

Paramount Group, Inc.
Form 10-Q
August 03, 2017
fma

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: June 30, 2017

OR

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

For the transition period from to

Commission File Number: 001-36746

PARAMOUNT GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of July 14, 2017, there were 238,768,520 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, unit and per share amounts)

ASSETS	June 30, 2017	December 31, 2016
Real estate, at cost		
Land	\$2,068,409	\$2,091,535
Buildings and improvements	5,726,499	5,757,558
	7,794,908	7,849,093
Accumulated depreciation and amortization	(397,972)	(318,161)
Real estate, net	7,396,936	7,530,932
Cash and cash equivalents	254,763	162,965
Restricted cash	42,384	29,374
Investments in unconsolidated joint ventures	45,644	6,411
Investments in unconsolidated real estate funds	22,001	28,173
Preferred equity investments	55,300	55,051
Marketable securities	21,564	22,393
Accounts and other receivables, net of allowance of \$232 and \$202	12,032	15,251
Deferred rent receivable	196,799	163,695
Deferred charges, net of accumulated amortization of \$14,220 and \$9,832	80,352	71,184
Intangible assets, net of accumulated amortization of \$173,087 and \$166,841	363,523	412,225
Assets held for sale	-	346,685
Other assets	26,205	22,829
Total assets ⁽¹⁾	\$8,517,503	\$8,867,168
LIABILITIES AND EQUITY		
Notes and mortgages payable, net of deferred financing costs of \$46,255 and \$43,281	\$3,308,845	\$3,364,898
Revolving credit facility	-	230,000
Due to affiliates	27,299	27,299
Accounts payable and accrued expenses	83,334	103,896
Dividends and distributions payable	25,211	25,151
Deferred income taxes	1,283	1,467
Interest rate swap liabilities	1,819	22,446
Intangible liabilities, net of accumulated amortization of \$63,845 and \$55,349	133,748	153,018
Other liabilities	50,053	53,046
Total liabilities ⁽¹⁾	3,631,592	3,981,221
Commitments and contingencies		

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Paramount Group, Inc. equity:

Common stock \$0.01 par value per share; authorized 900,000,000 shares; issued		
and outstanding 238,283,591 and 230,015,356 shares in 2017 and 2016, respectively	2,382	2,300
Additional paid-in-capital	4,254,386	4,116,987
Earnings less than distributions	(71,037)	(129,654)
Accumulated other comprehensive income	143	372
Paramount Group, Inc. equity	4,185,874	3,990,005
Noncontrolling interests in:		
Consolidated joint ventures	229,133	253,788
Consolidated real estate fund	14,833	64,793
Operating Partnership (26,771,872 and 34,511,214 units outstanding)	456,071	577,361
Total equity	4,885,911	4,885,947
Total liabilities and equity	\$8,517,503	\$8,867,168

- (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 89.9% as of June 30, 2017. The assets and liabilities of the Operating Partnership, as of June 30, 2017, include \$1,466,918 and \$1,026,938 of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. See Note 12, 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,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES:				
Rental income	\$158,187	\$155,181	\$313,577	\$296,433
Tenant reimbursement income	11,856	10,334	24,708	21,123
Fee and other income	7,661	6,788	20,655	27,665
Total revenues	177,704	172,303	358,940	345,221
EXPENSES:				
Operating	63,461	59,994	129,432	122,939
Depreciation and amortization	68,636	67,287	131,628	142,099
General and administrative	16,573	12,139	30,154	26,100
Transaction related costs	502	508	777	1,443
Total expenses	149,172	139,928	291,991	292,581
Operating income	28,532	32,375	66,949	52,640
Income from unconsolidated joint ventures	16,535	2,003	18,472	3,499
Loss from unconsolidated real estate funds	(2,411)	(960)	(2,123)	(1,286)
Interest and other income, net	2,486	1,030	5,686	2,730
Interest and debt expense	(34,817)	(38,009)	(71,835)	(75,128)
Debt breakage costs	(5,162)	-	(7,877)	-
Gain on sale of real estate	133,989	-	133,989	-
Unrealized gain on interest rate swaps	-	10,073	1,802	16,933
Net income (loss) before income taxes	139,152	6,512	145,063	(612)
Income tax (expense) benefit	(970)	1,398	(5,252)	1,035
Net income	138,182	7,910	139,811	423
Less net (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,897)	(4,107)	(3,188)	(5,359)
Consolidated real estate fund	(20,169)	78	(20,081)	752
Operating Partnership	(13,100)	(693)	(13,154)	878
Net income (loss) attributable to common stockholders	\$103,016	\$3,188	\$103,388	\$(3,306)

