of capital committed. As of December 31, 2019, our ownership interest in Fund VIII and Fund X was approximately 1.3% and 7.8%, respectively.

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,	
	2019	2018
Our Share of Investments:		
Property Funds	\$ 33	\$ 2,340
Alternative Investment Funds	10,284	8,012
Investments in unconsolidated real estate funds	\$ 10,317	\$ 10,352

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Our Share of Net Loss:			
Net investment income	\$ 539	\$ 291	\$ 236
Net realized loss	(54)	-	(126)
Net unrealized loss	(828)	(560)	(663)
Carried interest	-	-	(5,590)
Loss from unconsolidated real estate funds	\$ (343)	\$ (269)	\$ (6,143)

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Preferred Equity Investments

We owned a 24.4% interest in PGRESS Equity Holdings LP (“PGRESS”), an entity that owned a preferred equity investment in a partnership that owned 470 Vanderbilt, a 686,000 square foot office building in Brooklyn, New York. The preferred equity had 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 was paid in cash. On March 1, 2019, the partnership that owned 470 Vanderbilt redeemed the preferred equity investment for \$36,089,000 consisting of the investment balance and accrued interest.

7. Intangible Assets and Liabilities

The following tables 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,	
	2019	2018
Intangible assets:		
Gross amount	\$ 479,657	\$ 515,889
Accumulated amortization	(270,913)	(245,444)
	<u>\$ 208,744</u>	<u>\$ 270,445</u>
Intangible liabilities:		
Gross amount	\$ 174,670	\$ 185,191
Accumulated amortization	(100,881)	(89,200)
	<u>\$ 73,789</u>	<u>\$ 95,991</u>

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Amortization of above and below-market leases, net (component of "rental revenue")	\$ 10,991	\$ 16,059	\$ 19,523
Amortization of acquired in-place leases (component of "depreciation and amortization")	\$ 48,932	\$ 58,814	\$ 76,016

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, 2020.

(Amounts in thousands)	Above and Below-Market	
	Leases, Net	In-Place Leases
For the Year Ending December 31,		
2020	\$ 5,995	\$ 37,706
2021	3,413	27,795
2022	943	23,298
2023	4,452	18,631
2024	5,498	14,387

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

On November 25, 2019, we completed a \$1.25 billion refinancing of 1633 Broadway, a 2.5 million square foot Class A office building located in New York, New York. The new 10-year interest-only loan has a fixed rate of 2.99% and matures in December 2029. The proceeds from the refinancing were used to repay the existing \$1.05 billion loan that bore interest at a weighted average rate of 3.55% and was scheduled to mature in December 2022. We realized net proceeds of \$179,000,000 after the repayment of the existing loan, swap breakage costs and closing costs.

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, 2019</u>	<u>As of December 31,</u>	
				<u>2019</u>	<u>2018</u>
Notes and mortgages payable:					
1633 Broadway					
	Dec-2029	Fixed	2.99%	\$ 1,250,000	\$ 1,000,000 ⁽¹⁾
	n/a	n/a	n/a	-	46,800 ⁽²⁾
			2.99%	1,250,000	1,046,800
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	3.55%	350,000	350,000
			3.26%	850,000	850,000
31 West 52nd Street					
	May-2026	Fixed	3.80%	500,000	500,000
300 Mission Street ⁽³⁾					
	Oct-2023	Fixed	3.65%	234,643	228,000
Total notes and mortgages payable			3.46%	3,809,643	3,599,800
Less: deferred financing costs				(25,792)	(32,883)
Total notes and mortgages payable, net				\$ 3,783,851	\$ 3,566,917
\$1.0 Billion Revolving Credit Facility					
	Jan-2022	L + 115 bps	2.94%	\$ 36,918	\$ -

⁽¹⁾ Represents loans with variable interest rates that had been fixed by interest rate swaps. See Note 9, *Derivative Instruments and Hedging Activities*.

⁽²⁾ Represents amounts borrowed to fund leasing costs at the property.

⁽³⁾ Our ownership interest in One Market Plaza and 300 Mission Street (formerly 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, 2019.

