UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: June 30, 2016

OR

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

For the transition period from to

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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

1633 Broadway, Suite 1801, New York, NY	10019
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (212) 237-3100

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

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

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

As of July 31, 2016, there were 219,490,007 shares of the registrant’s common stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PARAMOUNT GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

ASSETS	June 30, 2016	December 31, 2015
Rental property, at cost		
Land	$2,042,071	$2,042,071
Buildings and improvements	5,668,268	5,610,046
	7,710,339	7,652,117
Accumulated depreciation and amortization	(323,224)	(243,089)
Rental property, net	7,387,115	7,409,028
Cash and cash equivalents	224,489	143,884
Restricted cash	29,043	41,823
Real estate fund investments	-	416,438
Investments in unconsolidated real estate funds	25,798	-
Investments in unconsolidated joint ventures	5,800	7,102
Preferred equity investments	54,595	53,941
Marketable securities	21,477	21,521
Deferred rent receivable	122,334	77,792
Accounts and other receivables, net of allowance of $366 and $365	10,895	10,844
Deferred charges, net of accumulated amortization of $17,462 and $14,204	79,617	74,991
Intangible assets, net of accumulated amortization of $156,683 and $143,987	435,450	511,207
Other assets	11,596	6,658
Total assets (1)	$8,408,209	$8,775,229
LIABILITIES AND EQUITY		
Notes and mortgages payable, net of deferred financing costs of $23,382 and $18,914	$3,012,290	$2,922,610
Revolving credit facility	20,000	20,000
Due to affiliates	27,299	27,299
Loans payable to noncontrolling interests	-	45,662
Accounts payable and accrued expenses	147,048	102,730
Dividends and distributions payable	25,151	25,067
Deferred income taxes	246	2,533
Interest rate swap liabilities	102,577	93,936
Intangible liabilities, net of accumulated amortization of $62,363 and $41,931	154,658	179,741

Other liabilities	45,997	45,101
Total liabilities [1]	3,535,266	3,464,679
Commitments and contingencies		
Paramount Group, Inc. equity:		
Common stock $0.01 par value per share; authorized 900,000,000 shares; issued and outstanding 219,490,007 and 212,112,137 shares in 2016 and 2015, respectively	2,195	2,122
Additional paid-in-capital	3,927,872	3,802,858
Earnings less than distributions	(80,496)	(36,120)
Accumulated other comprehensive loss	(41,498)	(7,843)
Paramount Group, Inc. equity	3,808,073	3,761,017
Noncontrolling interests in:		
Consolidated real estate funds	62,857	414,637
Consolidated joint ventures	240,483	236,849
Operating Partnership (45,035,400 and 51,660,088 units outstanding)	761,530	898,047
Total equity	4,872,943	5,310,550
Total liabilities and equity	$8,408,209	$8,775,229

(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 83.0%. As of June 30, 2016, the assets and liabilities of the Operating Partnership include $1,503,938 and $987,546 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 11, Variable Interest Entities.

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
REVENUES:				
Rental income	$155,181	$145,917	$296,433	$289,160
Tenant reimbursement income	10,334	12,063	21,123	25,551
Fee and other income	6,788	4,948	27,665	9,443
Total revenues	172,303	162,928	345,221	324,154
EXPENSES:				
Operating	59,994	57,781	122,939	119,665
Depreciation and amortization	67,287	79,421	142,099	153,004
General and administrative	12,139	9,133	26,100	21,746
Acquisition and transaction related costs	508	8,208	1,443	9,347
Total expenses	139,928	154,543	292,581	303,762
Operating income	32,375	8,385	52,640	20,392
Income from real estate fund investments	-	14,072	-	19,293
Loss from unconsolidated real estate funds	(960)	-	(1,286)	-
Income from unconsolidated joint ventures	2,003	2,011	3,499	2,986
Interest and other income, net	1,030	512	2,730	1,366
Interest and debt expense	(38,009)	(42,236)	(75,128)	(84,124)
Unrealized gain on interest rate swaps	10,073	21,747	16,933	33,725
Net income (loss) before income taxes	6,512	4,491	(612)	(6,362)
Income tax benefit (expense)	1,398	(1,343)	1,035	(1,917)
Net income (loss)	7,910	3,148	423	(8,279)
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated real estate funds	78	(6,532)	752	(8,741)
Consolidated joint ventures	(4,107)	(2,472)	(5,359)	(931)
Operating Partnership	(693)	1,147	878	3,511
Net income (loss) attributable to common stockholders	$3,188	$(4,709)	$(3,306)	$(14,440)
INCOME (LOSS) PER COMMON SHARE - BASIC:				
Income (loss) per common share	$0.01	$(0.02)	$(0.02)	$(0.07)
Weighted average shares outstanding	217,121,592	212,106,718	214,762,593	212,106,718

INCOME (LOSS) PER COMMON SHARE -				
DILUTED:				
Income (loss) per common share	$0.01	$(0.02)	$(0.02)	$(0.07)
Weighted average shares outstanding	217,137,557	212,106,718	214,762,593	212,106,718
DIVIDENDS PER COMMON SHARE	$0.095	$0.095	$0.190	$0.229 [(1)]

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

See notes to consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Net income (loss)	$7,910	$3,148	$423	$(8,279)
Other comprehensive income (loss):				
Change in value of interest rate swaps	(11,747)	-	(41,614)	-
Pro rata share of other comprehensive (loss) income of unconsolidated joint ventures	(44)	(613)	63	(613)
Comprehensive (loss) income	(3,881)	2,535	(41,128)	(8,892)
Less comprehensive (income) loss attributable to noncontrolling interests in:				
Consolidated real estate funds	78	(6,532)	752	(8,741)
Consolidated joint ventures	(4,107)	(2,472)	(5,359)	(931)
Operating Partnership	1,415	1,267	8,774	3,631
Comprehensive loss attributable to common stockholders	$(6,495)	$(5,202)	$(36,961)	$(14,933)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

	Common Shares					Noncontrolling Interests in			
(Amounts in thousands, except per share amounts)	Shares	Amount	Additional Paid in Capital	Earnings (Less than) In Excess of Distributions	Accumulated Other Comprehensive Loss	Consolidated Real Estate Funds	Consolidated Joint Ventures	Operating Partnership	Total Equity
Balance as of December 31, 2014	212,107	$2,122	$3,851,432	$57,308	$-	$338,070	$347,818	$958,203	$5,554,953
Net (loss) income	-	-	-	(14,440)	-	8,741	931	(3,511)	(8,279)
Common shares and units issued under Omnibus share plan	5	-	(2,131)	-	-	-	-	2,131	-
Dividends and distributions ($0.229 per share and unit)	-	-	-	(48,573)	-	-	-	(11,819)	(60,392)
Contributions from noncontrolling interests	-	-	-	-	-	11,501	2,530	-	14,031
Distributions to noncontrolling interests	-	-	-	-	-	(4,957)	(716)	-	(5,673)
Pro rata share of other comprehensive loss of unconsolidated joint ventures	-	-	-	-	(493)	-	-	(120)	(613)

Adjustments to noncontrolling interests	-	-	43,981	-	-	-	-	(43,981)	-
Amortization of equity awards	-	-	885	-	-	-	-	3,780	4,665
Other	-	-	(411)	(138)	-	(322)	-	-	(871)
Balance as of June 30, 2015	212,112	$2,122	$3,893,756	$(5,843)	$(493)	$353,033	$350,563	$904,683	$5,497,821
Balance as of December 31, 2015	212,112	$2,122	$3,802,858	$(36,120)	$(7,843)	$414,637	$236,849	$898,047	$5,310,550
Deconsolidation of real estate fund investments	-	-	-	-	-	(351,035)	-	-	(351,035)
Balance as of January 1, 2016	212,112	$2,122	$3,802,858	$(36,120)	$(7,843)	$63,602	$236,849	$898,047	$4,959,515
Net (loss) income	-	-	-	(3,306)	-	(752)	5,359	(878)	423
Common shares issued upon redemption of common units	7,277	73	124,006	-	-	-	-	(124,079)	-
Common shares and units issued under Omnibus share plan	101	-	-	-	-	-	-	-	-
Dividends and distributions ($0.190 per share and unit)	-	-	-	(41,090)	-	-	-	(9,208)	(50,298)
Distributions to noncontrolling interests	-	-	-	-	-	-	(1,740)	-	(1,740)
Change in value of interest rate swaps	-	-	-	-	(33,705)	-	-	(7,909)	(41,614)
Pro rata share of other comprehensive	-	-	-	-	50	-	-	13	63

income of unconsolidated joint ventures									
Amortization of equity awards	-	-	1,175	-	-	-	-	5,544	6,719
Other	-	-	(167)	20	-	7	15	-	(125)
Balance as of June 30, 2016	219,490	$2,195	$3,927,872	$(80,496)	$(41,498)	$62,857	$240,483	$761,530	$4,872,943