INCOME (LOSS) PER COMMON SHARE -
BASIC:

Income (loss) per common share	\$0.44	\$0.01	\$0.44	\$(0.02)
Weighted average shares outstanding	234,990,468	217,121,592	232,968,602	214,762,593

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INCOME (LOSS) PER COMMON SHARE -
DILUTED:

Income (loss) per common share	\$0.44	\$0.01	\$0.44	\$(0.02)
Weighted average shares outstanding	235,010,830	217,137,557	232,995,822	214,762,593
DIVIDENDS PER COMMON SHARE	\$0.095	\$0.095	\$0.190	\$0.190

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$138,182	\$7,910	\$139,811	\$423
Other comprehensive income (loss):				
Change in value of interest rate swaps	(4,041)	(11,747)	(9)	(41,614)
Pro rata share of other comprehensive income (loss) of				
unconsolidated joint ventures	35	(44)	(187)	63
Comprehensive income (loss)	134,176	(3,881)	139,615	(41,128)
Less comprehensive (income) loss attributable to noncontrolling interests in:				
Consolidated joint ventures	(1,897)	(4,107)	(3,188)	(5,359)
Consolidated real estate fund	(20,169)	78	(20,081)	752
Operating Partnership	(12,647)	1,415	(13,187)	8,774
Comprehensive income (loss) attributable to				
common stockholders	\$99,463	\$(6,495)	\$103,159	\$(36,961)

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

(Amounts in thousands, except per share and unit amounts)	Common Shares				Noncontrolling Interests in				
	Shares	Amount	Additional Paid-in-Capital	Earnings Less than Distributions	Accumulated Other Comprehensive Income (Loss)	Consolidated Investment Ventures	Consolidated Real Estate Funds	Consolidated Operating Partnership	Total Equity
Balance as of December 31, 2015	212,112	\$2,122	\$3,802,858	\$(36,120)	\$(7,843)	\$236,849	\$414,637	\$898,047	\$5,310,550
Deconsolidation of real estate fund investments upon adoption of ASU 2015-02	-	-	-	-	-	-	(351,035)	-	(351,035)
Balance as of January 1, 2016	212,112	2,122	3,802,858	(36,120)	(7,843)	236,849	63,602	898,047	4,959,515
Net income (loss)	-	-	-	(3,306)	-	5,359	(752)	(878)	423
Common shares issued upon redemption of common units	7,277	73	124,006	-	-	-	-	(124,079)	-
Common shares issued under Omnibus share plan	101	-	-	-	-	-	-	-	-
Dividends and distributions (\$0.190 per share and unit)	-	-	-	(41,090)	-	-	-	(9,208)	(50,298)
Distributions to noncontrolling	-	-	-	-	-	(1,740)	-	-	(1,740)

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interests									
Change in value of interest rate swaps	-	-	-	-	(33,705)	-	-	(7,909)	(41,614)
Pro rata share of other comprehensive income of unconsolidated joint ventures	-	-	-	-	50	-	-	13	63
Amortization of equity awards	-	-	1,175	-	-	-	-	5,544	6,719
Other	-	-	(167)	20	-	15	7	-	(125)
Balance as of June 30, 2016	219,490	\$2,195	\$3,927,872	\$(80,496)	\$(41,498)	\$240,483	\$62,857	\$761,530	\$4,872,943
Balance as of December 31, 2016	230,015	\$2,300	\$4,116,987	\$(129,654)	\$372	\$253,788	\$64,793	\$577,361	\$4,885,947
Net income	-	-	-	103,388	-	3,188	20,081	13,154	139,811
Common shares issued upon redemption of common units	8,207	82	135,877	-	-	-	-	(135,959)	-
Common shares issued under Omnibus share plan, net of shares withheld for taxes	62	-	-	(154)	-	-	-	-	(154)
Dividends and distributions (\$0.190 per share and unit)	-	-	-	(44,617)	-	-	-	(5,801)	(50,418)
Contributions from noncontrolling interests	-	-	-	-	-	4,973	4,305	-	9,278
Distributions to noncontrolling interests	-	-	-	-	-	(32,816)	(74,346)	-	(107,162)
Change in value of interest rate swaps	-	-	-	-	(67)	-	-	58	(9)
	-	-	-	-	(162)	-	-	(25)	(187)

Pro rata share of other comprehensive loss									
of unconsolidated joint ventures									
Amortization of equity awards	-	-	1,522	-	-	-	7,283	8,805	
Balance as of June 30, 2017	238,284	\$2,382	\$4,254,386	\$(71,037)	\$143	\$229,133	\$14,833	\$456,071	\$4,885,911

See notes to consolidated financial statements (unaudited).

PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 139,811	\$ 423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,628	142,099
Amortization of deferred financing costs	5,548	2,663
Gain on sale of real estate	(133,989)	-
Straight-lining of rental income	(32,121)	(44,542)
Amortization of above and below-market leases, net	(10,989)	(3,481)
Debt breakage costs	7,877	-
Unrealized gain on interest rate swaps	(1,802)	(16,933)
Realized and unrealized (gains) losses on marketable securities	(2,486)	312
Income from unconsolidated joint ventures	(18,472)	(3,499)
Distributions of earnings from unconsolidated joint ventures	2,758	4,864
Loss from unconsolidated real estate funds	2,123	1,286
Distributions of earnings from unconsolidated real estate funds	146	200
Amortization of stock-based compensation expense	7,867	6,183
Other non-cash adjustments	(26)	957
Changes in operating assets and liabilities:		
Accounts and other receivables	3,102	(165)
Deferred charges	(14,297)	(7,165)
Other assets	7,294	(4,942)
Accounts payable and accrued expenses	(15,257)	54,937
Deferred income taxes	(143)	(2,287)
Other liabilities	3,420	1,066
Net cash provided by operating activities	81,992	131,976
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of real estate	540,333	-
Additions to real estate	(33,079)	(73,840)
Investments in unconsolidated joint ventures	(28,791)	-
Distributions of capital from unconsolidated joint ventures	20,000	-
Deposit on real estate	(12,914)	-
Changes in restricted cash	(12,697)	12,512
Distributions of capital from unconsolidated real estate funds	3,845	-

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Contributions of capital to unconsolidated real estate funds	(584)	-
Net cash provided by (used in) investing activities	476,113	(61,328)

See notes to consolidated financial statements (unaudited).

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PARAMOUNT GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For the Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes and mortgages payable	\$(1,044,821)	\$(414,202)
Proceeds from notes and mortgages payable	991,556	506,627
Repayment of borrowings under revolving credit facility	(290,000)	(60,000)
Borrowings under revolving credit facility	60,000	60,000
Distributions to noncontrolling interests	(107,162)	(1,740)
Dividends paid to common stockholders	(43,832)	(40,390)
Settlement of interest rate swap liabilities	(19,425)	(16,040)
Contributions from noncontrolling interests	9,278	-
Debt breakage costs	(7,877)	-
Debt issuance costs	(7,344)	(6,487)
Distributions paid to common unitholders	(6,526)	(9,824)
Repurchase of shares related to stock compensation agreements		
and related tax withholdings	(154)	-
Net cash (used in) provided by financing activities	(466,307)	17,944
Net increase in cash and cash equivalents	91,798	88,592
Cash and cash equivalents at beginning of period	162,965	143,884
Decrease in cash due to deconsolidation of real estate fund investments	-	(7,987)
Cash and cash equivalents at end of period	\$254,763	\$224,489
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	\$73,817	\$68,957
Cash payments for income taxes, net of refunds	3,191	1,319
NON-CASH TRANSACTIONS:		
Common shares issued upon redemption of common units	\$135,959	\$124,079
Dividends and distributions declared but not yet paid	25,211	25,151
Write-off of fully amortized and/or depreciated assets	4,930	5,379
Additions to real estate included in accounts payable and accrued expenses	8,988	10,678
(Sales) purchases of marketable securities resulting in an (increase) decrease		
to restricted cash	(3,313)	268
Change in fair value of interest rate swaps	9	41,614

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(Decrease) increase due to deconsolidation of 75 Howard:		
Investments in unconsolidated joint ventures	14,915	-
Real estate, net	(14,915)	-
(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)

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. As of June 30, 2017, our portfolio consisted of 13 Class A office properties aggregating approximately 11.8 million square feet. We conduct our business through, and substantially all of our interests in properties and investments are held by, the Operating Partnership. We are the sole general partner of, and owned approximately 89.9% of, the Operating Partnership as of June 30, 2017.