(Amounts in thousands)	<u>Total</u>	<u>Notes and Mortgages Payable</u>	<u>Revolving Credit Facility</u>
2020	\$ -	\$ -	\$ -
2021	850,000	850,000	-
2022	36,918	-	36,918
2023	234,643	234,643	-
2024	975,000	975,000	-
Thereafter	1,750,000	1,750,000	-

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Derivative Instruments and Hedging Activities

Interest Rate Swaps – Designated as Cash Flow Hedges

We had interest rate swaps with an aggregate notional amount of \$1.0 billion that were designated as cash flow hedges. We also had 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. In November 2019, in connection with the \$1.25 billion refinancing of 1633 Broadway at a fixed rate of 2.99%, we terminated all interest rate swaps and incurred \$11,258,000 of swap breakage costs. Following these terminations, we also accelerated the reclassification of amounts from other comprehensive (loss) income to “loss on early extinguishment of debt” on our consolidated statement of income for the year ended December 31, 2019.

As of December 31, 2018, the fair value of the interest rate swap assets and interest rate swap liabilities was \$16,859,000 and \$48,000, respectively. We recognized other comprehensive loss of \$28,069,000 for the year ended December 31, 2019 and other comprehensive income of \$7,273,000 and \$10,618,000 for the years ended December 31, 2018 and 2017, respectively, from the changes in fair value of these interest rate swaps. See Note 11, *Accumulated Other Comprehensive (Loss) Income*.

10. 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. Prior to 2019, we had repurchased 7,555,601 common shares at a weighted average price of \$13.95 per share, or \$105,383,000 in the aggregate. During 2019, we repurchased an additional 7,158,804 common shares at a weighted average price of \$13.22, or \$94,617,000 in the aggregate. As a result, we completed our \$200,000,000 stock repurchase program by repurchasing 14,714,405 common shares at a weighted average price of \$13.59 per share.

On November 5, 2019, we received authorization from our Board of Directors to repurchase up to an additional \$200,000,000 of our common stock, from time to time, in the open market or in privately negotiated transactions. We have not repurchased any of our common stock under the new program. 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.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Accumulated Other Comprehensive (Loss) Income

The following table sets forth changes in accumulated other comprehensive (loss) income by component for the years ended December 31, 2019, 2018 and 2017, including amounts attributable to noncontrolling interests in the Operating Partnership.

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Amount of (loss) income related to the effective portion of cash flow hedges recognized in other comprehensive (loss) income	\$ (23,147)	\$ 9,203	\$ 3,360
Amount reclassified from accumulated other comprehensive income (decreasing) increasing interest and debt expense	(4,922)	(1,930)	7,258
Amount reclassified to loss on early extinguishment of debt ⁽¹⁾	11,258	-	-
Amount of income (loss) related to unconsolidated joint ventures recognized in other comprehensive (loss) income ⁽²⁾	206	(129)	160

⁽¹⁾ Represents costs incurred in connection with the settlement of interest rate swap liabilities upon the refinancing of 1633 Broadway in November 2019. See Note 8, *Debt* and Note 9, *Derivative Instruments and Hedging Activities*.

⁽²⁾ No amounts were reclassified from accumulated other comprehensive income (loss) during any of the periods set forth above.

12. Noncontrolling Interests

Consolidated Joint Ventures

Noncontrolling interests in consolidated joint ventures consist of equity interests held by third parties in One Market Plaza, 300 Mission Street and PGRESS Equity Holdings LP. As of December 31, 2019 and 2018, noncontrolling interests in our consolidated joint ventures aggregated \$360,778,000 and \$394,995,000, 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, 2019 and 2018, the noncontrolling interest in our consolidated real estate fund aggregated \$72,396,000 and \$66,887,000, 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, 2019 and 2018, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of \$412,058,000 and \$428,982,000, respectively, and a redemption value of \$344,638,000 and \$315,595,000, respectively.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Variable Interest Entities (“VIEs”)

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

Consolidated VIEs

We are the sole general partner of, and owned approximately 90.2% of, the Operating Partnership as of December 31, 2019. 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, 2019 and 2018, 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,	
	2019	2018
Real estate, net	\$ 1,685,391	\$ 1,699,618
Cash and cash equivalents and restricted cash	69,828	63,450
Investments in unconsolidated joint ventures	69,535	52,923
Preferred equity investments	-	36,042
Accounts and other receivables, net	2,140	2,107
Deferred rent receivable	57,338	51,926
Deferred charges, net	24,030	14,160
Intangible assets, net	29,872	45,818
Other assets	21,132	16,635
Total VIE assets	\$ 1,959,266	\$ 1,982,679
Notes and mortgages payable, net	\$ 1,205,324	\$ 1,197,644
Accounts payable and accrued expenses	35,252	24,183
Intangible liabilities, net	19,841	31,582
Other liabilities	13,047	5
Total VIE liabilities	\$ 1,273,464	\$ 1,253,414