See notes to consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$423	$(8,279)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	142,099	153,004
Amortization of deferred financing costs	2,663	1,170
Straight-lining of rental income	(44,542)	(32,042)
Amortization of above and below-market leases, net	(3,481)	(1,762)
Unrealized gain on interest rate swaps	(16,933)	(33,725)
Transfer taxes due in connection with the sale of shares by a former joint venture partner	-	5,872
Realized and unrealized losses (gains) on marketable securities	312	(924)
Realized and unrealized gains, net, on real estate fund investments	-	(12,136)
Income from unconsolidated joint ventures	(3,499)	(2,986)
Loss from unconsolidated real estate funds	1,286	-
Distributions of income from unconsolidated real estate funds	84	-
Distributions of income from unconsolidated joint ventures	4,838	1,993
Amortization of stock-based compensation expense	6,183	4,405
Other non-cash adjustments	957	3,686
Changes in operating assets and liabilities:		
Real estate fund investments	-	(22)
Accounts and other receivables	(165)	(261)
Deferred charges	(7,165)	(12,523)
Other assets	(4,942)	2,721
Accounts payable and accrued expenses	54,937	(7,635)
Deferred income taxes	(2,287)	(202)
Other liabilities	1,066	1,972
Net cash provided by operating activities	131,834	62,326
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to rental properties	(73,840)	(41,914)
Changes in restricted cash	12,512	9,550
Distributions of capital from unconsolidated real estate funds	116	-
Distributions of capital from unconsolidated joint ventures	26	-
Net cash used in investing activities	(61,186)	(32,364)

See notes to consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

	For the Six Months Ended June 30,	
(Amounts in thousands)	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes and mortgages payable	$506,627	$-
Repayments of notes and mortgages payable	(414,202)	(678)
Proceeds from revolving credit facility	60,000	-
Repayments of revolving credit facility	(60,000)	-
Dividends paid to common stockholders	(40,390)	(28,422)
Settlement of swap liabilities	(16,040)	-
Distributions paid to unitholders	(9,824)	(6,903)
Debt issuance costs	(6,487)	-
Distributions to noncontrolling interests	(1,740)	(5,673)
Contributions from noncontrolling interests	-	11,203
Net cash provided by (used in) financing activities	17,944	(30,473)
Net increase (decrease) in cash and cash equivalents	88,592	(511)
Cash and cash equivalents at beginning of period	143,884	438,599
Decrease in cash due to deconsolidation of real estate fund investments	(7,987)	-
Cash and cash equivalents at end of period	$224,489	$438,088
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$68,957	$78,860
Cash payments for income taxes, net of refunds	$1,319	$1,213
NON-CASH TRANSACTIONS:		
(Decrease) increase due to deconsolidation of real estate fund investments:		
Real estate fund investments	$(416,438)	$-
Loans payable to noncontrolling interests	(45,662)	-
Investments in unconsolidated real estate funds	27,292	-
Noncontrolling interests in consolidated real estate funds	(351,035)	-
Dividends and distributions declared but not yet paid	25,151	25,066
Contributions from noncontrolling interests called but not yet received	-	2,828
Change in fair value of interest rate swaps	41,614	-
Common shares issued upon redemption of common units	124,079	-
Additions to real estate included in accounts payable and accrued expenses	10,678	14,257
Purchases of marketable securities using restricted cash	268	(441)
Write-off of fully amortized and/or depreciated assets	5,379	-

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Business

As used in these consolidated financial statements, unless otherwise indicated, all references to “we,” “us,” “our,” the “Company,” and “Paramount” refer to Paramount Group, Inc., a Maryland corporation, and its consolidated subsidiaries, including Paramount Group Operating Partnership LP (the “Operating Partnership”), a Delaware limited partnership. We are a fully-integrated real estate investment trust (“REIT”) focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco.

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 83.0% of, the Operating Partnership as of June 30, 2016. As of June 30, 2016, our portfolio consisted of 12 Class A office properties aggregating approximately 10.4 million square feet.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Paramount and its consolidated subsidiaries, including the Operating Partnership. All significant inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2016, are not necessarily indicative of the operating results for the full year.

Significant Accounting Policies

There were no material changes to our significant accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Segment Reporting

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to align it 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. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standard's Board ("FASB") issued an Accounting Standards Update ("ASU") ("ASU 2014-09") to Accounting Standard Codification ("ASC") Topic 606, Revenue from Contracts with Customers. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share-based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2014-12 on January 1, 2016, using the prospective method. This adoption did not have an impact on our consolidated financial statements.

In February 2015, the FASB issued an update ("ASU 2015-02") Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-02 on January 1, 2016, using the modified retrospective method. The adoption of ASU 2015-02 resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for Paramount Group Residential Development Fund, LP (the "Residential Fund"), which is accounted for at historical cost and will continue to be consolidated into our financial statements. See Note 3, Real Estate Fund Investments.

In April 2015, the FASB issued an update ("ASU 2015-03") Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835, Interest – Imputation of Interest. ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. In August 2015, the FASB issued an update ("ASU

2015-15") Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at 18 June 2015 EITF Meeting. ASU 2015-15 clarifies the exclusion of line-of-credit arrangements from the scope of ASU 2015-03. Therefore, debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the time of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We adopted the provisions of ASU 2015-03 on January 1, 2016, and have retrospectively reclassified $18,914,000 of deferred financing costs that were included in "deferred charges, net" as of December 31, 2015, to "notes and mortgages payable, net". The deferred financing costs related to our $1.0 billion revolving credit facility continue to be reported as an asset on our consolidated balance sheets.

In September 2015, the FASB issued an update ("ASU 2015-16") Simplifying the Accounting for Measurement-Period Adjustments to ASC Topic 805, Business Combinations. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-16 on January 1, 2016, using the prospective method. This adoption did not have an impact on our consolidated financial statements.

In February 2016, the FASB issued an update ("ASU 2016-02"), Leases to ASC Topic 842, Leases. ASU 2016-02 supersedes the provision of leasing guidance and establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either financing or operating. ASU 2016-02 requires lessors to account for leases using an approach that is substantially similar to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In March 2016, the FASB issued an update ("ASU 2016-09") Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting to ASC Topic 718, Compensation – Stock Compensation. ASU 2016-09 improves the accounting for share-based payments including income tax consequences and the classification of awards as either equity awards or liability awards. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements.

In June 2016, the FASB issued an update ("ASU 2016-13") Measurement of Credit Losses on Financial Instruments to ASC Topic 326, Financial Instruments – Credit Losses. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements.

3. Real Estate Fund Investments

On January 1, 2016, we adopted ASU 2015-02 Amendments to the Consolidation Analysis using the modified retrospective method. The adoption of ASU 2015-02 resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for the Residential Fund, which is accounted for at historical cost and will continue to be consolidated into our financial statements. See Note 2, Basis of Presentation and Significant Accounting Policies – Recently Issued Accounting Literature.

Unconsolidated Real Estate Funds

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

(Amounts in thousands)As of June 30, 2016

Our Share of Investments:		
Property funds [1]	$	22,874
Alternative investment fund [2]		2,924
Investments in unconsolidated real estate funds	$	25,798

[1] Represents our investments in Paramount Group Real Estate Fund II, L.P. (“Fund II”), Paramount Group Real Estate Fund III, L.P. (“Fund III”), and Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”).

[2] Represents our investment in Paramount Group Real Estate Fund VIII, L.P. (“Fund VIII”).

(Amounts in thousands)	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Our Share of Net Loss:		
Net investment loss	$ (69)	$ (607)
Net unrealized losses	(2,807)	(2,578)
Carried interest	1,916	1,899
Loss from unconsolidated real estate funds [1]	$ (960)	$ (1,286)

[1] Excludes asset management, property management and other fee income from real estate funds, which is included as a component of “fee and other income” in our consolidated statements of income for the three and six months ended June 30, 2016.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of June 30, 2016, we own a 10.0% interest in Fund II and a 7.5% interest in Fund VII, which are accounted for under the equity method. The following tables summarize Fund II and Fund VII's financial information as of the dates of and for the periods set forth below.

(Amounts in thousands)	As of June 30, 2016	
Balance Sheets	Fund II	Fund VII
Real estate investments	$35,016	$165,177
Cash and cash equivalents	513	410
Other assets	127	-
Total assets	$35,656	$165,587
Other liabilities	$743	$1,027
Total liabilities	743	1,027
Equity	34,913	164,560
Total liabilities and equity	$35,656	$165,587

(Amounts in thousands)	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	Fund II	Fund VII	Fund II	Fund VII
Investment income	$1	$-	$2	$-
Investment expenses	696	481	1,383	1,011
Net investment loss	(695)	(481)	(1,381)	(1,011)
Net unrealized (losses) gains	(33,304)	11,638	(31,878)	12,744
(Loss) income from real estate fund investments	$(33,999)	$11,157	$(33,259)	$11,733

Consolidated Real Estate Funds

Below is a summary of the fair value of our Property Funds and the Alternative Investment Fund that were consolidated on our balance sheet as of December 31, 2015 and income from fund investments for the three and six months ended June 30, 2015.

(Amounts in thousands)	As of December 31, 2015
Real estate fund investments [1]	$416,438
Cash and other assets, net	7,050
Total real estate fund investments	423,488
Less: noncontrolling interests in consolidated real estate funds	(396,196)
Paramount Group, Inc.'s equity in real estate fund investments	$27,292

[1] Represents the fair value of investments owned by Fund II, Fund III, Fund VII, Fund VII-H and Fund VIII.