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 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, 2016, 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, 2017, are not necessarily indicative of the operating results for the full year.

Significant Accounting Policies

There are no material changes to our significant accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standard's Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, an update to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09, as amended, supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, and can be applied using a full retrospective or modified retrospective approach. We plan to implement ASU 2014-09 on January 1, 2018, using the modified retrospective approach and do not believe the adoption will have a material impact on our consolidated financial statements.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In February 2016, the FASB issued ASU 2016-02, an update to ASC Topic 842, Leases. ASU 2016-02 amends the existing guidance for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either financing or operating and recording a right-of-use asset and a lease liability for all leases with a term greater than 12 months. 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 plan to adopt the provisions of ASU 2016-02 on January 1, 2019 using the modified retrospective approach. While we believe that the key changes in ASU 2016-02 relate to the separation of and allocation of consideration to, lease component (rental income) and non-lease components (revenue related to various services we provide), we continue to evaluate the other potential implications that this update will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, an update 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 adopted the provisions of ASU 2016-09 on January 1, 2017. This adoption did not have any impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, an update to ASC Topic 326, Financial Instruments – Credit Losses. ASU 2016-13 requires measurement and recognition of expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. 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 evaluating the impact of ASU 2016-13 but do not believe the adoption will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, an update to ASC Topic 230, Statement of Cash Flows to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We adopted the provisions of ASU 2016-15 retrospectively on January 1, 2017. This adoption did not have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, an update to ASC Topic 810, Consolidation. ASU 2016-17 requires a reporting entity to consider only its proportionate indirect interest in the VIE held through a common control party in evaluating whether it is the primary beneficiary of a VIE. Currently, ASU 2015-02 requires the reporting entity to treat the common control party's interest in the VIE as if the reporting entity held the interest itself. ASU 2016-17 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We adopted the provisions of ASU 2016-17 on January 1, 2017. This adoption did not have any impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, an update to ASC Topic 230, Statement of Cash Flows to provide guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include restricted cash with cash and cash equivalents. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted. We will adopt the provisions of ASU 2016-18 on January 1, 2018. This adoption will impact the presentation of our consolidated statements of cash flows, as well as require additional disclosures to reconcile cash and cash equivalents and restricted cash on our consolidated balance sheets to our consolidated statements of cash flows.

PARAMOUNT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In January 2017, the FASB issued ASU 2017-01, an update to ASC Topic 805, Business Combinations. ASU 2017-01 narrows the definition of a business and provides a framework for making reasonable judgments about whether a transaction involves an asset or a business. ASU 2017-01 clarifies that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 also requires that a set cannot be considered a business unless it includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. ASU 2017-01 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for transactions (i.e., acquisitions or dispositions) that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. We adopted the provisions of ASU 2017-01 on October 1, 2016 and concluded that the acquisition of our One Front Street property in December 2016 did not meet the definition of a business and therefore was treated as an asset acquisition.

In February 2017, the FASB issued ASU 2017-05, an update to ASC Topic 610, Other Income. ASU 2017-05 clarifies the scope and accounting for derecognition of a nonfinancial asset and eliminates the guidance in ASC 360-20 specific to real estate sales and partial sales. ASU 2017-05 requires an entity that transfers control of a nonfinancial asset to measure any noncontrolling interest it retains (or receives) at fair value. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, with early adoption permitted for entities concurrently early adopting ASU 2014-09. We plan to adopt the provisions of ASU 2017-05 on January 1, 2018, using the modified retrospective approach. Upon adoption, we anticipate recording an adjustment to “investments in unconsolidated joint ventures” relating to the measurement of our consolidated Residential Development Fund’s (“RDF”) retained interest in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) at fair value. See Note 4, Investments in Unconsolidated Joint Ventures.

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

3. Dispositions

Waterview

On May 3, 2017, we completed the sale of Waterview, a 636,768 square foot, Class A office building in Rosslyn, Virginia for \$460,000,000 and recognized a net gain of \$110,583,000, which is included as a component of “gain on sale of real estate” on our consolidated statements of income for the three and six months June 30, 2017.