Unconsolidated VIEs

As of December 31, 2019, 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,	
	2019	2018
Investments	\$ 10,317	\$ 10,352
Asset management fees and other receivables	37,563 ⁽¹⁾	722
Maximum risk of loss	\$ 47,880	\$ 11,074

⁽¹⁾ Includes a \$36,918 note receivable from Fund X. See Note 22, *Related Parties*.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. 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 summarizes 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, 2019			
	Total	Level 1	Level 2	Level 3
Marketable securities (included in "other assets")	\$ 21,639	\$ 21,639	\$ -	\$ -
Total assets	\$ 21,639	\$ 21,639	\$ -	\$ -

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

(Amounts in thousands)	As of December 31, 2018			
	Total	Level 1	Level 2	Level 3
Interest rate swap liabilities (included in "other liabilities") ⁽¹⁾	\$ 48	\$ -	\$ 48	\$ -
Total liabilities	\$ 48	\$ -	\$ 48	\$ -

⁽¹⁾ On November 25, 2019, the interest rate swap assets and liabilities were terminated. See Note 8, *Debt* and Note 9, *Derivative Instruments and Hedging Activities Investments*.

Assets Measured at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheet consist of real estate assets that have been written down to estimated fair value and are classified as Level 3 within the fair value hierarchy. Our 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. In the year ended December 31, 2019, in accordance with ASC 360-10, we recorded an impairment loss of \$42,000,000, which is included as "real estate impairment loss" on our consolidated statement of income for the year ended December 31, 2019. The estimated fair value of real estate assets on our consolidated balance sheet as of December 31, 2019 was \$94,251,000.

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, 2019		As of December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred equity investments ⁽¹⁾	\$ -	\$ -	\$ 36,042	\$ 36,339
Total assets	\$ -	\$ -	\$ 36,042	\$ 36,339

Notes and mortgages payable	\$ 3,809,643	\$ 3,848,266	\$ 3,599,800	\$ 3,617,961
Revolving credit facility	36,918	36,919	-	-
Total liabilities	\$ 3,846,561	\$ 3,885,185	\$ 3,599,800	\$ 3,617,961

⁽¹⁾ On March 1, 2019, the preferred equity investment was redeemed. See Note 6, *Preferred Equity Investments*.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Revenues

Our revenues consist of rental revenues and revenues from contracts with customers. The following table sets forth the details of our revenues.

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Rental revenue	\$ 734,477 ⁽¹⁾	\$ 727,295	\$ 683,490
Fee and other income:			
Fee income:			
Property management	6,852	6,163	6,336
Asset management	10,442	7,912	8,581
Acquisition, disposition and leasing	3,435	3,160	7,770
Other	2,015	1,394	1,525
Total fee income	22,744	18,629	24,212
Other income ⁽²⁾	11,959	13,037	11,265
Total fee and other income	34,703	31,666	35,477
Total revenues	\$ 769,180	\$ 758,961	\$ 718,967

⁽¹⁾ Includes \$70,404 for the year ended December 31, 2019 of variable rental revenue, primarily related to tenant reimbursements.

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

Rental Revenue

The following table is a schedule of future undiscounted cash flows under non-cancelable operating leases in effect as of December 31, 2019, for each of the five succeeding years commencing January 1, 2020.

(Amounts in thousands)	
2020	\$ 621,503
2021	621,299
2022	597,394
2023	570,770
2024	539,443
Thereafter	2,776,987
Total	\$ 5,727,396

Revenue from Contracts with Customers

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)	Total	Property	Asset	Acquisition,	Other
		Management	Management	Disposition and Leasing	
Accounts and other receivables:					
Balance as of December 31, 2018	\$ 2,075	\$ 567	\$ 954	\$ 490	\$ 64
Balance as of December 31, 2019	2,413	752	1,653	-	8
Increase (decrease)	\$ 338	\$ 185	\$ 699	\$ (490)	\$ (56)

As of December 31, 2019 and 2018, our consolidated balance sheets included \$100,000 and \$400,000, respectively, of deferred revenue in connection with prepayments for services we have not yet provided. These amounts are included as a component 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, 2019 and 2018.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Real Estate Impairment Loss

In the years ended December 31, 2019 and 2018, we wrote down the value of certain real estate assets in our Washington, D.C. portfolio and recorded non-cash impairment losses of \$42,000,000 and \$46,000,000, respectively. The non-cash impairment losses were determined based on the excess of the assets' carrying value over its estimated fair value. See Note 14, *Fair Value Measurements*.