(Amounts in thousands)	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2015
Net investment income	$2,808	$7,157
Net unrealized gains	11,264	12,136
Income from real estate fund investments	14,072	19,293
Less: noncontrolling interests in consolidated real estate funds [1]	(7,302)	(10,520)
Income from real estate fund investments attributable to Paramount Group, Inc.	$6,770	$8,773

[1] Includes $1,279 and $2,613 of asset management fee income that was reflected as a reduction of the amounts attributable to noncontrolling interests for the three and six months ended June 30, 2015, respectively.

PARAMOUNT GROUP, INC.

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4. Preferred Equity Investments

As of June 30, 2016, we own a 24.4% interest in PGRESS Equity Holdings L.P., an entity that owns certain preferred equity investments. The following table is a summary of the preferred equity investments.

(Amounts in thousands, except square feet)	Paramount			As of	
		Dividend		June 30,	December
Preferred Equity Investment	Ownership	Rate	Initial Maturity	2016	31, 2015
470 Vanderbilt Avenue [1]	24.4%	10.3%	Feb-2019	$ 35,519	$ 35,305
2 Herald Square [2]	24.4%	10.3%	Apr-2017	19,076	18,636
Total preferred equity investments				$ 54,595	$ 53,941

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

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

5. Investments in Unconsolidated Joint Ventures

The following tables summarize our investments in unconsolidated joint ventures as of June 30, 2016 and December 31, 2015 and income from these investments for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands) Investments:	% Ownership as of June 30, 2016	As of June 30, 2016	December 31, 2015
712 Fifth Avenue	50.0%	$2,241	$ 3,577
Oder-Center, Germany [(1)]	9.5%	3,559	3,525
		$5,800	$ 7,102

(Amounts in thousands) Our Share of Net Income:	% Ownership as of June 30, 2016	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
712 Fifth Avenue	50.0%	$1,985	$1,984	$3,461	$2,925
Oder-Center, Germany [(1)]	9.5%	18	27	38	61
		$2,003	$2,011	$3,499	$2,986

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

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712 Fifth Avenue

As of June 30, 2016, we own a 50.0% interest in a joint venture that owns 712 Fifth Avenue, which is accounted under the equity method. The following tables summarize 712 Fifth Avenue's financial information as of the dates of and for the periods set forth below.

(Amounts in thousands)	As of	
Balance Sheets	June 30, 2016	December 31, 2015
Rental property, net	$210,343	$214,139
Other assets	39,460	41,337
Total assets	$249,803	$255,476
Notes and mortgages payable, net	$245,786	$245,582
Other liabilities	11,796	15,000
Total liabilities	257,582	260,582
Equity [1]	(7,779)	(5,106)
Total liabilities and equity	$249,803	$255,476

[1] The carrying amount of our investment in 712 Fifth Avenue is greater than our share of 712 Fifth Avenue's equity by approximately $6,130. This basis difference resulted from distributions in excess of the equity in net earnings of 712 Fifth Avenue.

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Income Statements	2016	2015	2016	2015
Rental income	$12,716	$12,392	$25,394	$24,446
Tenant reimbursement income	893	1,375	2,009	2,736
Fee and other income	677	344	1,195	623
Total revenues	14,286	14,111	28,598	27,805
Operating	5,375	5,831	10,992	12,057

Depreciation and amortization	3,043	2,954	6,051	5,884
Total expenses	8,418	8,785	17,043	17,941
Operating income	5,868	5,326	11,555	9,864
Interest and other income, net	19	4	33	5
Interest and debt expense	(2,752)	(2,611)	(5,500)	(6,039)
Unrealized gain on interest rate swaps	834	1,248	834	2,020
Net income	$3,969	$3,967	$6,922	$5,850

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6.Intangible Assets and Liabilities

The following summarizes our intangible assets (primarily acquired above-market leases and acquired in-place leases) and intangible liabilities (primarily acquired below-market leases) as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	As of June 30, 2016	December 31, 2015
Intangible assets:		
Gross amount	$592,133	$655,194
Accumulated amortization	(156,683)	(143,987)
	$435,450	$511,207
Intangible liabilities:		
Gross amount	$217,021	$221,672
Accumulated amortization	(62,363)	(41,931)
	$154,658	$179,741

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $7,100,000 and $872,000 for the three months ended June 30, 2016 and 2015, respectively, and $3,481,000 and $1,762,000 for the six months ended June 30, 2016 and 2015, respectively. The three and six months ended June 30, 2016 includes $3,915,000 and $7,830,000 of income, respectively, from the accelerated amortization of a below-market lease liability in connection with a tenant’s lease modification. The six months ended June 30, 2016 also includes a $9,834,000 of write-off of a tenant’s above-market lease asset in connection with a lease termination. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2017 is as follows.

(Amounts in thousands)	
2017	$7,892
2018	9,800
2019	9,118
2020	7,744
2021	3,548

Amortization of acquired in-place leases (a component of depreciation and amortization expense) was $23,463,000 and $37,638,000 for the three months ended June 30, 2016 and 2015, respectively and $54,155,000 and $70,630,000 for the six months ended June 30, 2016 and 2015, respectively. Estimated annual amortization of acquired in-place leases for each of the five succeeding years commencing January 1, 2017 is as follows.

(Amounts in thousands)	
2017	$55,004
2018	48,657
2019	44,045
2020	38,531
2021	26,355

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7. Debt

On May 3, 2016, we completed a $500,000,000 refinancing of 31 West 52nd Street, a 786,647 square foot Class A office building located between Fifth Avenue and Avenue of the Americas in Midtown Manhattan. The new 10-year loan is interest only at a fixed rate of 3.80%. We realized net proceeds of $64,538,000 after the repayment of the existing $413,490,000 loan and $21,972,000 of costs, primarily for swap breakage. The existing loan was scheduled to mature in December 2017 and had a weighted average interest rate of 4.23%.

The following is a summary of our outstanding debt.

(Amounts in thousands)	Maturity Date	Fixed/Variable Rate	Interest Rate at June 30, 2016		As of June 30, 2016	December 31, 2015
Notes and mortgages payable						
1633 Broadway						
	Dec-2022	Fixed [1]	3.54	%	$ 1,000,000	$ 1,000,000
	Dec-2022	Variable [2]	2.21	%	13,544	13,544
			3.52	%	1,013,544	1,013,544
900 Third Avenue						
	Nov-2017	Fixed [1]	5.98	%	162,000	162,000
	Nov-2017	Variable [3]	1.72	%	112,337	112,337
			4.24	%	274,337	274,337
31 West 52nd Street						
	May-2026	Fixed	3.80	%	500,000	237,600
	n/a	Variable	n/a		-	175,890
			3.80	%	500,000	413,490
One Market Plaza (49.0% interest)						
	Dec-2019	Fixed [1]	6.14	%	858,760	857,037
	Dec-2019	Variable [4]	4.65	%	6,627	-
			6.13	%	865,387	857,037
Waterview	June-2017	Fixed	5.76	%	210,000	210,000
1899 Pennsylvania Avenue	Nov-2020	Fixed	4.88	%	88,404	89,116
Liberty Place	June-2018	Fixed	4.50	%	84,000	84,000
Total notes and mortgages payable			4.60	%	$ 3,035,672	$ 2,941,524
Less: deferred financing costs					(23,382)	(18,914)

Total notes and mortgages payable, net					$3,012,290	$2,922,610
$1.0 Billion Revolving Credit Facility ($200,000 reserved for outstanding letters of credit)	Nov-2018	Variable	1.71	%	$20,000	$20,000

(1) Represents loans with variable interest rates that have been fixed by interest rate swaps. See Note 8, Derivative Instruments and Hedging Activities.

(2) As of June 30, 2016, $13,544 was outstanding under a $250,000 line of credit that bears interest at LIBOR plus 175 basis points.

(3) As of June 30, 2016, $7,710 was outstanding under a $10,000 line of credit that bears interest at LIBOR plus 150 basis points and an additional liquidity premium of 66 basis points.

(4) As of June 30, 2016, $6,627 was outstanding under a $20,136 line of credit that bears interest at LIBOR plus 300 basis points and an additional liquidity premium of 120 basis points.

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8. Derivative Instruments and Hedging Activities

We manage our market risk on variable rate debt by entering into interest rate swaps to fix the rate on all or a portion of the debt for varying periods through maturity. These interest rate swaps are accounted for as derivative instruments and, pursuant to ASC Topic 815, are recorded on our consolidated balance sheets at fair value. Changes in the fair value of interest rate swaps are accounted for based on the hedging relationship and their designation and qualification as either fair value hedges or cash flow hedges.

Interest Rate Swaps – Non-designated Hedges

As of June 30, 2016, we had 11 interest rate swaps with an aggregate notional amount of $1.0 billion that were not designated as hedges. Changes in the fair value of interest rate swaps that are not designated as hedges are recognized in earnings. We recognized unrealized gains from the changes in the fair value of these interest rate swaps of $10,073,000 and $21,747,000 for the three months ended June 30, 2016 and 2015, respectively and $16,933,000 and $33,725,000 for the six months ended June 30, 2016 and 2015, respectively. The table below provides additional details on our interest rate swaps that are not designated as hedges.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of June 30, 2016	Fair Value as of December 31, 2015
(Amounts in thousands)						
One Market Plaza	$840,000	Aug-2007 - Aug-2012	Aug-2017	5.02 %	$42,061	$ 55,404
900 Third Avenue	162,000	Nov-2007	Nov-2017	4.78 %	9,661	11,630
31 West 52nd Street [(1)]	-	n/a	n/a	n/a	-	17,661
Total interest rate swap liabilities related to non-designated hedges					$51,722	$ 84,695

(1) Terminated in connection with the refinancing of 31 West 52nd Street. See Note 7, Debt.

