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Empire State Realty Trust, Inc.
Form 10-Q
August 03, 2016

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, 2016

☐ 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: 001-36105

EMPIRE STATE REALTY TRUST, INC.

(Exact name of Registrant as specified in its charter)

Maryland 37-1645259
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Grand Central Place

60 East 42nd Street

New York, New York 10165

(Address of principal executive offices) (Zip Code)

(212) 687-8700

(Registrant's telephone number, including area code)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, par value \$0.01 per share 122,975,822

Class B Common Stock, par value \$0.01 per share 1,100,032

(Class) (Outstanding on July 31, 2016)

EMPIRE STATE REALTY TRUST, INC. FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016 TABLE OF CONTENTS	PAGE
PART 1. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015	2
Condensed Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015 (unaudited)	3
Condensed Consolidated Statements of Other Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)	4
Condensed Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2016 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	8
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	32
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	48
ITEM 4. CONTROLS AND PROCEDURES	48
PART II. OTHER INFORMATION	49
ITEM 1. LEGAL PROCEEDINGS	49
ITEM 1A. RISK FACTORS	49
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	49
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	49
ITEM 4. MINE SAFETY DISCLOSURES	49
ITEM 5. OTHER INFORMATION	49
ITEM 6. EXHIBITS	49
SIGNATURES	50

ITEM 1. FINANCIAL STATEMENTS

Empire State Realty Trust, Inc.

Condensed Consolidated Balance Sheets

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Commercial real estate properties, at cost:		
Land	\$201,196	\$ 201,196
Development costs	7,946	7,498
Building and improvements	2,147,050	2,067,636
	2,356,192	2,276,330
Less: accumulated depreciation	(509,736)	(465,584)
Commercial real estate properties, net	1,846,456	1,810,746
Cash and cash equivalents	35,454	46,685
Restricted cash	59,141	65,880
Tenant and other receivables, net of allowance of \$4,701 and \$2,792 in 2016 and 2015, respectively	14,521	18,782
Deferred rent receivables, net of allowance of \$481 and \$245 in 2016 and 2015, respectively	133,955	122,048
Prepaid expenses and other assets	47,895	50,460
Deferred costs, net	292,777	310,679
Acquired below-market ground leases, net	379,976	383,891
Goodwill	491,479	491,479
Total assets	\$3,301,654	\$ 3,300,650
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	\$767,717	\$ 747,661
Senior unsecured notes, net	588,703	587,018
Unsecured term loan facility, net	262,735	262,545
Unsecured revolving credit facility, net	40,000	35,192
Accounts payable and accrued expenses	143,296	111,099
Acquired below-market leases, net	91,850	104,171
Deferred revenue and other liabilities	23,019	31,388
Tenants' security deposits	47,565	48,890
Total liabilities	1,964,885	1,927,964
Commitments and contingencies		
Equity:		
Empire State Realty Trust, Inc. stockholders' equity:		
Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized, none issued or outstanding	—	—
Class A common stock, \$0.01 par value per share, 400,000,000 shares authorized, 122,781,134 shares issued and outstanding and 118,903,312 shares issued and outstanding in 2016 and 2015, respectively	1,227	1,189
Class B common stock, \$0.01 par value per share, 50,000,000 shares authorized, 1,100,089 and 1,120,067 shares issued and outstanding in 2016 and 2015, respectively	11	11
Additional paid-in capital	484,578	469,152
Accumulated other comprehensive loss	(14,744)	(883)

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Retained earnings	50,524	55,260
Total Empire State Realty Trust, Inc.'s stockholders' equity	521,596	524,729
Non-controlling interests in operating partnership	807,169	839,953
Private perpetual preferred units, \$16.62 per unit liquidation preference, 1,560,360 issued and outstanding in 2016 and 2015	8,004	8,004
Total equity	1,336,769	1,372,686
Total liabilities and equity	\$3,301,654	\$ 3,300,650

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.
Condensed Consolidated Statements of Income
(unaudited)
(amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental revenue	\$ 112,613	\$ 112,866	\$ 227,521	\$ 222,924
Tenant expense reimbursement	19,054	18,582	37,174	36,782
Observatory revenue	31,838	30,600	53,019	48,823
Construction revenue	—	374	—	1,981
Third-party management and other fees	423	594	968	1,040
Other revenue and fees	1,887	1,757	4,207	5,105
Total revenues	165,815	164,773	322,889	316,655
Operating expenses:				
Property operating expenses	37,386	37,262	76,490	79,289
Ground rent expenses	2,330	2,332	4,663	4,663
General and administrative expenses	12,907	9,113	23,825	18,213
Observatory expenses	6,895	8,093	14,650	15,495
Construction expenses	—	353	—	3,222
Real estate taxes	23,557	22,952	47,082	45,930
Acquisition expenses	—	—	98	—
Depreciation and amortization	38,548	39,629	77,775	81,047
Total operating expenses	121,623	119,734	244,583	247,859
Total operating income	44,192	45,039	78,306	68,796
Interest expense	(17,420)	(17,571)	(35,371)	(33,618)
Income before income taxes	26,772	27,468	42,935	35,178
Income tax expense	(2,132)	(883)	(1,590)	(705)
Net income	24,640	26,585	41,345	34,473
Private perpetual preferred unit distributions	(234)	(234)	(468)	(468)
Net income attributable to non-controlling interests	(13,317)	(15,231)	(22,360)	(19,747)
Net income attributable to common stockholders	\$ 11,089	\$ 11,120	\$ 18,517	\$ 14,258
Total weighted average shares:				
Basic	122,502	112,852	121,640	111,136
Diluted	266,167	265,867	267,121	265,866
Earnings per share attributable to common stockholders:				
Basic	\$0.09	\$0.10	\$0.15	\$0.13
Diluted	\$0.09	\$0.10	\$0.15	\$0.13
Dividends per share	\$0.105	\$0.085	\$0.19	\$0.17

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$24,640	\$26,585	\$41,345	\$34,473
Other comprehensive loss:				
Change in unrealized loss on valuation of interest rate swap agreements	(10,864)	—	(30,235)	—
Other comprehensive loss	(10,864)	—	(30,235)	—
Comprehensive income	13,776	26,585	11,110	34,473
Net income attributable to non-controlling interests and private perpetual preferred unitholders	(13,551)	(15,465)	(22,828)	(20,215)
Other comprehensive loss attributable to non-controlling interests	5,900	—	16,540	—
Comprehensive income attributable to common stockholders	\$6,125	\$11,120	\$4,822	\$14,258

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.