17. 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,		
	2019	2018	2017
Interest and other income	\$ 5,484	\$ 5,384	\$ 1,256
Mark-to-market of investments in our deferred compensation plans ⁽¹⁾	3,906	(922)	5,114
Preferred equity investment income ⁽²⁾	454	3,655	4,187
Valuation allowance on preferred equity investment ⁽³⁾	-	-	(19,588)
Total interest and other income (loss), net	\$ 9,844	\$ 8,117	\$ (9,031)

⁽¹⁾ 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.

⁽²⁾ Represents 100% income from our preferred equity investments in PGRESS Equity Holdings LP, of which our 24.4% share is \$111, \$890 and \$1,029 for the years ended December 31, 2019, 2018 and 2017, respectively. On March 1, 2019, our only remaining preferred equity investment was redeemed. See Note 6, *Preferred Equity Investments*.

⁽³⁾ Represents the valuation allowance on 2 Herald Square, our preferred equity investment in PGRESS Equity Holdings LP, 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.

18. 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,		
	2019	2018	2017
Interest and debt expense	\$ 137,356	\$ 136,630	\$ 132,574
Amortization of deferred financing costs	19,323 ⁽¹⁾	11,023	11,188
Total interest and debt expense	\$ 156,679	\$ 147,653	\$ 143,762

⁽¹⁾ Includes \$8,215 of expense from the non-cash write-off of deferred financing costs in connection with the \$1.25 billion refinancing of 1633 Broadway in November 2019. See Note 8, *Debt*.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. 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, 2019, we have 8,358,300 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, 2019, 2018 and 2017.

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
LTIP units	\$ 11,860	\$ 9,059	\$ 6,572
Performance-based units	8,477	7,645	6,421
Restricted stock	1,228	988	715
Stock options	1,295	1,954	2,214
Total stock-based compensation expense	\$ 22,860	\$ 19,646	\$ 15,922

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, 2019, 2018 and 2017 had grant date fair values of \$13,091,000, \$10,145,000 and \$7,467,000, respectively, which are being amortized into expense on a straight-line basis over the vesting period. As of December 31, 2019, there was \$12,854,000 of total unrecognized compensation cost related to unvested LTIP units, which is expected to be recognized over a weighted-average period of 2.6 years. The following table summarizes our LTIP unit activity for the year ended December 31, 2019.

	Units	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2018	1,284,083	\$ 14.41
Granted	1,067,854	12.26
Vested	(752,645)	13.73
Cancelled or expired	(27,828)	13.13
Unvested as of December 31, 2019	<u>1,571,464</u>	\$ 13.30

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.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The LTIPs unit activity granted under the Performance Programs in the years ended December 31, 2019, 2018 and 2017 had grant date fair values of \$8,106,000, \$7,009,000 and \$10,520,000, respectively, and are being amortized into expense over the four-year vesting period using a graded vesting attribution method. As of December 31, 2019, there was \$9,504,000 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 2.4 years. The following table summarizes our LTIP unit activity granted under the Performance Programs for the year ended December 31, 2019.

	Units	Weighted-Average Grant-Date Fair Value (per unit)
Unvested as of December 31, 2018	3,373,570	\$ 7.27
Granted	1,356,630	5.98
Cancelled or expired	(1,134,366)	8.05
Unvested as of December 31, 2019	3,595,834	\$ 6.54

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

On March 18, 2019, 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 17, 2019. Accordingly, all of the 1,109,358 LTIP units that were granted on March 18, 2016, were forfeited, with no awards being earned. This award had a grant date fair value of \$10,914,000 and a remaining unrecognized compensation cost of \$187,000 as of December 31, 2019, which will be recognized in the first quarter of 2020.