The following table sets forth the details of the assets of Waterview that were classified as held-for-sale as of December 31, 2016.

(Amounts in thousands)	
Land	\$78,300
Building and improvements, net	251,671
Deferred charges	14,512
Deferred rent receivable	2,202
Assets held for sale	\$346,685

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4. Investments in Unconsolidated Joint Ventures

On January 24, 2017, a joint venture in which we have a 5.0% ownership interest, acquired 60 Wall Street, a 1.6 million square foot office tower in Manhattan, for \$1.04 billion from certain of our real estate funds (see Note 5, Real Estate Fund Investments). In connection with the acquisition, the joint venture completed a \$575,000,000 financing of the property. We began accounting for our investment in 60 Wall Street, under the equity method, from the date of the acquisition.

Prior to May 5, 2017, our consolidated Residential Development Fund (“RDF”), owned 100% of the equity interests in 75 Howard Street, a fully-entitled residential condominium land parcel (“75 Howard”) in San Francisco, California. On May 5, 2017, RDF sold 80.0% of the equity interest in 75 Howard for \$88,000,000 and recognized a \$23,406,000 net gain on sale, of which our share, net of income taxes, was \$1,661,000. Subsequent to the sale, RDF deconsolidated its investment in 75 Howard and began accounting for the remaining 20.0% under the equity method of accounting, however, we continue to consolidate our interest in RDF. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

The following tables summarize our investments in unconsolidated joint ventures as of June 30, 2017 and December 31, 2016 and income from these investments for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	Paramount	As of	
Our Share of Investments:	Ownership	June 30,	December
		2017	31, 2016
712 Fifth Avenue	50.0%	\$-	(1)\$ 2,912
60 Wall Street	5.0%	26,451	-
75 Howard	20.0%	(2) 15,882	-
Oder-Center, Germany	9.5%	3,311	3,499
Investments in unconsolidated joint ventures		\$45,644	\$ 6,411

(Amounts in thousands)	Paramount	For the Three Months Ended		For the Six Months Ended	
Our Share of Net Income (Loss):	Ownership	June 30, 2017	2016	June 30, 2017	2016
712 Fifth Avenue	50.0%	\$16,504	(1)\$1,985	\$18,434	(1)\$3,461
60 Wall Street	5.0%	(31)	-	(36)	-
75 Howard	20.0%	(2) 33	-	33	-
Oder-Center, Germany	9.5%	29	18	41	38
Income from unconsolidated joint ventures		\$16,535	\$2,003	\$18,472	\$3,499

⁽¹⁾On June 13, 2017, we completed a \$300,000 refinancing of the property. As of June 30, 2017, the basis of our investment in the property was \$4,928. On June 30, 2017, we received a \$20,000 distribution for our 50.0% share of the net proceeds from the refinancing. In accordance with GAAP, because we have no further obligation to fund additional capital to the venture, we have accounted for the \$15,072 distribution in excess of our basis, as income. This amount is included as a component of “income from unconsolidated joint ventures” on our consolidated statements of income for the three and six months ended June 30, 2017

⁽²⁾Represents RDF’s ownership interest in the property. We now have a 7.4% ownership interest in RDF; accordingly, our economic interest in 75 Howard is 1.5%.

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712 Fifth Avenue

The following tables provide summarized financial information of 712 Fifth Avenue as of the dates and for the periods set forth below.

(Amounts in thousands)	As of	
Balance Sheets:	June 30,	December
	2017	31, 2016
Real estate, net	\$206,617	\$207,632
Other assets	51,374	40,701
Total assets	\$257,991	\$248,333
Notes and mortgages payable, net	\$295,949	\$245,990
Other liabilities	4,447	8,783
Total liabilities	300,396	254,773
Equity ⁽¹⁾	(42,405)	(6,440)
Total liabilities and equity	\$257,991	\$248,333

⁽¹⁾As of June 30, 2017, the carrying amount of our investment is greater than our share of the equity by approximately \$21,202. This basis difference resulted from distributions in excess of the equity in net earnings of the property.