Condensed Consolidated Statements of Stockholders' Equity

For The Six Months Ended June 30, 2016

(unaudited)

(amounts in thousands)

	Number of Class A Common Shares	Class A Common Stock	Number of Class B Common Stock Shares	Class B Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Non-control Interests	Private Perpetual Preferred Units	Total Equity
Balance at December 31, 2015	118,903	\$1,189	1,120	\$11	\$469,152	\$(883)	\$55,260	\$524,729	\$839,953	\$8,004	\$1,372,686
Conversion of operating partnership units and Class B shares to Class A shares	3,858	38	(20)	—	15,201	(166)	—	15,073	(15,073)	—	—
Equity compensation: LTIP units	—	—	—	—	—	—	—	—	4,421	—	4,421
Restricted stock, net of forfeitures	20	—	—	—	225	—	—	225	—	—	225
Dividends and distributions	—	—	—	—	—	—	(23,253)	(23,253)	(27,952)	(468)	(51,673)
Net income	—	—	—	—	—	—	18,517	18,517	22,360	468	41,345
Unrealized loss on valuation of interest rate swap agreements	—	—	—	—	—	(13,695)	—	(13,695)	(16,540)	—	(30,235)
Balance at June 30, 2016	122,781	\$1,227	1,100	\$11	\$484,578	\$(14,744)	\$50,524	\$521,596	\$807,169	\$8,004	\$1,336,769

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(amounts in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Operating Activities		
Net income	\$41,345	\$34,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,775	81,047
Amortization of deferred financing costs and debt premiums and discount	293	1,609
Amortization of acquired above- and below-market leases, net	(5,075)	(9,867)
Amortization of acquired below-market ground leases	3,916	3,916
Straight-lining of rental revenue	(11,876)	(9,724)
Equity based compensation	4,646	2,924
Increase (decrease) in cash flows due to changes in operating assets and liabilities:		
Restricted cash	337	(2,840)
Tenant and other receivables	4,261	7,314
Deferred leasing costs	(10,528)	(21,845)
Prepaid expenses and other assets	2,566	647
Accounts payable and accrued expenses	(7,239)	(1,408)
Deferred revenue and other liabilities	(8,369)	(9,163)
Net cash provided by operating activities	92,052	77,083
Cash Flows From Investing Activities		
Decrease (increase) in restricted cash for investing activities	5,077	(706)
Development costs	(450)	(346)
Additions to building and improvements	(78,656)	(62,066)
Net cash used in investing activities	(74,029)	(63,118)

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(unaudited)
(amounts in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Financing Activities		
Proceeds from mortgage notes payable	50,000	—
Repayment of mortgage notes payable	(26,215)	(140,974)
Proceeds from unsecured revolving credit facility	40,000	615,000
Repayments of unsecured revolving credit facility	(40,000)	(330,000)
Repayments of term loan and credit facility	—	(470,000)
Proceeds from senior unsecured notes	—	350,000
Deferred financing costs	(1,366)	(3,554)
Private perpetual preferred unit distributions	(468)	(468)
Dividends paid to common stockholders	(23,253)	(19,068)
Distributions paid to non-controlling interests in the operating partnership	(27,952)	(26,412)
Net cash used in financing activities	(29,254)	(25,476)
Net decrease in cash and cash equivalents	(11,231)	(11,511)
Cash and cash equivalents—beginning of period	46,685	45,732
Cash and cash equivalents—end of period	\$35,454	\$34,221
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$34,034	\$30,946
Cash paid for income taxes	\$2,058	\$2,709
Non-cash investing and financing activities:		
Building and improvements included in accounts payable and accrued expenses	\$59,504	\$43,722
Derivative instruments at fair values included in accounts payable and accrued expenses	30,235	—
Conversion of operating partnership units and Class B shares to Class A shares	15,201	28,656

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business and Organization

As used in these condensed consolidated financial statements, unless the context otherwise requires, “we,” “us,” “our,” the “company,” and “ESRT” mean Empire State Realty Trust, Inc. and its consolidated subsidiaries.

We are a self-administered and self-managed real estate investment trust, or REIT, that owns, manages, operates, acquires, redevelops and repositions office and retail properties in Manhattan and the greater New York metropolitan area.

As of June 30, 2016, our total portfolio contained 10.1 million rentable square feet of office and retail space. We owned 14 office properties (including three long-term ground leasehold interests) encompassing approximately 9.4 million rentable square feet of office space. Nine of these properties are located in the midtown Manhattan market and aggregate approximately 7.5 million rentable square feet of office space, including the Empire State Building. Our Manhattan office properties also contain an aggregate of 504,294 rentable square feet of retail space on their ground floor and/or contiguous levels. Our remaining five office properties are located in Fairfield County, Connecticut and Westchester County, New York, encompassing in the aggregate approximately 1.9 million rentable square feet. The majority of square footage for these five properties is located in densely populated metropolitan communities with immediate access to mass transportation. Additionally, we have entitled land at the Stamford Transportation Center in Stamford, Connecticut, adjacent to one of our office properties, that will support the development of an approximately 380,000 rentable square foot office building and garage, which we refer to herein as Metro Tower. As of June 30, 2016, our portfolio included four standalone retail properties located in Manhattan and two standalone retail properties located in the city center of Westport, Connecticut, encompassing 204,452 rentable square feet in the aggregate. We were organized as a Maryland corporation on July 29, 2011 and commenced operations upon completion of our initial public offering and related formation transactions on October 7, 2013. Our operating partnership, Empire State Realty OP, L.P., holds substantially all of our assets and conducts substantially all of our business. As of June 30, 2016, we owned approximately 46.0% of the aggregate operating partnership units in our operating partnership. Our company, as the sole general partner in our operating partnership, has responsibility and discretion in the management and control in our operating partnership, and the limited partners in our operating partnership, in such capacity, have no authority to transact business for, or participate in the management activities of, our operating partnership. Accordingly, our operating partnership has been consolidated by us. We elected to be taxed as a REIT and operate in a manner that we believe allows us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2013.