Interest Rate Swaps – Designated as Cash Flow Hedges

As of June 30, 2016, we had three interest rate swaps with an aggregate notional amount of $1.0 billion that were designated as cash flow hedges. We also have entered into a forward starting interest rate swap with an aggregate notional amount of $400,000,000 to extend the maturity of one of the three swaps for an additional year. Changes in the fair value of interest rate swaps that are designated as cash flow hedges are recognized in accumulated other comprehensive loss (outside of earnings). For the three and six months ended June 30, 2016, we recognized other comprehensive losses of $11,747,000 and $41,614,000, respectively, from the changes in the fair value of these interest rate swaps. The table below provides additional details on our interest rate swaps that are designated as cash flow hedges.

Property	Notional Amount	Effective Date	Maturity Date	Strike Rate	Fair Value as of June 30, 2016	Fair Value as of December 31, 2015
(Amounts in thousands)						
1633 Broadway	$1,000,000	Dec 2015	Dec-2020 - Dec-2022	1.79 %	$47,246	$ 9,204
1633 Broadway	400,000	Dec-2020	Dec-2021	2.35 %	3,609	37
Total interest rate swap liabilities related to cash flow hedges					$50,855	$ 9,241

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9. Accumulated Other Comprehensive Income ("AOCI")

The following table sets forth details of the Other Comprehensive Income ("OCI") and the changes in AOCI by component for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands)	Total	Pro rata share of OCI of unconsolidated joint ventures	Change in value of interest rate swaps
For the Three Months Ended June 30, 2016			
Balance as of March 31, 2016	$(31,815)	$ (326)	$(31,489)
OCI before reclassifications [1]	(9,683)	(36)	(9,647)
Amounts reclassified from AOCI	-	-	-
Net current period OCI	(9,683)	(36)	(9,647)
Balance as of June 30, 2016	$(41,498)	$ (362)	$(41,136)
For the Three Months Ended June 30, 2015			
Balance as of March 31, 2015	$-	$ -	$-
OCI before reclassifications [1]	(493)	(493)	-
Amounts reclassified from AOCI	-	-	-
Net current period OCI	(493)	(493)	-
Balance as of June 30, 2015	$(493)	$ (493)	$-
For the Six Months Ended June 30, 2016			
Balance as of December 31, 2015	$(7,843)	$ (412)	$(7,431)
OCI before reclassifications [1]	(33,655)	50	(33,705)
Amounts reclassified from AOCI	-	-	-
Net current period OCI	(33,655)	50	(33,705)
Balance as of June 30, 2016	$(41,498)	$ (362)	$(41,136)
For the Six Months Ended June 30, 2015			
Balance as of December 31, 2014	$-	$ -	$-
OCI before reclassifications [1]	(493)	(493)	-
Amounts reclassified from AOCI	-	-	-

Net current period OCI		(493	)		(493	)	-
Balance as of June 30, 2015	$	(493	)	$	(493	)	$-

[1] Net of amount attributable to the noncontrolling interests in the Operating Partnership.

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10. Noncontrolling Interests

Consolidated Real Estate Funds

At December 31, 2015, noncontrolling interest in consolidated real estate funds aggregated $414,637,000 and consisted of equity interest in the real estate funds that were not wholly owned by us, but were required to be consolidated into our financial statements because we were the sole general partner of such funds. On January 1, 2016, we adopted ASU 2015-02 using the modified retrospective method, which resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for the Residential Fund, which is accounted for at historical cost and will continue to be consolidated into our financial statements. See Note 3, Real Estate Fund Investments. As of June 30, 2016, the noncontrolling interest in consolidated real estate funds aggregated $62,857,000 and represents the noncontrolling interest of the Residential Fund, which continues to be consolidated into our consolidated financial statements.

Consolidated Joint Ventures

Noncontrolling interests in consolidated joint ventures consists of equity interests held by third parties in properties and investments that are consolidated into our financial statements because we exercise control over the entities that own such properties and investments. As of June 30, 2016 and December 31, 2015, noncontrolling interests in consolidated joint ventures on our consolidated balance sheets was comprised of the equity interests held by third parties in One Market Plaza and PGRESS Equity Holdings, L.P. and aggregated to $240,483,000 and $236,849,000, respectively.

Operating Partnership

Noncontrolling interests in the Operating Partnership represents common units of the Operating Partnership that are held by third parties, including management, 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 June 30, 2016 and December 31, 2015, noncontrolling interests in the Operating Partnership on our consolidated balance sheets had a carrying amount of $761,530,000 and $898,047,000, respectively and a redemption value of $717,864,000 and $935,048,000, respectively.

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11. Variable Interest Entities ("VIEs")

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

Consolidated VIEs

We are the sole general partner of, and own approximately 83.0% of, the Operating Partnership as of June 30, 2016. 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 June 30, 2016, the Operating Partnership held variable interests in the entities owning certain real estate fund investments, preferred equity and a property that were determined to be VIEs. As of December 31, 2015, the Operating Partnership held variable interests in the entities owning certain funds that were determined to be VIEs. The Operating Partnership is required to consolidate its interest in these entities because it is deemed to be the primary beneficiary and has the power to direct the activities of these entities that most significantly affect economic performance and the obligation to absorb losses and rights to receive benefits that could potentially be significant to the entity. The assets of these consolidated VIEs may only be used to settle the obligations of the entities and such obligations are secured only by the assets of the entities and are non-recourse to the Operating Partnership or us. The table below summarizes the assets and liabilities of consolidated VIEs of the Operating Partnership.

	As of	
(Amounts in thousands)	June 30, 2016	December 31, 2015
Rental property, net	$ 1,339,369	$ 63,511
Investments, at fair value	-	8,025
Cash and restricted cash	16,303	497
Preferred equity investments	54,595	-
Deferred rent receivable	24,768	-
Accounts and other receivables	576	-
Deferred charges, net	5,853	-
Intangible assets, net	61,163	-

Other assets	1,311	-
Total VIE assets	$ 1,503,938	$ 72,033
Notes and mortgages payable, net	$ 865,387	$ -
Loans payable to noncontrolling interests	-	45,662
Accounts payable and other accrued expenses	19,691	-
Intangible liabilities, net	56,630	-
Interest rate swap liabilities	42,061	-
Other liabilities	3,777	195
Total VIE liabilities	$ 987,546	$ 45,857

Unconsolidated VIEs

The adoption of ASU 2015-02 using the modified retrospective method resulted in the deconsolidation of all of our real estate funds that were accounted for at fair value, except for the Residential Fund. The table below summarizes our investments in these unconsolidated real estate funds that are VIEs.

	As of June 30, 2016		
(Amounts in thousands)	Investments	Asset Management Fee and other Receivable	Maximum Risk Risk of Loss
Unconsolidated real estate funds	$ 25,798	$ 1,740	$ 27,538

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12. Fair Value Measurements

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

Financial Assets and Liabilities Measured at Fair Value

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of marketable securities (which represent the assets in our deferred compensation plan, for which there is a corresponding liability on our consolidated balance sheets), real estate fund investments and interest rate swaps. The table below aggregates the fair values of these financial assets and liabilities at June 30, 2016 and December 31, 2015, based on their levels in the fair value hierarchy.

	As of June 30, 2016			
(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Marketable securities	$21,477	$21,477	$-	$ -
Total assets	$21,477	$21,477	$-	$ -
Interest rate swap liabilities	$102,577	$-	$102,577	$ -
Total liabilities	$102,577	$-	$102,577	$ -

As of December 31, 2015

(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Real estate fund investments:				
Investments in Property Funds	$248,824	$-	$-	$248,824
Investments in Alternative Investment Funds	167,614	-	-	167,614
Total real estate fund investments	416,438	-	-	416,438
Marketable securities	21,521	21,521	-	-
Total assets	$437,959	$21,521	$-	$416,438
Interest rate swap liabilities	$93,936	$-	$93,936	$-
Total liabilities	$93,936	$-	$93,936	$-

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Property Funds

At December 31, 2015, the Property Funds had four investments. These investments were classified as Level 3. We used a discounted cash flow valuation technique to estimate the fair value of each of these investments, which was updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique required us to estimate cash flows for each investment over the anticipated holding period, which ranged from 1.0 to 10.0 years. Cash flows were derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue was based on leases currently in place and our estimates for future leasing activity, which were based on market rents for similar space. Similarly, estimated real estate taxes and operating expenses were based on amounts incurred in the period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period were determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs. The fair value of each property was calculated by discounting future cash flows (including anticipated sales proceeds), using an appropriate discount rate. The fair value of the investment was calculated by subtracting property level debt, if any, from the fair value of the property.