(Amounts in thousands)	For the Three		For the Six	
	Months Ended		Months Ended	
	June 30,	June 30,	June 30,	June 30,
Income Statements:	2017	2016	2017	2016
Rental income	\$12,713	\$12,716	\$25,658	\$25,394
Tenant reimbursement income	1,209	893	2,517	2,009
Fee and other income	468	677	594	1,195
Total revenues	14,390	14,286	28,769	28,598

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Operating expenses	6,102	5,375	12,068	10,992
Depreciation and amortization	3,075	3,043	5,995	6,051
Total expenses	9,177	8,418	18,063	17,043
Operating income	5,213	5,868	10,706	11,555
Interest and other income, net	48	19	72	33
Interest and debt expense	(3,126)	(2,752)	(5,951)	(5,500)
Unrealized gain on interest rate swaps	728	834	1,896	834
Net income	\$2,863	\$3,969	\$6,723	\$6,922

5. Real Estate Fund Investments

Unconsolidated Real Estate Funds

We manage four Property Funds comprised of (i) Paramount Group Real Estate Fund II, L.P. (“Fund II”), (ii) Paramount Group Real Estate Fund III, L.P. (“Fund III”), (iii) Paramount Group Real Estate Fund VII, L.P. (“Fund VII”) and (iv) Paramount Group Real Estate Fund VII-H, L.P. (“Fund VII-H”). We also manage Paramount Group Real Estate Fund VIII L.P. (“Fund VIII”), our Alternative Investment Fund, which invests in mortgage and mezzanine loans and preferred equity investments.

As of December 31, 2016, Fund II and Fund III collectively owned a 62.3% interest in 60 Wall Street, a 1.6 million square foot office tower in Manhattan. On January 24, 2017, Fund II and Fund III, together with the other investors that owned the remaining 37.7% interest, sold their interests in 60 Wall Street to a newly formed joint venture, in which we have a 5.0% ownership interest. Accordingly, beginning on January 24, 2017, we began accounting for our investment in 60 Wall Street under the equity method. See Note 4, Investments in Unconsolidated Joint Ventures.

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The following tables summarize our investments in these unconsolidated real estate funds as of June 30, 2017 and December 31, 2016, and income or loss recognized from these investments for the three and six months ended June 30, 2017 and 2016.

(Amounts in thousands)	As of	
	June 30, 2017	December 31, 2016
Our Share of Investments:		
Property funds	\$16,749	\$22,811
Alternative investment fund	5,252	5,362
Investments in unconsolidated real estate funds	\$22,001	\$28,173

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Our Share of Net Loss:				
Net investment income (loss)	\$71	\$(68)	\$124	\$(607)
Net realized (loss) gain	(5)	-	174	-
Net unrealized loss	(324)	(2,807)	(228)	(2,578)
Carried interest	(2,153)	1,915	(2,193)	1,899
Loss from unconsolidated real estate funds ⁽¹⁾	\$(2,411)	\$(960)	\$(2,123)	\$(1,286)

⁽¹⁾Excludes asset 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.

As of June 30, 2017, we own a 10.0% interest in Fund II, a 3.1% interest in Fund III, and a 7.5% interest in Fund VII, all of which are accounted for under the equity method. The following tables provide summarized financial

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information for Fund II, Fund III and Fund VII as of the dates and for the periods set forth below.

(Amounts in thousands)	As of June 30, 2017			As of December 31, 2016		
	Fund II	Fund III	Fund VII	Fund II	Fund III	Fund VII
Balance Sheets:						
Real estate investments	\$11,151	\$19,669	\$158,822	(1)\$64,989	\$39,376	\$165,556 (1)
Cash and cash equivalents	882	2,102	2,676	1,297	2,221	741
Other assets	115	-	97	127	-	-
Total assets	\$12,148	\$21,771	\$161,595	\$66,413	\$41,597	\$166,297
Other liabilities	\$90	\$75	\$1,531	\$60	\$49	\$1,483
Total liabilities	90	75	1,531	60	49	1,483
Equity	12,058	21,696	160,064	66,353	41,548	164,814
Total liabilities and equity	\$12,148	\$21,771	\$161,595	\$66,413	\$41,597	\$166,297

(1)Includes \$122,677 and \$123,105 as of June 30, 2017 and December 31, 2016, respectively, attributable to the investment in 50 Beale Street, which was sold on July 17, 2017. See Note 22, Subsequent Events.

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	For the Three Months Ended					
	June 30,					
(Amounts in thousands)	2017			2016		
Income Statements:	Fund	Fund	Fund	Fund	Fund	Fund
	II	III	VII	II	III	VII
Investment income	\$1	\$1				