2. Summary of Significant Accounting Policies

There have been no material changes to the summary of significant accounting policies included in the section entitled “Summary of Significant Accounting Policies” in our December 31, 2015 Annual Report on Form 10-K.

Basis of Quarterly Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), for interim financial information, and with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, all adjustments and eliminations (including intercompany balances and transactions), consisting of normal recurring adjustments, considered necessary for the fair presentation of the financial statements have been included.

For purposes of comparison, certain items shown in the 2015 unaudited condensed consolidated financial statements have been reclassified to conform to the presentation used for 2016. For all periods presented, certain Empire State

Building public relations costs previously included in property operating expenses are included in observatory expenses. For the three and six months ended June 30, 2016, these costs were \$0.3 million and \$1.3 million, respectively, and for the three and six months ended June 30, 2015, these costs were \$0.7 million and \$1.1 million, respectively.

The results of operations for the periods presented are not necessarily indicative of the results that may be expected for the corresponding full years. These financial statements should be read in conjunction with the financial statements and accompanying notes included in the financial statements for the year ended December 31, 2015 contained in our Annual Report on Form 10-K. We do not consider our business to be subject to material seasonal fluctuations, except that our observatory business is subject to tourism seasonality. During the past ten years, approximately 16.0% to 18.0% of our annual observatory revenue was realized in the first quarter, 26.0% to 28.0% was realized in the second quarter, 31.0% to 33.0% was realized in the third quarter and 23.0% to 25.0% was realized in the fourth quarter. We consolidate entities in which we have a controlling financial interest. In determining whether we have a controlling financial interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity ("VIE") and we are the primary beneficiary. The primary beneficiary of a VIE is the entity that has (i) the power to direct the activities that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. The primary beneficiary is required to consolidate the VIE.

On January 1, 2016, we adopted accounting guidance under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, Consolidation, modifying the analysis we must perform to determine whether we should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, our operating partnership, Empire State Realty OP, L.P., is a variable interest entity of our company, Empire State Realty Trust, Inc. As the operating partnership is already consolidated in the balance sheets of Empire State Realty Trust, Inc., the identification of this entity as a variable interest entity had no impact on our consolidated financial statements. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption. We will assess the accounting treatment for each investment we may have in the future. This assessment will include a review of each entity's organizational agreement to determine which party has what rights and whether those rights are protective or participating. For all VIEs, we will review such agreements in order to determine which party has the power to direct the activities that most significantly impact the entity's economic performance and benefit. In situations where we or our partner could approve, among other things, the annual budget, or leases that cover more than a nominal amount of space relative to the total rentable space at each property, we would not consolidate the investment as we consider these to be substantive participation rights that result in shared power of the activities that would most significantly impact the performance and benefit of such joint venture investment.

A non-controlling interest in a consolidated subsidiary is defined as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are required to be presented as a separate component of equity in the condensed consolidated balance sheets and in the condensed consolidated statements of income by requiring earnings and other comprehensive income to be attributed to controlling and non-controlling interests.

Accounting Estimates

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to use estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant items subject to such estimates and assumptions include allocation of the purchase price of acquired real estate properties among tangible and intangible assets, determination of the useful life of real estate properties and other long-lived assets, valuation and impairment analysis of commercial real estate properties and other long-lived assets, estimate of percentage of completion on construction contracts, valuation of the allowance for doubtful accounts, and valuation of derivative instruments, senior unsecured notes, mortgage notes payable, unsecured term loan and revolving credit facilities, and equity based compensation. These estimates are prepared using management's best judgment, after considering past, current, and expected events and economic conditions. Actual results could differ from those estimates.

Derivative Instruments

We are exposed to the effect of interest rate changes and manage these risks by following policies and procedures including the use of derivatives. To manage exposure to interest rates, derivatives are used primarily to fix the rate on debt

based on floating-rate indices. We record all derivatives on the balance sheet at fair value. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. We measure the credit risk of our derivative instruments that are subject to master netting agreements on a net basis by counterparty portfolio. For derivatives that qualify as cash flow hedges, we report the effective portion of changes in the fair value of a derivative designated as a hedge as part of other comprehensive income (loss) and subsequently reclassify the effective portion into income in the period that the hedged item affects income. We account for the ineffective portion of changes in the fair value of a derivative directly in income. Reported net income and equity may increase or decrease prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

Recently Issued or Adopted Accounting Standards

During June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which contains amendments that replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU No. 2016-13 will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Earlier adoption as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, is permitted. The amendments must be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified retrospective approach). We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

During February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. ASU No. 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. ASU No. 2016-02 will be effective for fiscal years beginning after December 15, 2018 and subsequent interim periods. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

During January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Liabilities, which makes targeted improvements to existing generally accepted accounting principles by requiring, among others, i) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, and ii) public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, iii) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. ASU No. 2016-01 will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

During April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which amends the requirements for the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for fiscal years, beginning after December 15, 2015 and interim periods within those fiscal years. ASU No. 2015-03 was amended in August 2015 by ASU No. 2015-15, Interest - Imputation of Interest (Subtopic

835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, to add to the Codification SEC staff guidance that the SEC staff will not object to an entity presenting the costs of securing line-of-credit arrangements as an asset, regardless of whether there are any outstanding borrowings. The SEC Observer to the Emerging Issues Task Force announced the staff guidance in response to questions that arose after the FASB issued ASU No. 2015-03. We adopted ASU 2015-03 as of December 31, 2015. During February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered VIEs, amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. ASU No. 2015-02 is effective for fiscal years, beginning after December 15,

2015 and interim periods within those fiscal years. The implementation of this update did not cause any material changes to our consolidated financial statements.