Significant unobservable inputs used in determining the fair value of each investment included capitalization rates and discount rates. These rates were based on, among other factors, location and type of property. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of the Property Fund investments at December 31, 2015.

	As of December 31, 2015	
Unobservable Quantitative Input	Range	Weighted average (based on fair value of investments)
Discount rates	7.00% - 7.50%	7.18%
Terminal capitalization rates	5.00% - 6.00%	5.47%

The above inputs were subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases, or decreases, in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate may be partially offset by a change in the discount rate. Significant increases (decreases) in any of these inputs in isolation would have resulted in a significantly lower (higher) fair value, respectively.

Alternative Investment Fund

At December 31, 2015, the investments in the Alternative Investment Fund were comprised of mezzanine loans and senior mortgage loans. These investments were classified as Level 3. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required and discounting it back to its present value at the appropriate risk adjusted interest rate. The balances were updated quarterly by a third party and reviewed by senior management at each reporting period.

Significant unobservable inputs used in determining the fair value of these investments included preferred returns and credit spreads. Significant increases (decreases) in any of these inputs in isolation would have resulted in a significantly lower (higher) fair value, respectively. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of the investments in the Alternative Investment Funds at December 31, 2015.

	As of December 31, 2015	
Unobservable Quantitative Input	Range	Weighted average (based on fair value of investments)
Preferred return	7.32 - 14.02%	9.51%
Credit spread	2.34%	2.34%

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Interest Rate Swaps

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

Financial Assets and Liabilities Not Measured at Fair Value

Financial assets not measured at fair value on our consolidated balance sheets consists of cash equivalents and are classified as Level 1 as their carrying amount approximates their fair value, due to their short-term nature. Financial liabilities not measured at fair value include notes and mortgages payable and revolving credit facility. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. These instruments would be classified as Level 2.

The following is a summary of the carrying amounts and fair value of these financial instruments as of June 30, 2016 and December 31, 2015.

	As of June 30, 2016		As of December 31, 2015	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	$128,209	$128,209	$118,561	$118,561
Total assets	$128,209	$128,209	$118,561	$118,561

(Amounts in thousands)	As of June 30, 2016 Carrying Amount	As of June 30, 2016 Fair Value	As of December 31, 2015 Carrying Amount	As of December 31, 2015 Fair Value
Notes and mortgages payable	$3,035,672	$3,026,637	$2,941,524	$2,907,242
Revolving credit facility	20,000	20,017	20,000	20,723
Total liabilities	$3,055,672	$3,046,654	$2,961,524	$2,927,965

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

13. Fee and Other Income

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Amounts in thousands)	2016	2015	2016	2015
Fee income				
Property management	$1,539	$1,386	$3,060	$2,715
Asset management [1]	1,783	-	3,497	-
Acquisition and leasing	629	253	629	269
Other	224	141	406	331
Total fee income	4,175	1,780	7,592	3,315
Lease termination income	93	247	11,048 [2]	638
Other income [3]	2,520	2,921	9,025	5,490
Total fee and other income	$6,788	$4,948	$27,665	$9,443

(1) As a result of deconsolidating our real estate funds that were accounted for at fair value, on January 1, 2016, asset management fees are now included in fee income as opposed to a reduction of income attributable to noncontrolling interests in consolidated real estate funds in the prior periods. See Note 3, Real Estate Fund Investments.

(2) Includes $10,861 of cash income from the termination of a lease with a tenant at 1633 Broadway.

(3) Primarily comprised of income from tenant requested work including overtime heating and cooling.

14. Interest and Other Income, net

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

(Amounts in thousands)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Preferred equity investment income [(1)]	$1,423	$-	$2,839	$-
Interest income	350	150	430	271
Mark-to-market of investments in our deferred compensation plans [(2)]	(743)	362	(539)	1,095
Total interest and other income, net	$1,030	$512	$2,730	$1,366

(1) Represents income from our preferred equity investments in PGRESS Equity Holdings L.P., which was acquired in December 2015, of which our 24.4% share is $347 and $692 for the three and six months ended June 30, 2016, respectively. See Note 4, Preferred Equity Investments.

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

15. Interest and Debt Expense

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

(Amounts in thousands)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Interest expense	$36,604	$41,650	$72,465	$82,954
Amortization of deferred financing costs	1,405	586	2,663	1,170
Total interest and debt expense	$38,009	$42,236	$75,128	$84,124

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16. Incentive Compensation

Stock-Based Compensation

We account for all stock-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation. As of June 30, 2016, we have 12,226,118 shares available for future grants under the Plan, if all awards granted are full value awards, as defined in the 2014 Equity Incentive Plan. Stock-based compensation expense was $2,556,000 and $1,370,000 for the three months ended June 30, 2016 and 2015, respectively, and $6,183,000 and $4,405,000 for the six months ended June 30, 2016 and 2015, respectively. Stock-based compensation expense for the six months ended June 30, 2016 and 2015 includes $1,855,000 and $1,861,000 of expense, respectively, related to the acceleration of vesting of the stock awards in connection with certain separation agreements.

In March 2016, our Compensation Committee approved the 2016 Performance Program, a multi-year performance-based equity compensation program. The purpose of the 2016 Performance Program is to further align the interests of our stockholders with that of management by encouraging our senior officers to create stockholder value in a "pay for performance" structure. Under the 2016 Performance Program, participants may earn awards in the form of Long Term Incentive Plan ("LTIP") units of our operating partnership based on our total return to stockholders ("TRS") over a three-year performance measurement period beginning on March 18, 2016, and continuing through March 17, 2019, on both an absolute basis and relative basis. 25.0% of the award is earned if we outperform a predetermined absolute TRS and the remaining 75.0% is earned if we outperform a predetermined relative TRS. Specifically, participants begin to earn awards under the 2016 Performance Program if our TRS for the performance measurement period equals or exceeds 21.0% on an absolute basis and is within 250 basis points of the performance of the SNL Office REIT Index on a relative basis, and awards will be fully earned if our TRS for the performance measurement period equals or exceeds 36.0% on an absolute basis and exceeds the performance of the SNL Office REIT Index by 400 basis points on a relative basis. Participants will not earn any awards under the 2016 Performance Program if our TRS during the performance measurement period does not meet either of these minimum thresholds. The number of LTIP units that are earned if performance is above the minimum thresholds, but below the maximum thresholds, will be determined based on linear interpolation between the percentages earned at the minimum and maximum thresholds. During the performance measurement period, participants will receive per unit distributions equal to one-tenth of the per share dividends otherwise payable to our common stockholders with respect to their LTIP units. If the LTIP units are ultimately earned based on the achievement of the designated performance objectives, participants will receive cash or additional LTIP units based on the additional amount the participants would have received if per unit distributions during the performance measurement periods for the earned LTIP units had equaled per share dividends paid to our common stockholders less the amount of distributions participants actually received during the performance measurement period.

If the designated performance objectives are achieved, awards earned under the 2016 Performance Program will also be subject to vesting based on continued employment with us through March 17, 2020, with 50.0% of each award vesting following the conclusion of the performance measurement period, and the remaining 50.0% vesting on March 17, 2020. The fair value of the awards granted under the 2016 Performance Program on the date of the grant was $10,914,000 and is being amortized into expense over the four-year vesting period using a graded vesting attribution method.

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17. Earnings Per Share

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

(Amounts in thousands, except per share amounts)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Numerator:				
Net income (loss) attributable to common stockholders	$3,188	$(4,709)	$(3,306)	$(14,440)
Earnings allocated to unvested participating securities	(10)	-	(19)	-
Numerator for income (loss) per common share - basic and diluted	$3,178	$(4,709)	$(3,325)	$(14,440)
Denominator:				
Denominator for basic income (loss) per common share - weighted average shares	217,122	212,107	214,763	212,107
Effect of dilutive employee stock options and restricted share awards [(1)]	16	-	-	-
Denominator for diluted income (loss) per common share - weighted average shares	217,138	212,107	214,763	212,107
Income (loss) per common share - basic and diluted	$0.01	$(0.02)	$(0.02)	$(0.07)

(1) The effect of dilutive securities for the three months ended June 30, 2016 and 2015 excludes 49,182 and 53,247 weighted average share equivalents, respectively, and 51,252 and 53,095 weighted average share equivalents for the six months ended June 30, 2016 and 2015 respectively, as their effect was anti-dilutive.

18. Related Party
Due to Affiliates

As of June 30, 2016 and December 31, 2015, we had an aggregate of $27,299,000 of liabilities that were due to affiliates. These liabilities were comprised of a $24,500,000 note payable to CNBB-RDF Holdings, LP, which is an entity partially owned by Katharina Otto-Bernstein (a member of our Board of Directors), and a $2,799,000 note payable to a different entity owned by members of the Otto Family, both of which were made in lieu of certain cash distributions prior to the completion of our initial public offering. The notes are due in October 2017 and bear interest at a fixed rate of 0.50%. For each of the three months ended June 30, 2016 and 2015, we recognized $35,000 of interest expense and for each of the six months ended June 30, 2016 and 2015, we recognized $69,000 of interest expense in connection with these notes.