2016 Performance-Based Awards Program (“2016 Performance Program”)

On January 17, 2020, the Compensation Committee determined that during the performance measurement period which ended on December 31, 2019, for the 2016 Performance Program, (i) the performance goals were not met on an absolute TSR basis and (ii) the performance goals met the 30th percentile of the performance of the SNL Office REIT Index constituents on a relative basis. Accordingly, of the 1,085,244 LTIP units that were granted on January 30, 2017, 216,005 LTIP units were earned. Of the LTIP units earned, 107,996 LTIP units vested on January 17, 2020 and the remaining 108,009 LTIP units are subject to vesting based on continuous employment with us through December 31, 2020. This award had a grant date fair value of \$10,520,000 and a remaining unrecognized compensation cost of \$1,135,000 as of December 31, 2019, which will be amortized over a weighted-average period of 1.0 year.

2018 Performance-Based Awards Program (“2018 Performance Program”)

On January 14, 2019, the Compensation Committee of our Board of Directors (the “Compensation Committee”) approved the 2018 Performance Program. Under the 2018 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, 2019 and continuing through December 31, 2021, on both an absolute basis and relative basis. Awards granted to our Chief Executive Officer, under the 2018 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 2018 Performance Program are subject to vesting based on continued employment with us through December 31, 2022, with 50.0% of each award vesting upon the conclusion of the performance measurement period, and the remaining 50.0% vesting on December 31, 2022. 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 2018 Performance Program on the date of the grant was \$8,106,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2019, 2018 and 2017 had grant date fair values of \$1,238,000, \$1,335,000 and \$1,309,000, respectively, which are being amortized into expense on a straight-line basis over the vesting period. As of December 31, 2019, there was \$1,823,000 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, 2019.

	Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2018	162,981	\$ 15.26
Granted	93,308	13.27
Vested	(63,821)	15.27
Cancelled or expired	(23,998)	14.44
Unvested as of December 31, 2019	<u>168,470</u>	\$ 14.27

Stock Options

We did not grant any stock options in the years ended December 31, 2019 and 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 year ended December 31, 2017 had grant date fair values of \$4.02, which are being amortized into expense on a straight-line basis over the vesting period. The fair value of the option was estimated using an option-pricing model with the following weighted-average assumptions for grants in year ended December 31, 2017.

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

As of December 31, 2019, there was \$60,000 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized in the first quarter of 2020. The following table summarizes our stock option activity for year ended December 31, 2019.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	2,131,943	\$ 17.08		
Granted	-	-		
Exercised	-	-		
Cancelled or expired	(47,000)	17.50		
Outstanding as of December 31, 2019	<u>2,084,943</u>	\$ 17.07	5.7	\$ -
Options vested and expected to vest as of December 31, 2019	2,073,791	\$ 17.07	5.7	\$ -
Options exercisable as of December 31, 2019	1,939,398	\$ 17.07	5.6	\$ -

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Earnings Per Share

The following table summarizes our net (loss) income and the number of common shares used in the computation of basic and diluted (loss) income 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,		
	2019	2018	2017
Numerator:			
Net (loss) income attributable to common stockholders	\$ (36,899)	\$ 9,147	\$ 86,381
Earnings allocated to unvested participating securities	(71)	(79)	(98)
Numerator for (loss) income per common share - basic and diluted	<u>\$ (36,970)</u>	<u>\$ 9,068</u>	<u>\$ 86,283</u>
Denominator:			
Denominator for basic (loss) income per common share - weighted average shares	231,538	239,527	236,373
Effect of dilutive employee stock options and restricted share awards ⁽¹⁾	-	29	29
Denominator for diluted (loss) income per common share - weighted average shares	<u>231,538</u>	<u>239,556</u>	<u>236,402</u>
(Loss) income per common share - basic and diluted	<u>\$ (0.16)</u>	<u>\$ 0.04</u>	<u>\$ 0.37</u>

⁽¹⁾ The effect of dilutive securities for the years ended December 31, 2019, 2018, and 2017 excludes 27,191, 27,510 and 30,848 weighted average share equivalents, respectively, as their effect was anti-dilutive.

21. Summary of Quarterly Results (unaudited)

The following table summarizes our quarterly results of operations for the years ended December 31, 2019 and 2018.