During May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which will replace all current GAAP guidance related to revenue recognition and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of 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. This guidance will be effective beginning in 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. ASU No. 2014-09 was amended in August 2015 by ASU No. 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU No. 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

3. Deferred Costs, Acquired Lease Intangibles and Goodwill

Deferred costs, net consisted of the following as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Leasing costs	\$ 131,194	\$ 121,864
Acquired in-place lease value and deferred leasing costs	261,588	285,902
Acquired above-market leases	76,965	81,680
	469,747	489,446
Less: accumulated amortization	(180,998)	(178,767)
Total deferred costs, net, excluding net deferred financing costs	\$ 288,749	\$ 310,679

At June 30, 2016, \$4.0 million of net deferred financing costs associated with the unsecured revolving credit facility was included in deferred costs, net on the condensed consolidated balance sheet.

Amortization expense related to deferred leasing costs and acquired deferred leasing costs was \$5.7 million and \$5.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$11.5 million and \$11.4 million for the six months ended June 30, 2016 and 2015, respectively. Amortization expense related to acquired lease intangibles was \$7.0 million and \$9.3 million for the three months ended June 30, 2016 and 2015, respectively, and \$14.7 million and \$19.6 million for the six months ended June 30, 2016 and 2015, respectively.

Amortizing acquired intangible assets and liabilities consisted of the following as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Acquired below-market ground leases	\$ 396,916	\$ 396,916
Less: accumulated amortization	(16,940)	(13,025)
Acquired below-market ground leases, net	\$ 379,976	\$ 383,891

	June 30, 2016	December 31, 2015
Acquired below-market leases	\$ (136,587)	\$ (163,290)
Less: accumulated amortization	44,737	59,119
Acquired below-market leases, net	\$ (91,850)	\$ (104,171)

Rental revenue related to the amortization of below-market leases, net of above-market leases, was \$0.9 million and \$4.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$5.1 million and \$9.9 million for the six months ended June 30, 2016 and 2015, respectively.

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As of June 30, 2016, we had goodwill of \$491.5 million. Goodwill was allocated \$227.5 million to the observatory reportable segment and \$264.0 million to the real estate segment.

4. Debt

Debt consisted of the following as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	As of June 30, 2016				
	Principal Balance as of June 30, 2016	Principal Balance as of December 31, 2015	Stated Rate	Effective Rate ⁽¹⁾	Maturity Date ⁽²⁾
Mortgage debt collateralized by:					
Fixed rate mortgage debt					
10 Bank Street	\$ 31,883	\$ 32,214	5.72 %	6.22 %	6/1/2017
1542 Third Avenue	18,012	18,222	5.90 %	6.58 %	6/1/2017
First Stamford Place	236,942	238,765	5.65 %	6.15 %	7/5/2017
1010 Third Avenue and 77 West 55th Street	26,787	27,064	5.69 %	6.38 %	7/5/2017
383 Main Avenue	28,966	29,269	5.59 %	6.03 %	7/5/2017
1333 Broadway	68,159	68,646	6.32 %	3.76 %	1/5/2018
1400 Broadway					
(first lien mortgage loan)	68,231	68,732	6.12 %	3.42 %	2/5/2018
(second lien mortgage loan)	9,495	9,600	3.35 %	3.35 %	2/5/2018
112 West 34th Street					
(first lien mortgage loan)	75,842	76,406	6.01 %	3.35 %	4/5/2018
(second lien mortgage loan)	9,576	9,640	6.56 %	3.66 %	4/5/2018
1350 Broadway	38,060	38,348	5.87 %	3.74 %	4/5/2018
Metro Center	96,976	97,950	3.59 %	3.65 %	11/5/2024
10 Union Square ⁽³⁾	50,000	20,289	3.70 %	4.01 %	4/1/2026
Total mortgage debt	758,929	735,145			
Senior unsecured notes - exchangeable	250,000	250,000	2.63 %	3.93 %	8/15/2019
Senior unsecured notes:					
Series A	100,000	100,000	3.93 %	4.00 %	3/27/2025
Series B	125,000	125,000	4.09 %	4.17 %	3/27/2027
Series C	125,000	125,000	4.18 %	4.26 %	3/27/2030
Unsecured revolving credit facility	40,000	40,000	(4)	(4)	1/23/2019
Unsecured term loan facility	265,000	265,000	(5)	(5)	8/24/2022
Total principal	1,663,929	1,640,145			
Unamortized premiums, net of unamortized discount	3,044	5,181			
Deferred financing costs, net	(7,818)	(12,910)			
Total	\$ 1,659,155	\$ 1,632,416			

(1) The effective rate is the yield as of June 30, 2016, including the effects of debt issuance costs and the amortization of the fair value of debt adjustment.

(2) Pre-payment is generally allowed for each loan upon payment of a customary pre-payment penalty.

(3) The mortgage loan collateralized by 10 Union Square was refinanced in March 2016.

(4) At June 30, 2016, the unsecured revolving credit facility bears a floating rate at 30 day LIBOR plus 1.15%. The rate at June 30, 2016 was 1.62%.