Management Agreements

We provide property management, leasing and other related services to certain properties owned by members of the Otto Family. We recognized an aggregate of $191,000 and $97,000 for the three months ended June 30, 2016 and 2015 and $399,000 and $248,000 for the for the six months ended June 30, 2016 and 2015, respectively, of fee income, in connection with these agreements, which is included as a component of “fee and other income” on our consolidated statements of income. As of June 30, 2016, these properties owed us $135,000, which is included as a component of “accounts and other receivables, net” on our consolidated balance sheets.

We earn property management fees and asset management fees from unconsolidated properties and real estate funds that we manage pursuant to contractual agreements. For the three and six months ended June 30, 2016, we recognized $2,359,000 and $4,599,000, respectively, of property management fees and asset management fees, in connection with these agreements. As of June 30, 2016, the unconsolidated properties and real estate funds owed us $1,740,000, which is included as a component of “accounts and other receivables, net” on our consolidated balance sheets.

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Hamburg Trust Consulting GMBH (“HTC”)

We have an agreement with HTC, a licensed broker in Germany, to supervise selling efforts for our private equity real estate funds (or investments in feeder vehicles for these funds) to investors in Germany, including distribution of securitized notes of a feeder vehicle for Fund VIII. Pursuant to this agreement, we have agreed to pay HTC for the costs incurred to sell investments in this feeder vehicle, which primarily consist of commissions paid to third party agents, and other incremental costs incurred by HTC as a result of the engagement, plus, in each case, a mark-up of 10%. HTC is 100% owned by Albert Behler, our Chairman, Chief Executive Officer and President. During the three and six months ended June 30, 2016, we incurred $454,000 and $557,000 of expense, respectively, in connection with these agreements, which is included as a component of “acquisition and transaction related costs” on our consolidated statements of income.

Mannheim Trust

Dr. Martin Bussmann (a member of our Board of Directors) is also a trustee and a director of Mannheim Trust portfolio companies that leases 6,790 square feet at 712 Fifth Avenue, our 50.0% owned unconsolidated joint venture. During the three and six months ended June 30, 2016, we recognized $102,000 and $204,000, respectively, for our pro rata share of rental income from this lease, which is included as a component of income from unconsolidated joint ventures on our consolidated statements of income.

19. Commitments and Contingencies

Insurance

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

Other Commitments and Contingencies

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

The terms of our mortgage debt and certain side letters in place include certain restrictions and covenants which may limit, among other things, certain investments, the incurrence of additional indebtedness and liens and the disposition or other transfer of assets and interests in the borrower and other credit parties, and requires compliance with certain debt yield, debt service coverage and loan to value ratios. In addition, our revolving credit facility contains representations, warranties, covenants, other agreements and events of default customary for agreements of this type with comparable companies. As of June 30, 2016, we believe we are in compliance with all of our covenants.

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718 Fifth Avenue - Put Right

Prior to the formation transactions, an affiliate of our predecessor owned a 25.0% interest in 718 Fifth Avenue, a five-story building containing 19,050 square feet of prime retail space that is located on the southwest corner of 56th Street and Fifth Avenue in New York, (based on its 50.0% interest in a joint venture that held a 50.0% tenancy-in-common interest in the property). Prior to the completion of the formation transactions, this interest was sold to its partner in the 718 Fifth Avenue joint venture, who is also our partner in the joint venture that owns 712 Fifth Avenue, New York, New York. In connection with this sale, we granted our joint venture partner a put right, pursuant to which the 712 Fifth Avenue joint venture would be required to purchase the entire direct or indirect interests held by our joint venture partner or its affiliates in 718 Fifth Avenue at a purchase price equal to the fair market value of such interests. The put right may be exercised at any time after the four-year anniversary of the sale of its interest in 718 Fifth Avenue (i.e., September 10, 2018) upon 12 months written notice with the actual purchase occurring no earlier than the five-year anniversary of such sale (i.e., September 10, 2019). If the put right is exercised and the 712 Fifth Avenue joint venture acquires the 50.0% tenancy-in-common interest in the property that will be held by our joint venture partner following the sale of its interest to our joint venture partner, we will own a 25.0% interest in 718 Fifth Avenue.

60 Wall Street - Option Agreement

We own an interest in 60 Wall Street, a 47-story, 1,625,483 rentable square foot office building, located in the heart of New York's financial district through Fund II and Fund III, which collectively own an aggregate of 62.3% of a joint venture that owns the property, and the remainder is owned by the funds' joint venture partner. In connection with the formation transactions, we entered into an option agreement with each of Fund II and Fund III pursuant to which we have the right to acquire their interests in the joint venture that owns 60 Wall Street. We have the right to acquire these interests at any time before November 2016 (two years after the completion of the initial public offering) at a purchase price based on the fair market value of the property, subject to a minimum floor price, and the net value of the other assets and liabilities of the joint venture on the date on which the option is exercised. In order to determine the fair market value of the property, we will obtain three independent appraisals from nationally recognized valuation firms and the fair market value will be deemed to be the average of the two highest appraisals; provided that the fair market value will be subject to a minimum floor price equal to 95% of the appraised value of the property as of December 31, 2013. We have the right to acquire these interests for either cash or shares of our common stock, based on the then current market value. Our acquisition of these interests upon exercise of the option will be subject to Fund II and Fund III obtaining all applicable consents or waivers, including the consent or waiver of any lenders or tenants to the extent required. In addition, the purchase price will be increased to the extent we enter into any new lease or lease amendment at the property within 90 days after the closing that would have resulted in the fair market value of the property increasing by more than one percent if such lease or lease amendment had been in place as of the date of the appraisals used to determine the fair market value of the property. If we were to exercise the option, we have agreed to provide our joint venture partner with the right to “tag-along” and transfer their interests in the joint venture that owns 60 Wall Street at a purchase price based on the same valuation procedures pursuant to which we would acquire each of Fund II’s and Fund III’s interests. If we were to exercise the option and our joint venture partner did not exercise its right to “tag-along”, we would continue to act as the general partner of the joint venture that is in charge of the property’s day-to-day operations. In the event we desire to transfer, sell or assign any portion of our interest in the joint venture to a third party, our joint venture partner will have the right to elect to purchase our interests subject to certain conditions. The partnership agreement contains a “buy-sell” provision, under which at any time, we or the joint venture partner may deliver a notice designating the amount that we or the joint venture partner determines the market value of the property to be. The party receiving a buy-sell notice will have the right to either purchase the entire partnership interest of the partner delivering the buy-sell notice, or to sell its entire partnership interest to the partner delivering the buy-sell notice, in each case for cash at a price equal to the amount the selling partner would have received if the property had been sold for the amount listed in the notice (with financing breakage costs and transfer taxes to be apportioned between the partners in accordance with their percentage interests in the joint venture).

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20. Segments Disclosure

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to align it 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. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

The following tables provide NOI for each reportable segment for the three and six months ended June 30, 2016 and 2015.

	For the Three Months Ended June 30, 2016				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	$ 168,128	$ 114,351	$ 21,478	$ 31,702	$ 597
Property-related operating expenses	(59,994)	(42,543)	(8,094)	(7,259)	(2,098)
NOI from unconsolidated joint ventures	4,536	4,456	-	-	80
NOI [(1)]	$ 112,670	$ 76,264	$ 13,384	$ 24,443	$ (1,421)

	For the Three Months Ended June 30, 2015				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	$ 161,148	$ 110,718	$ 21,014	$ 28,848	$ 568
Property-related operating expenses	(57,781)	(40,919)	(7,927)	(7,017)	(1,918)
NOI from unconsolidated joint ventures	4,278	4,138	-	-	140
NOI [(1)]	$ 107,645	$ 73,937	$ 13,087	$ 21,831	$ (1,210)

	For the Six Months Ended June 30, 2016				
(Amounts in thousands)	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	$ 337,629	$ 233,654	$ 41,460	$ 61,321	$ 1,194
Property-related operating expenses	(122,939)	(86,680)	(16,369)	(14,432)	(5,458)
NOI from unconsolidated joint ventures	8,964	8,803	-	-	161
NOI [(1)]	$ 223,654	$ 155,777	$ 25,091	$ 46,889	$ (4,103)

(Amounts in thousands)	For the Six Months Ended June 30, 2015				
	Total	New York	Washington, D.C.	San Francisco	Other
Property-related revenues	$320,839	$224,671	$ 40,165	$54,664	$1,339
Property-related operating expenses	(119,665)	(85,703)	(15,704)	(13,794)	(4,464)
NOI from unconsolidated joint ventures	8,059	7,874	-	-	185
NOI [1]	$209,233	$146,842	$ 24,461	$40,870	$(2,940)

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

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The following table provides a reconciliation of NOI to net income (loss) attributable to common stockholders for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
NOI	$112,670	$107,645	$223,654	$209,233
Add (subtract) adjustments to arrive to net income (loss):				
Fee income	4,175	1,780	7,592	3,315
Depreciation and amortization expense	(67,287)	(79,421)	(142,099)	(153,004)
General and administrative expenses	(12,139)	(9,133)	(26,100)	(21,746)
Acquisition and transaction related costs	(508)	(2,336)	(1,443)	(3,475)
Transfer taxes due in connection with the sale of shares by a former joint venture partner	-	(5,872)	-	(5,872)
NOI from unconsolidated joint ventures	(4,536)	(4,278)	(8,964)	(8,059)
Income from unconsolidated joint ventures	2,003	2,011	3,499	2,986
Income from real estate fund investments	-	14,072	-	19,293
Loss from unconsolidated real estate funds	(960)	-	(1,286)	-
Interest and other income, net	1,030	512	2,730	1,366
Interest and debt expense	(38,009)	(42,236)	(75,128)	(84,124)
Unrealized gain on interest rate swap	10,073	21,747	16,933	33,725
Net income (loss) before income taxes	6,512	4,491	(612)	(6,362)
Income tax benefit (expense)	1,398	(1,343)	1,035	(1,917)
Net income (loss)	7,910	3,148	423	(8,279)
Less: net (income) loss attributable to noncontrolling interests in:				
Consolidated real estate funds	78	(6,532)	752	(8,741)
Consolidated joint ventures	(4,107)	(2,472)	(5,359)	(931)
Operating Partnership	(693)	1,147	878	3,511
Net income (loss) attributable to common stockholders	$3,188	$(4,709)	$(3,306)	$(14,440)

The following table provides the selected balance sheet data for each of our reportable segments as of June 30, 2016.