(Amounts in thousands, except per share amounts)	Revenues	Net (loss) income attributable to the common stockholders	(Loss) income Per Common Share	
			Basic	Diluted
2019				
December 31	\$ 190,488	\$ (50,145)	\$ (0.22)	\$ (0.22)
September 30	198,317	7,082	0.03	0.03
June 30	188,583	2,455	0.01	0.01
March 31	191,792	3,709	0.02	0.02
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

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Related Parties

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 \$842,000, \$838,000 and \$824,000 for the years ended December 31, 2019, 2018 and 2017, 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 amounts owed to us under these agreements as of December 31, 2019.

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 \$17,466,000, \$15,231,000 and \$20,263,000, respectively, for the years ended December 31, 2019, 2018 and 2017, respectively, in connection with these agreements. As of December 31, 2019 and 2018, amounts owed to us under these agreements aggregated \$2,734,000 and \$1,836,000, 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 feeder vehicles for Fund VIII and Fund X. Pursuant to this agreement, we have agreed to pay HTC for the costs incurred to sell investments in these feeder vehicles, 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 expenses of \$796,000, \$240,000 and \$247,000 for the years ended December 31, 2019, 2018 and 2017, respectively, in connection with this agreement, which is included as a component of “transaction related costs” on our consolidated statements of income. As of December 31, 2019 and 2018, we owed \$38,000 and \$40,000, 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

A subsidiary of Mannheim Trust leases office space at 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture, pursuant to a lease agreement which expires in April 2023. Dr. Martin Bussmann (a member of our Board of Directors) is also a trustee and a director of Mannheim Trust. During the years ended December 31, 2019, 2018 and 2017, we recognized \$360,000, \$366,000 and \$358,000, respectively, for our share of rental income pursuant to this lease.

Due from Affiliates

At December 31, 2019, we had a \$36,918,000 note receivable from Fund X that bears interest at LIBOR plus 220 basis points and is included as “due from affiliates” on our consolidated balance sheet.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other

Kramer Design Services (“Kramer Design”) has entered into agreements with 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture, to, among other things, create and design marketing materials with respect to the vacant retail space at 712 Fifth Avenue. Kramer Design is owned by the spouse of Albert Behler, our Chairman, Chief Executive Officer and President. For the year ended December 31, 2019, we recognized expense of \$325,000 for our share of the fees incurred in connection with these agreements.

On August 21, 2019, we acquired a 44.1% equity interest in a joint venture that owns 55 Second Street, a 384,000 square foot Class A office building in San Francisco, California. The transaction valued the property at \$401,700,000 and included \$187,500,000 of mortgage debt. In connection with the acquisition, Imperial Associates, LP, an entity owned by the members of the Otto family, purchased a 2.3% equity interest for \$5,000,000.

23. 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.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2019, 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, 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.

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. We believe, after consultation with legal counsel, that the likelihood of a 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 \$43,500,000. 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.

PARAMOUNT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. Segments

Our reportable segments are separated by region based on the three regions in which we conduct our business: New York, San Francisco and Washington, D.C. 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, 2019				
(Amounts in thousands)	Total	New York	San Francisco	Washington, D.C.	Other
Property-related revenues	\$ 746,436	\$ 482,648	\$ 238,808	\$ 25,426	\$ (446)
Property-related operating expenses	(274,836)	(191,211)	(69,815)	(10,134)	(3,676)
NOI from unconsolidated joint ventures	22,409	13,151	9,065	-	193
NOI ⁽¹⁾	<u>\$ 494,009</u>	<u>\$ 304,588</u>	<u>\$ 178,058</u>	<u>\$ 15,292</u>	<u>\$ (3,929)</u>

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

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

(Amounts in thousands)	For the Year Ended December 31,		
	2019	2018	2017
NOI	\$ 494,009	\$ 486,984	\$ 448,262
Add (subtract) adjustments to arrive to net (loss) income:			
Fee income	22,744	18,629	24,212
Depreciation and amortization expense	(248,347)	(258,225)	(266,037)
General and administrative expenses	(68,556)	(57,563)	(61,577)
NOI from unconsolidated joint ventures	(22,409)	(20,730)	(19,643)
Interest and other income (loss), net	9,844	8,117	(9,031)
Interest and debt expense	(156,679)	(147,653)	(143,762)
Loss on early extinguishment of debt	(11,989)	-	(7,877)
Real estate impairment loss	(42,000)	(46,000)	-
Gain on sale of real estate	1,140	36,845	133,989
Other, net	(7,048)	1,728	13,817
Net (loss) income before income taxes	(29,291)	22,132	112,353
Income tax expense	(312)	(3,139)	(5,177)
Net (loss) income	(29,603)	18,993	107,176
Less: net (income) loss attributable to noncontrolling interests in:			
Consolidated joint ventures	(11,022)	(8,182)	10,365
Consolidated real estate fund	(313)	(720)	(19,797)
Operating Partnership	4,039	(944)	(11,363)
Net (loss) income attributable to common stockholders	\$ (36,899)	\$ 9,147	\$ 86,381