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The unsecured term loan facility bears a floating rate at 30 day LIBOR plus 1.60%. The rate at June 30, 2016 was (5)2.07%. Pursuant to a forward interest rate swap agreement, the LIBOR rate is fixed at 2.1485% for the period beginning on August 31, 2017 through maturity.

Principal Payments

Aggregate required principal payments at June 30, 2016 are as follows (amounts in thousands):

12

Year	Amortization	Maturities	Total
2016	\$ 6,089	\$—	\$6,089
2017	9,904	336,009	345,913
2018	2,880	262,210	265,090
2019	2,188	290,000	292,188
2020	2,268	—	2,268
Thereafter	9,706	742,675	752,381
Total	\$ 33,035	\$1,630,894	\$1,663,929

Deferred Financing Costs

Deferred financing costs, net, consisted of the following at June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Financing costs	\$21,505	\$20,882
Less: accumulated amortization	(9,659)	(7,972)
Total deferred financing costs, net	\$11,846	\$12,910

Amortization expense related to deferred financing costs was \$1.1 million and \$1.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$2.4 million and \$3.9 million for the six months ended June 30, 2016 and 2015, respectively, and was included in interest expense. At June 30, 2016, \$4.0 million of net deferred financing costs associated with the unsecured revolving credit facility was included in deferred costs, net on the condensed consolidated balance sheet.

Unsecured Revolving Credit Facility

On January 23, 2015, we entered into an unsecured revolving credit agreement, which is referred to herein as the “unsecured revolving credit facility,” with Bank of America, Merrill Lynch, Goldman Sachs and the other lenders party thereto. Merrill Lynch acted as joint lead arranger; Bank of America acted as administrative agent; and Goldman Sachs acted as syndication agent and joint lead arranger.

Concurrently with entering into the unsecured revolving credit facility, on January 23, 2015, we terminated our secured revolving and term credit facility and wrote off \$1.3 million of deferred financing costs. In connection with the termination of the secured revolving and term credit facility, all of the guarantors thereunder were released from their guaranty obligations, all liens created thereby were terminated, and all collateral pledged thereunder was released.

The unsecured revolving credit facility is comprised of a revolving credit facility in the maximum original principal amount of \$800.0 million as of June 30, 2016. The unsecured revolving credit facility contains an accordion feature that would allow us to increase the maximum aggregate principal amount to \$1.25 billion under specified circumstances. On July 6, 2016, we partially exercised the accordion feature and increased our committed borrowing capacity under the unsecured revolving credit facility from \$800 million to \$1.1 billion.

Amounts outstanding under the unsecured revolving credit facility bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread that ranges from 0.875% to 1.600% depending upon our leverage ratio and credit rating; or (y) a base rate, plus a spread that ranges from 0.000% to 0.600% depending upon our leverage ratio and credit rating. In addition, the unsecured revolving credit facility permits us to borrow at competitive bid rates determined in accordance with procedures described in the unsecured revolving credit facility agreement. We paid certain customary fees and expense reimbursements to enter into the unsecured revolving credit facility.

The initial maturity of the unsecured revolving credit facility is January 2019. We have the option to extend the initial term for up to two additional 6-month periods, subject to certain conditions, including the payment of an extension fee equal to 0.075% of the then outstanding commitments under the unsecured revolving credit facility.

The unsecured revolving credit facility includes the following financial covenants: (i) maximum leverage ratio of total indebtedness to total asset value of the loan parties and their consolidated subsidiaries will not exceed 60%, (ii) consolidated

secured indebtedness will not exceed 40% of total asset value, (iii) tangible net worth will not be less than \$745.4 million plus 75% of net equity proceeds received by us (other than proceeds received within ninety (90) days after the redemption, retirement or repurchase of ownership or equity interests in us up to the amount paid by us in connection with such redemption, retirement or repurchase, where, the net effect is that we shall not have increased our net worth as a result of any such proceeds), (iv) adjusted EBITDA (as defined in the unsecured revolving credit facility) to consolidated fixed charges will not be less than 1.50x, (v) the aggregate net operating income with respect to all unencumbered eligible properties to the portion of interest expense attributable to unsecured indebtedness will not be less than 1.75x, (vi) the ratio of total unsecured indebtedness to unencumbered asset value will not exceed 60%, and (vii) consolidated secured recourse indebtedness will not exceed 10% of total asset value (provided, however, this covenant shall not apply at any time after we achieve debt ratings from at least two of Moody's, S&P and Fitch, and such debt ratings are Baa3 or better (in the case of a rating by Moody's) or BBB- or better (in the case of a rating by S&P or Fitch)).

The unsecured revolving credit facility contains customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates, and requires certain customary financial reports. The unsecured revolving credit facility contains customary events of default (subject in certain cases to specified cure periods), including but not limited to non-payment, breach of covenants, representations or warranties, cross-defaults, bankruptcy or other insolvency events, judgments, ERISA events, invalidity of loan documents, loss of real estate investment trust qualification, and occurrence of a change of control (as defined in the agreement for the unsecured credit facility).

As of June 30, 2016, we were in compliance with the covenants under the unsecured revolving credit facility.

Senior Unsecured Notes

Exchangeable Senior Notes

During August 2014, we issued \$250.0 million principal amount of 2.625% Exchangeable Senior Notes ("2.625% Exchangeable Senior Notes") due August 15, 2019. These 2.625% Exchangeable Senior Notes will be exchangeable into cash, shares of Class A common stock or a combination of cash and shares of Class A common stock, at our election. We have asserted that our intent and ability to settle the principal amount of the 2.625% Exchangeable Senior Notes in cash. As of June 30, 2016, the exchange rate of the 2.625% Exchangeable Senior Notes was 51.4593 shares per \$1,000 principal amount of notes (equivalent to an initial exchange price of approximately \$19.43 per share of Class A common stock), subject to adjustment, as described in the related indenture governing the 2.625% Exchangeable Senior Notes.