(Amounts in thousands)	As of June 30, 2016		
Balance Sheet Data:	Total	New York	Other

			Washington, D.C.	San Francisco	
Total assets	$8,408,209	$5,654,039	$1,069,334	$1,376,389	$308,447
Total liabilities	$3,535,266	$1,954,115	$405,416	$987,495	$188,240
Total equity	$4,872,943	$3,699,924	$663,918	$388,894	$120,207

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Forward-Looking Statements

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

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

- failure to meet the restrictive covenants and requirements in our existing debt agreements;

- fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with variable rate debt, derivatives or hedging activity;
- risks associated with future sales of our common stock by our continuing investors or the perception that our continuing investors intend to sell substantially all of the shares of our common stock that they hold;
- risks associated with the market for our common stock;
- failure to qualify as a REIT;
- compliance with REIT requirements, which may cause us to forgo otherwise attractive opportunities or liquidate certain of our investments; or
- any of the other risks included in this Quarterly Report on Form 10-Q or in our Annual Report on Form 10-K for the year ended December 31, 2015, including those set forth in Item 1A entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the U.S. federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should review carefully our financial statements and the notes thereto, as well as Item 1A entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

We are a fully-integrated real estate investment trust ("REIT") focused on owning, operating, managing, acquiring and redeveloping high-quality, Class A office properties in select central business district submarkets of New York City, Washington, D.C. and San Francisco. We conduct our business through, and substantially all of our interests are held by, Paramount Group Operating Partnership LP, a Delaware limited partnership (the "Operating Partnership"). We are the sole general partner of, and owned approximately 83.0% of, the Operating Partnership as of June 30, 2016.

Three Months Ended June 30, 2016

In the three months ended June 30, 2016, we leased 148,896 square feet at a weighted average initial rent of $74.15 per square foot. This leasing activity, offset by lease expirations during the quarter, decreased the portfolio wide leased occupancy by 270 basis points from 95.6% at March 31, 2016 to 92.9% at June 30, 2016. The decrease in leased occupancy was driven largely by lease expirations in our New York portfolio. Of the 148,896 square feet leased in the second quarter, 32,753 square feet represents second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 22.9% on a cash basis and rental rate increase of 11.3% on a GAAP basis. The weighted average lease term for leases signed during the second quarter was 6.1 years and weighted average tenant improvements and leasing commissions on these leases were $9.71 per square foot per annum, or 13.1% of initial rent.

New York:

In the three months ended June 30, 2016, we leased 124,073 square feet in our New York portfolio, at a weighted average initial rent of $72.16 per square foot. This leasing activity, offset by lease expirations during the quarter, caused our New York portfolio leased occupancy to decrease by 390 basis points from 95.7% as of March 31, 2016 to 91.8% as of June 30, 2016. Of the 124,073 square feet leased in the second quarter, 20,853 square feet represents second generation space for which we achieved rental rate increases of 9.0% on a cash basis and rental rate increase of 6.0% on a GAAP basis. The weighted average lease term for leases signed during the second quarter was 6.3 years and weighted average tenant improvements and leasing commissions on these leases were $10.22 per square foot per annum, or 14.2% of initial rent.

Washington, D.C.:

Our Washington, D.C. portfolio leased occupancy decreased by 10 basis points from 92.5% at March 31, 2016 to 92.4% at June 30, 2016.

San Francisco:

In the three months ended June 30, 2016, we leased 24,823 square feet at One Market Plaza at a weighted average initial rent of $91.49 per square foot. This asset continues to remain very strongly leased at 98.4% as of June 30, 2016. Of the 24,823 square feet leased in the second quarter, 24,286 square feet represents second generation space, of which our pro rata share was 11,900 square feet, for which we achieved rental rate increases of 63.2% on a cash basis and 22.7% on a GAAP basis. The weighted average lease term for leases signed during the second quarter was 5.0 years and weighted average tenant improvements and leasing commissions on these leases were $4.05 per square foot per annum, or 4.4% of initial rent.

The following table presents additional details on the leases signed during the three months ended June 30, 2016 and is not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Three Months Ended June 30, 2016	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	148,896	124,073	-	24,823
Pro rata share of total square feet leased:	115,384	103,221	-	12,163
Initial rent [(1)]	$74.15	$72.16	$ -	$ 91.49
Weighted average lease term (in years)	6.1	6.3	-	5.0
Tenant improvements and leasing commissions:				
Per square foot	$59.51	$64.02	$ -	$ 20.25
Per square foot per annum	$9.71	$10.22	$ -	$ 4.05
Percentage of initial rent	13.1 %	14.2 %	-	4.4 %
Rent concessions:				
Average free rent period (in months)	5.2	5.8	-	-

Average free rent period per annum (in months)	0.8	0.9	-	-
Second generation space: [2]				
Square feet	32,753	20,853	-	11,900
Cash basis:				
Initial rent [1]	$93.95	$95.28	$ -	$ 91.49
Prior escalated rent [3]	$76.44	$87.44	$ -	$ 56.05
Percentage increase	22.9 %	9.0 %	-	63.2 %
GAAP basis:				
Straight-line rent	$86.31	$86.55	$ -	$ 85.87
Prior straight-line rent	$77.57	$81.67	$ -	$ 69.99
Percentage increase	11.3 %	6.0 %	-	22.7 %

(1) Represents the weighted average cash basis starting rent per square foot and does not include free rent of periodic step-ups in rent.
(2) Represents space leased that has been vacant for less than twelve months.
(3) Represents the weighted average cash basis rents (including reimbursements) per square foot at expiration.

Six Months Ended June 30, 2016

In the six months ended June 30, 2016, we leased 303,847 square feet at a weighted average initial rent of $76.67 per square foot. This leasing activity, offset by lease expirations during the six months, decreased the portfolio wide leased occupancy by 240 basis points from 95.3% at December 31, 2015 to 92.9% at June 30, 2016. The decrease in leased occupancy was driven largely by lease expirations in our New York portfolio. Of the 303,847 square feet leased in the six months, 133,096 square feet represents second generation space (space that has been vacant for less than twelve months) for which we achieved rental rate increases of 12.0% on a GAAP basis and rental rate increase of 4.3% on a cash basis. The weighted average lease term for leases signed during the six months ended was 7.0 years and weighted average tenant improvements and leasing commissions on these leases were $7.94 per square foot per annum, or 10.4% of initial rent. The rental rates during the six months include the effect of a 52,555 square foot above-market lease at 1633 Broadway that was terminated and subsequently released shortly thereafter at market rental rates. Excluding the impact of this lease, cash basis and GAAP basis rental growth rates were a positive 25.1% and 21.3%, respectively.

New York:

In the six months ended June 30, 2016, we leased 221,098 square feet in our New York portfolio, at a weighted average initial rent of $76.49 per square foot. This leasing activity, offset by lease expirations during the six months, caused our New York portfolio leased occupancy to decrease by 390 basis points from 95.7% as of December 31, 2015 to 91.8% as of June 30, 2016. Of the 221,098 square feet leased in 2016, 110,026 square feet represents second generation space for which we achieved rental rate increases of 11.0% on a GAAP basis and rental rate decreases of 1.4% on a cash basis. The weighted average lease term for leases signed in the six months was 7.4 years and weighted average tenant improvements and leasing commissions on these leases were $7.85 per square foot per annum, or 10.3% of initial rent. The rental rates during the six months include the effect of the aforementioned 52,555 square foot above-market lease at 1633 Broadway that was terminated and subsequently released shortly thereafter at market rental rates. Excluding the impact of this lease, GAAP basis and cash basis rental growth rates were a positive 23.4% and 19.3%, respectively.

Washington, D.C.:

In the six months ended June 30, 2016, we leased 38,145 square feet in our Washington, D.C. portfolio, at a weighted average initial rent of $71.60 per square foot. This leasing activity increased our Washington, D.C. portfolio leased occupancy to 92.4% at June 30, 2016, up 210 basis points from December 31, 2015. A majority of the space leased in the six months ended June 30, 2016 was previously vacant. The weighted average lease term for leases signed in the six months was 5.5 years and weighted average tenant improvements and leasing commissions on these leases were $9.88 per square foot per annum, or 13.8% of initial rent.