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	San Francisco	Washington, D.C.	Other
December 31, 2019	\$ 8,734,135	\$ 5,439,929	\$ 2,708,463	\$ 107,121	\$ 478,622
December 31, 2018	8,755,978	5,583,022	2,388,094	305,980	478,882
December 31, 2017	8,917,661	5,511,061	2,421,173	693,408	292,019

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, 2019, 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 Rules 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, 2019, 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, 2019.

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, 2019 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, 2019, 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, 2019, 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, 2019, of the Company and our report dated February 12, 2020, 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 12, 2020

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 2019 Annual Meeting of Stockholders (which is scheduled to be held on May 19, 2020), 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, 2019, 2018 and 2017	113
Schedule III – Real Estate and Accumulated Depreciation as of December 31, 2019, 2018 and 2017	114

(b) The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index on page 116 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, 2019				
Allowance for doubtful accounts	\$ - ⁽¹⁾	\$ -	\$ -	\$ -
Allowance for preferred equity investments	-	-	-	-
Total valuation allowance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
For the Year Ended December 31, 2018				
Allowance for doubtful accounts	\$ 277	\$ 324	\$ (8)	\$ 593 ⁽¹⁾
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>

⁽¹⁾ Represents allowance for tenant receivables arising from operating leases. The allowance was written-off on January 1, 2019 upon the adoption of ASU 2016-02, an update to ASC Topic 842, *Leases*, which requires companies to account for impairment of receivables as reduction to “rental income” if the collectability of these receivables is not probable.

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

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F	COLUMN G	COLUMN H	COLUMN I				
(Amounts in thousands)												
Description	Encumbrances		Initial cost to company Building and		Costs capitalized subsequent to acquisition Building and		Gross amount at which carried at close of period Buildings and		Accumulated depreciation and amortization	Date of construction	Date acquired	Life on which depreciation in latest income statement is computed
	Land	Improvements	Land	Improvements	Land	Improvements	Land	Improvements				
1633 Broadway	\$ 1,250,000	\$ 1,398,341	\$ -	\$ 141,496	\$ 502,846	\$ 1,539,837	\$ 2,042,683	\$ (214,523)	1971	11/2014	5 to 40 Years	
1301 Avenue of the Americas	850,000	1,051,697	-	94,330	406,039	1,146,027	1,552,066	(164,113)	1963	11/2014	5 to 40 Years	
31 West 52nd Street	500,000	604,994	-	60,269	221,318	665,263	886,581	(87,516)	1987	11/2014	5 to 40 Years	
1325 Avenue of the Americas	-	370,553	-	50,424	174,688	420,977	595,665	(55,384)	1989	11/2014	5 to 40 Years	
900 Third Avenue	-	296,031	-	19,983	103,741	316,014	419,755	(46,675)	1983	11/2014	5 to 40 Years	
Total New York	2,600,000	3,721,616	-	366,502	1,408,632	4,088,118	5,496,750	(568,211)				
One Market Plaza	975,000	988,014	-	79,718	288,743	1,067,732	1,356,475	(154,942)	1976	11/2014	5 to 40 Years	
One Front Street	-	376,919	-	15,022	127,765	391,941	519,706	(36,430)	1979	12/2016	5 to 40 Years	
300 Mission Street	234,643	343,819	-	25,390	141,097	369,209	510,306	(28,523)	1968	07/2017	5 to 40 Years	
Total San Francisco	1,209,643	1,708,752	-	120,130	557,605	1,828,882	2,386,487	(219,895)				
1899 Pennsylvania Avenue	-	94,874	(16,380)	(36,811)	36,188	58,063	94,251	-	1915	11/2014	5 to 40 Years	
Total Washington, D.C.	-	94,874	(16,380)	(36,811)	36,188	58,063	94,251	-				
Other	-	-	-	6,648	-	6,648	6,648	(2,110)		11/2014	5 to 40 Years	
Total	\$ 3,809,643	\$ 2,018,805	\$ (16,380)	\$ 456,469	\$ 2,002,425	\$ 5,981,711	\$ 7,984,136	\$ (790,216)				