For the three and six months ended June 30, 2016, total interest expense related to the 2.625% Exchangeable Senior Notes was \$2.5 million and \$4.9 million, respectively, consisting of (i) the contractual interest expense of \$1.7 million and \$3.3 million, respectively, (ii) the additional non-cash interest expense of \$0.6 million and \$1.3 million, respectively, relating to the accretion of the debt discount, and (iii) the amortization of deferred financing costs of \$0.2 million and \$0.3 million, respectively. For the three and six months ended June 30, 2015, total interest expense related to the 2.625% Exchangeable Senior Notes was \$2.5 million and \$4.9 million, respectively, consisting of (i) the contractual interest expense of \$1.7 million and \$3.3 million, respectively, (ii) the additional non-cash interest expense of \$0.6 million and \$1.3 million, respectively, relating to the accretion of the debt discount, and (iii) the amortization of deferred financing costs of \$0.2 million and \$0.3 million, respectively.

Series A, Series B, and Series C Senior Notes

During March 2015, we issued and sold an aggregate principal amount of \$350 million senior unsecured notes consisting of \$100 million of 3.93% Series A Senior Notes due 2025, \$125 million of 4.09% Series B Senior Notes

due 2027, and \$125 million of 4.18% Series C Senior Notes due 2030 (together, the “Series A, B and C Senior Notes”). Interest on the Series A, B and C Senior Notes is payable quarterly.

The terms of the Series A, B and C Senior Notes agreement include customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates and require certain customary financial reports. The Series A, B and C Senior Notes also require compliance with financial ratios consistent with our unsecured revolving credit facility including a maximum leverage ratio, a maximum secured leverage ratio, a minimum amount of tangible net worth, a minimum fixed charge coverage ratio, a minimum unencumbered interest coverage ratio, a maximum unsecured leverage ratio and a maximum amount of secured recourse indebtedness.

The proceeds from the issuance of the Series A, B and C Senior Notes were used to repay outstanding mortgage debt, reduce amounts outstanding under the unsecured revolving credit facility and for other general corporate purposes. As of June 30, 2016, we were in compliance with the covenants under the Series A, B and C Senior Notes.

Senior Unsecured Term Loan Facility

During August 2015, we entered into a \$265.0 million senior unsecured term loan facility, which is referred to herein as the “term loan facility” with Wells Fargo Bank, National Association, as administrative agent, Capital One, National Association, as syndication agent, PNC Bank, National Association, as documentation agent, and the lenders from time to time party thereto.

Amounts outstanding under the term loan facility bear interest at a floating rate equal to, at our election, (x) a LIBOR rate, plus a spread that ranges from 1.400% to 2.350% depending upon our leverage ratio and credit rating; or (y) a base rate, plus a spread that ranges from 0.400% to 1.350% depending upon our leverage ratio and credit rating. Pursuant to a forward interest rate swap agreement, we effectively fixed LIBOR at 2.1485% for \$265.0 million of the term loan facility for the period beginning on August 31, 2017 through maturity. In connection with the closing of the term loan facility, we paid certain customary fees and expense reimbursements.

The term loan facility matures on August 24, 2022. We may prepay loans under the term loan facility at any time, subject to certain notice requirements. To the extent that we prepay all or any portion of a loan on or prior to August 24, 2017, we will pay a prepayment premium equal to (i) if such prepayment occurs on or prior to August 24, 2016, 2.00% of the principal amount so prepaid, and (ii) if such prepayment occurs after August 24, 2016 but on or prior to August 24, 2017, 1.00% of the principal amount so prepaid.

The terms of the term loan facility agreement include customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates and require certain customary financial reports. The term loan facility requires compliance with financial ratios including a maximum leverage ratio, a maximum secured leverage ratio, a minimum amount of tangible net worth, a minimum fixed charge coverage ratio, a minimum unencumbered interest coverage ratio, a maximum unsecured leverage ratio and a maximum amount of secured recourse indebtedness. It also contains customary events of default (subject in certain cases to specified cure periods). These terms in the term loan facility agreement are consistent with the terms in our unsecured revolving credit facility agreement.

The proceeds from the term loan facility were used to repay borrowings made under the unsecured revolving credit facility. As of June 30, 2016, we were in compliance with the covenants under the term loan facility.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Accounts payable and accrued expenses	\$85,161	\$ 83,352
Payable to the estate of Leona M. Helmsley ⁽¹⁾	18,367	18,367
Interest rate swap agreements liability	32,157	1,922
Accrued interest payable	5,996	5,555
Due to affiliated companies	1,615	1,903
Accounts payable and accrued expenses	\$143,296	\$ 111,099

(1) Reflects a payable to the estate of Leona M. Helmsley in the amount of New York City transfer taxes which would have been payable in absence of the estate's exemption from such tax.

6. Financial Instruments and Fair Values
Derivative Financial Instruments

15

We use derivative financial instruments primarily to manage interest rate risk and such derivatives are not considered speculative. These derivative instruments are typically in the form of interest rate swap and forward agreements and the primary objective is to minimize interest rate risks associated with investing and financing activities. The counterparties of these arrangements are major financial institutions with which we may also have other financial relationships. We are exposed to credit risk in the event of non-performance by these counterparties; however, we currently do not anticipate that any of the counterparties will fail to meet their obligations.

We have agreements with our derivative counterparties that contain a provision where if we either default or are capable of being declared in default on any of our indebtedness, then we could also be declared in default on our derivative obligations. As of June 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$33.1 million. If we had breached any of these provisions at June 30, 2016, we could have been required to settle our obligations under the agreements at their termination value of \$33.1 million.