San Francisco:

In the six months ended June 30, 2016, we leased 44,604 square feet at One Market Plaza at a weighted average initial rent of $89.08 per square foot. This asset continues to remain very strongly leased at 98.4% as of June 30, 2016. Of the 44,604 square feet leased in 2016, 39,055 square feet represents second generation space, of which our pro rata share was 19,137 square feet, for which we achieved rental rate increases of 55.7% on a cash basis and 20.5% on a GAAP basis. The weighted average lease term for leases signed in the six months was 5.8 years and weighted average tenant improvements and leasing commissions on these leases were $5.28 per square foot per annum, or 5.9% of initial rent.

The following table presents additional details on the leases signed during the six months ended June 30, 2016 and is not intended to coincide with the commencement of rental revenue in accordance with GAAP.

Six Months Ended June 30, 2016	Total	New York	Washington, D.C.	San Francisco
Total square feet leased	303,847	221,098	38,145	44,604
Pro rata share of total square feet leased:	255,685	195,684	38,145	21,856
Initial rent (1)	$76.67	$76.49	$ 71.60	$ 89.08
Weighted average lease term (in years)	7.0	7.4	5.5	5.8
Tenant improvements and leasing commissions:				
Per square foot	$55.85	$58.47	$ 54.77	$ 30.89
Per square foot per annum	$7.94	$7.85	$ 9.88	$ 5.28
Percentage of initial rent	10.4 %	10.3 %	13.8 %	5.9 %
Rent concessions:				
Average free rent period (in months)	6.8	7.9	3.8	0.6
Average free rent period per annum (in months)	1.0	1.1	0.7	0.1
Second generation space: (2)				
Square feet	133,096	110,026	3,933	19,137
Cash basis:				
Initial rent (1)	$84.65	$84.08	$ 79.82	$ 89.08
Prior escalated rent (3)	$81.19	$85.27	$ 78.95	$ 57.22
Percentage increase (decrease)	4.3 %	(1.4 %)	1.1 %	55.7 %
GAAP basis:				

Straight-line rent	$81.38	$80.26	$ 80.13	$ 88.32
Prior straight-line rent	$72.68	$72.32	$ 80.10	$ 73.28
Percentage increase	12.0 %	11.0 %	-	20.5 %

(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.

Financial Results

Three Months Ended June 30, 2016 and 2015

Net income attributable to common stockholders was $3,188,000, or $0.01 per diluted share, for the three months ended June 30, 2016, compared to a net loss of $4,709,000, or $0.02 per diluted share, for the three months ended June 30, 2015. Funds from Operations (“FFO”) attributable to common stockholders was $54,243,000, or $0.25 per diluted share, for the three months ended June 30, 2016, compared to $52,663,000, or $0.25 per diluted share, for the three months ended June 30, 2015. FFO attributable to common stockholders includes the impact of certain “non-core” items that are listed in the table on page 60. The aggregate of these non-core items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the three months ended June 30, 2016 and 2015 by $4,854,000 and $6,348,000, or $0.02 and $0.03 per diluted share, respectively. Core Funds from Operations (“Core FFO”) attributable to common stockholders, which excludes the impact of these non-core items, was $49,389,000, or $0.23 per diluted share, for the three months ended June 30, 2016, compared to $46,315,000, or $0.22 per diluted share, for the three months ended June 30, 2015.

Six Months Ended June 30, 2016 and 2015

Net loss attributable to common stockholders was $3,306,000, or $0.02 per diluted share, for the six months ended June 30, 2016, compared to a net loss of $14,440,000, or $0.07 per diluted share, for the six months ended June 30, 2015. FFO attributable to common stockholders was $103,491,000, or $0.48 per diluted share, for, the six months ended June 30, 2016, compared to $95,980,000, or $0.45 per diluted share, for the six months ended June 30, 2015. FFO attributable to common stockholders includes the impact of certain “non-core” items that are listed in the table on page 60. The aggregate of these non-core items, net of amounts attributable to noncontrolling interests, increased FFO attributable to common stockholders for the six months ended June 30, 2016 and 2015 by $5,110,000 and $10,702,000, or $0.02 and $0.05 per diluted share, respectively. Core FFO attributable to common stockholders, which excludes the impact of these non-core items, was $98,381,000, or $0.46 per diluted share, for the six months ended June 30, 2016, compared to $85,278,000, or $0.40 per diluted share for the six months ended June 30, 2015.

See page 60 “Non-GAAP Financial Measures – Funds from Operations (“FFO”) and Core Funds From Operations (“Core FFO”)” for a reconciliation of net income (loss) to FFO attributable to common stockholders and Core FFO and the reasons why we believe these non-GAAP measures are useful.

Critical Accounting Policies

There were no material changes to our critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Segment Reporting

Our determination of segments is primarily based on our method of internal reporting. On January 1, 2016, as a result of certain organizational and operational changes, we redefined our reportable segments to align it 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. Accordingly, our reportable segments were separated by region based on the three regions in which we conduct our business: New York, Washington, D.C. and San Francisco. In connection therewith, we have reclassified the prior period segment financial data to conform to the current period presentation.

Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standard’s Board (“FASB”) issued an Accounting Standards Update (“ASU”) ("ASU 2014-09") to Accounting Standard Codification (“ASC”) Topic 606, Revenue from Contracts with Customers. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued an update (“ASU 2014-12”) to ASC Topic 718, Compensation – Stock Compensation. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share-based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2014-12 on January 1, 2016, using the prospective method. This adoption did not have any impact on our consolidated financial statements.

In February 2015, the FASB issued an update ("ASU 2015-02") Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-02 on January 1, 2016, using the modified retrospective method. The adoption of ASU 2015-02 resulted in the deconsolidation of all of our real estate fund investments that were accounted for at fair value, except for Paramount Group Residential Development Fund, LP (the "Residential Fund"), which is accounted for at historical cost. See Note 3, Real Estate Fund Investments.

In April 2015, the FASB issued an update ("ASU 2015-03") Simplifying the Presentation of Debt Issuance Costs to ASC Topic 835, Interest – Imputation of Interest. ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. In August 2015, the FASB issued an update ("ASU 2015-15") Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at 18 June 2015 EITF Meeting. ASU 2015-15 clarifies the exclusion of line-of-credit arrangements from the scope of ASU 2015-03. Therefore, debt issuance costs related to line-of-credit arrangements can be deferred and presented as an asset that is subsequently amortized over the time of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We adopted the provisions of ASU 2015-03 on January 1, 2016, and have retrospectively reclassified $18,914,000 of deferred financing costs that were included in "deferred charges, net" as of December 31, 2015, to "notes and mortgages payable, net". The deferred financing costs related to our $1.0 billion revolving credit facility continue to be reported as an asset on our consolidated balance sheets.

In September 2015, the FASB issued an update ("ASU 2015-16") Simplifying the Accounting for Measurement-Period Adjustments to ASC Topic 805, Business Combinations. ASU 2015-16 eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We adopted the provisions of ASU 2015-16 on January 1, 2016, using the prospective method. This adoption did not have any impact on our consolidated financial statements.

In February 2016, the FASB issued an update ("ASU 2016-02"), Leases to ASC Topic 842, Leases. ASU 2016-02 supersedes the provision of leasing guidance and establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either financing or operating. ASU 2016-02 requires lessors to account for leases using an approach that is substantially similar to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued an update ("ASU 2016-09") Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting to ASC Topic 718 Compensation – Stock Compensation. ASU 2016-09 improves the accounting for share-based payments including income tax consequences and the classification of awards as either equity awards or liability awards. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements.

In June 2016, the FASB issued an update ("ASU 2016-13") Measurement of Credit Losses on Financial Instruments to ASC Topic 326, Financial Instruments – Credit Losses. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. ASU 2016-13 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements.

Results of Operations – Three Months Ended June 30, 2016 Compared to June 30, 2015

The following pages summarize our consolidated results of operations for the three months ended June 30, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended June 30, 2016	2015	Change
REVENUES:			
Rental income	$155,181	$145,917	$9,264
Tenant reimbursement income	10,334	12,063	(1,729)
Fee and other income	6,788	4,948	1,840
Total revenues	172,303	162,928	9,375
EXPENSES:			
Operating	59,994	57,781	2,213
Depreciation and amortization	67,287	79,421	(12,134)
General and administrative	12,139	9,133	3,006
Acquisition and transaction related costs	508	8,208	(7,700)
Total expenses	139,928	154,543	(14,615)
Operating income	32,375	8,385	23,990
Income from real estate fund investments	-	14,072	(14,072)
Loss from unconsolidated real estate funds	(960)	-	(960)
Income from unconsolidated joint ventures	2,003	2,011	(8)
	1,030	512	518

Interest and other income, net			
Interest and debt expense	(38,009)	(42,236)	4,227
Unrealized gain on interest rate swaps	10,073	21,747	(11,674)
Net income before income taxes	6,512	4,491	2,021
Income tax benefit (expense)	1,398	(1,343)	2,741
Net income	7,910	3,148	4,762
Less net (income) loss attributable to noncontrolling interests in:			
Consolidated real estate funds			