⁽¹⁾ The basis of the Company's assets for tax purposes is approximately \$2.5 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,		
	2019	2018	2017
Real Estate:			
Beginning balance	\$ 8,101,651	\$ 8,329,475	\$ 7,849,093
Acquisitions	-	-	484,916
Additions during the year:			
Land	-	-	-
Buildings and improvements	105,947	146,378	82,862
Real estate impairment loss	(42,000)	(46,000)	-
Assets sold and written-off	(181,462)	(328,202)	(87,396)
Ending balance	\$ 7,984,136	\$ 8,101,651	\$ 8,329,475
Accumulated Depreciation:			
Beginning balance	\$ 644,639	\$ 487,945	\$ 318,161
Additions charged to expense	186,457	188,871	182,732
Accumulated depreciation related to assets sold and written-off	(40,880)	(32,177)	(12,948)
Ending balance	\$ 790,216	\$ 644,639	\$ 487,945

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Second Articles of Amendment and Restatement of Paramount Group, Inc., effective May 17, 2019, incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, filed with the SEC on May 20, 2019.
3.2	Second Amended and Restated Bylaws of Paramount Group, Inc., effective as of April 5, 2019, incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, filed with the SEC on April 9, 2019.
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.
4.2*	Description of Securities of the Registrant.
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, incorporated by reference to Exhibit 10.09 to the Registrant's Form 10-K filed with the SEC on February 13, 2019.
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*	Amended and Restated Waiver of Ownership Limits granted to The Otto Family by Paramount Group, Inc., dated as of March 18, 2019.

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†	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.
10.15†	Amended and Restated Employment Agreement among Paramount Group, Inc., Paramount Group Operating Partnership, L.P. and Wilbur Paes, effective May 31, 2019, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on June 3, 2019.
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, 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.
101.SCH*	Inline XBRL Taxonomy Extension Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
104*	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)
*	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 12, 2020

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 12, 2020
By: <u>/s/ Wilbur Paes</u> (Wilbur Paes)	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 12, 2020
By: <u>/s/ Thomas Armbrust</u> (Thomas Armbrust)	Director	February 12, 2020
By: <u>/s/ Martin Bussmann</u> (Martin Bussmann)	Director	February 12, 2020
By: <u>/s/ Colin Dyer</u> (Colin Dyer)	Director	February 12, 2020
By: <u>/s/ Dan Emmett</u> (Dan Emmett)	Director	February 12, 2020
By: <u>/s/ Lizanne Galbreath</u> (Lizanne Galbreath)	Director	February 12, 2020
By: <u>/s/ Karin Klein</u> (Karin Klein)	Director	February 12, 2020
By: <u>/s/ Peter Linneman</u> (Peter Linneman)	Director	February 12, 2020
By: <u>/s/ Katharina Otto-Bernstein</u> (Katharina Otto-Bernstein)	Director	February 12, 2020
By: <u>/s/ Mark Patterson</u> (Mark Patterson)	Director	February 12, 2020

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 12, 2020

/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 12, 2020

/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, 2019 (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 12, 2020

/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, 2019 (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 12, 2020

/s/ Wilbur Paes

Name: Wilbur Paes

Title: Executive Vice President, Chief Financial Officer and Treasurer

[THIS PAGE INTENTIONALLY LEFT BLANK]

Corporate Data

BOARD OF DIRECTORS

ALBERT BEHLER
Chairman, Chief Executive
Officer & President

THOMAS ARMBRUST
Chairman of the Supervisory Board,
CURA Vermögensverwaltung

MARTIN BUSSMANN
Trustee,
Mannheim Trust

COLIN DYER
Chairman of the Supervisory Board,
Unibail-Rodamco S.E.

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

LIZANNE GALBREATH
Managing Partner,
Galbreath & Company

KARIN KLEIN
Founding 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
and MRP Holdings LLC

MANAGEMENT

ALBERT BEHLER
Chairman, Chief Executive
Officer & President

WILBUR PAES
Executive Vice President,
Chief Financial Officer
and 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

Tuesday, May 19, 2020

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

NEW YORK
SAN FRANCISCO
WASHINGTON, D.C.