As of June 30, 2016, we had three interest rate LIBOR swaps with an aggregate notional value of \$465.0 million. The notional value does not represent exposure to credit, interest rate or market risks. The fair value of these derivative instruments, which is included in accounts payable and accrued expenses on the condensed consolidated balance sheet, amounted to \$32.2 million at June 30, 2016. These interest rate swaps have been designated as cash flow hedges and hedge the future cash outflows on our mortgage debt and also on our term loan facility that is subject to a floating interest rate. As of June 30, 2016, these cash flow hedges are deemed effective and an unrealized loss of \$10.9 million and \$30.2 million is reflected in the condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2016, respectively. Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the debt. We estimate that no amount of the current balance held in accumulated other comprehensive income (loss) will be reclassified into interest expense within the next 12 months as each swap agreement is a forward hedge relating to future interest expense.

The table below summarizes the terms of agreements and the fair values of our derivative financial instruments as of June 30, 2016 and December 31, 2015 (dollar amounts in thousands):

As of June 30, 2016						June 30, 2016	December 31, 2015
Derivative	Notional Amount	Receive Rate	Pay Rate	Effective Date	Expiration Date	Liability	Liability
Interest rate swap	\$265,000	1 Month LIBOR	2.1485%	August 31, 2017	August 24, 2022	\$\$(13,478)	\$\$(1,620)
Interest rate swap	100,000	3 Month LIBOR	2.5050%	July 5, 2017	July 5, 2027	—(9,339)	—(148)
Interest rate swap	100,000	3 Month LIBOR	2.5050%	July 5, 2017	July 5, 2027	—(9,340)	—(154)
						\$\$(32,157)	\$\$(1,922)

The table below shows the effect of our derivative financial instruments designated as cash flow hedges for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	
Effects of Cash Flow Hedges					
Amount of gain (loss) recognized in other comprehensive income (loss) - effective portion	\$(10,864)	\$	—\$(30,235)	\$	—
Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into interest expense - effective portion	—	—	—	—	—
Amount of gain (loss) recognized in other income/expense - ineffective portion	—	—	—	—	—

Fair Valuation

The estimated fair values at June 30, 2016 and December 31, 2015 were determined by management, using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value of derivative instruments, which is classified as Level 2, and measured on a recurring basis, 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 derivatives, including the period to maturity, 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.

The fair value of borrowings, which is classified as Level 3, is estimated by discounting the contractual cash flows of each debt to their present value using adjusted market interest rates, which is provided by a third-party specialist.

The following tables summarize the carrying and estimated fair values of our financial instruments as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016				
	Estimated Fair Value				
	Carrying Value	Total	Level 1	Level 2	Level 3
Interest rate swaps included in accounts payable and accrued expenses	\$32,157	\$32,157	\$ —	—\$32,157	\$ —
Mortgage notes payable	767,717	778,349	—	—	778,349
Senior unsecured notes - Exchangeable	239,841	252,794	—	—	252,794
Senior unsecured notes - Series A, B, and C	348,862	368,165	—	—	368,165
Unsecured term loan facility	262,735	265,000	—	—	265,000
Unsecured revolving credit facility	40,000	40,000	—	—	40,000

	December 31, 2015				
	Estimated Fair Value				
	Carrying Value	Total	Level 1	Level 2	Level 3
Interest rate swaps included in accounts payable and accrued expenses	\$1,922	\$1,922	\$ —	—\$1,922	\$ —
Mortgage notes payable	747,661	752,350	—	—	752,350
Senior unsecured notes - Exchangeable	238,208	251,391	—	—	251,391
Senior unsecured notes - Series A, B, and C	348,810	344,501	—	—	344,501
Unsecured term loan facility	262,545	265,000	—	—	265,000
Unsecured revolving credit facility	35,192	40,000	—	—	40,000

Disclosure about fair value of financial instruments is based on pertinent information available to us as of June 30, 2016 and December 31, 2015. Although we are not aware of any factors that would significantly affect the reasonableness of these fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

7. Rental Income

We lease various office spaces to tenants over terms ranging from one to 16 years. Certain leases have renewal options for additional terms. The leases provide for base monthly rentals and reimbursements for real estate taxes, escalations linked to the consumer price index or common area maintenance known as operating expense escalation. Operating expense reimbursements are reflected in our condensed consolidated statements of income as tenant expense reimbursement.

8. Commitments and Contingencies
Legal Proceedings

17

Except as described below, as of June 30, 2016, we were not involved in any material litigation, nor, to our knowledge, was any material litigation threatened against us or our properties, other than routine litigation arising in the ordinary course of business such as disputes with tenants. We believe that the costs and related liabilities, if any, which may result from such actions will not materially affect our condensed consolidated financial position, operating results or liquidity.

In March 2012, five putative class actions, or the "Original Class Actions," were filed in New York State Supreme Court, New York County by investors in certain of the existing entities (constituting the predecessor and the non-controlled entities) (the "Existing Entities") on March 1, 2012, March 7, 2012, March 12, 2012, March 14, 2012 and March 19, 2012. The plaintiffs asserted claims against our predecessor's management companies, Anthony E. Malkin, Peter L. Malkin, the estate of Leona M. Helmsley, our operating partnership and us for breach of fiduciary duty, unjust enrichment and/or aiding and abetting breach of fiduciary duty. They alleged, among other things, that the terms of the consolidation and the process by which it was structured (including the valuation that was employed) are unfair to the investors in the Existing Entities, the consolidation provides excessive benefits to Malkin Holdings LLC (now our subsidiary) and its affiliates and the then-draft prospectus/consent solicitation with respect to the consolidation filed with the SEC failed to make adequate disclosure to permit a fully-informed decision about the consolidation. The complaints sought money damages and injunctive relief preventing the consolidation. The Original Class Actions were consolidated and co-lead plaintiffs' counsel were appointed by the New York State Supreme Court by order dated June 26, 2012. Further, an underlying premise of the Original Class Actions, as noted in discussions among plaintiffs' counsel and defendants' counsel, was that the consolidation had been structured in such a manner that would cause investors in Empire State Building Associates L.L.C., 60 East 42nd St. Associates L.L.C. and 250 West 57th St. Associates L.L.C. (the "subject LLCs") immediately to incur substantial tax liabilities.

The parties entered into a Stipulation of Settlement dated September 28, 2012, resolving the Original Class Actions. The Stipulation of Settlement recites that the consolidation was approved by overwhelming consent of the investors in the Existing Entities. The Stipulation of Settlement states that counsel for the plaintiff class satisfied themselves that they have received adequate access to relevant information, including the independent valuer's valuation process and methodology, that the disclosures in the Registration Statement on Form S-4, as amended, are appropriate, that the consolidation presents potential benefits, including the opportunity for liquidity and capital appreciation, that merit the investors' serious consideration and that each of the named class representatives intends to support the consolidation as modified. The Stipulation of Settlement further states that counsel for the plaintiff class are satisfied that the claims regarding tax implications, enhanced disclosures, appraisals and exchange values of the properties that would be consolidated into our company, and the interests of the investors in the Existing Entities, have been addressed adequately, and they have concluded that the settlement pursuant to the Stipulation of Settlement and opportunity to consider the proposed consolidation on the basis of revised consent solicitations are fair, reasonable, adequate and in the best interests of the plaintiff class.

The defendants in the Stipulation of Settlement denied that they committed any violation of law or breached any of their duties and did not admit that they had any liability to the plaintiffs.

The terms of the settlement include, among other things (i) a payment of \$55.0 million, with a minimum of 80% in cash and maximum of 20% in freely-tradable shares of common stock and/or freely-tradable operating partnership units to be distributed, after reimbursement of plaintiffs' counsel's court-approved expenses and payment of plaintiffs' counsel's court-approved attorneys' fees (which are included within the \$55.0 million settlement payment) and, in the case of shares of common stock and/or operating partnership units, after the termination of specified lock-up periods, to investors in the Existing Entities pursuant to a plan of allocation to be prepared by counsel for plaintiffs; (ii) defendants' agreement that (a) the Offering would be on the basis of a firm commitment underwriting; (b) if, during the solicitation period, any of the three subject LLCs' percentage of total exchange value is lower than what was stated in the final prospectus/consent solicitation with respect to the consolidation by 10% or more, such decrease would be promptly disclosed by defendants to investors in the subject LLCs; and (c) unless total gross proceeds of \$600.0 million are raised in the Offering, defendants will not proceed with the consolidation without further approval of the subject LLCs; and (iii) defendants' agreement to make additional disclosures in the prospectus/consent solicitation with respect to the consolidation regarding certain matters (which are included therein). Investors in the Existing

Entities will not be required to bear any portion of the settlement payment. The payment in settlement of the Original Class Actions will be made by the estate of Leona M. Helmsley and affiliates of Malkin Holdings LLC (provided that none of Malkin Holdings LLC's affiliates that would become our direct or indirect subsidiary in the consolidation will have any liability for such payment) and certain investors in the Existing Entities who agree to contribute. We will not bear any of the settlement payment.

The settlement further provides for the certification of a class of investors in the Existing Entities, other than defendants and other related persons and entities, and a release of any claims of the members of the class against the defendants and related persons and entities, as well as underwriters and other advisors. The release in the settlement excludes certain

claims, including but not limited to, claims arising from or related to any supplement to the Registration Statement on Form S-4 that is declared effective to which the plaintiffs' counsel objects in writing, which objection will not be unreasonably made or delayed, so long as plaintiffs' counsel has had adequate opportunity to review such supplement. There was no such supplement that plaintiff's counsel objected to in writing. The settlement was subject to court approval. It was not effective until such court approval is final, including the resolution of any appeal. Defendants continue to deny any wrongdoing or liability in connection with the allegations in the Original Class Actions.

On January 18, 2013, the parties jointly moved for preliminary approval of the settlement, for permission to send notice of the settlement to the class, and for the scheduling of a final settlement hearing. On January 28, 2013, six of the investors in Empire State Building Associates L.L.C. filed an objection to preliminary approval, and cross-moved to intervene in the Original Class Actions and for permission to file a separate complaint on behalf of the investors in Empire State Building Associates L.L.C. On February 21, 2013, the court denied the cross motion of such objecting investors, and the court denied permission for such objecting investors to file a separate complaint as part of the Original Class Actions, but permitted them to file a brief solely to support their allegation that the buyout would deprive non-consenting investors in Empire State Building Associates L.L.C. of "fair value" in violation of the New York Limited Liability Company Law. The court rejected the objecting investors' assertion that preliminary approval be denied and granted preliminary approval of the settlement.

Pursuant to a decision issued on April 30, 2013, the court rejected the allegation regarding the New York Limited Liability Company Law and ruled in Malkin Holdings LLC's favor, holding that such buyout provisions are legally binding and enforceable and that investors do not have the rights they claimed under the New York Limited Liability Company Law.

On May 2, 2013, the court held a hearing regarding final approval of the Original Class Actions settlement, at the conclusion of which the court stated that it intended to approve the settlement. On May 17, 2013, the court issued its Opinion and Order. The court rejected the objections by all objectors and upheld the settlement in its entirety. Of the approximately 4,500 class members who are investors in all of the Existing Entities included in the consolidation, 12 opted out of the settlement. Those who opted out will not receive any share of the settlement proceeds, but can pursue separate claims for monetary damages.

Also on May 17, 2013, the court issued its Opinion and Order on attorneys' fees. Class counsel applied for an award of \$15.0 million in fees and \$295,895 in expenses, which the court reduced to \$11.59 million in fees and \$265,282 in expenses (which are included within the \$55.0 million settlement payment).

The investors who challenged the buyout provision filed a notice of appeal of the court's April 30, 2013 decision and moved before the appellate court for a stay of all proceedings relating to the settlement, including such a stay as immediate interim relief. On May 1, 2013, their request for immediate interim relief was denied. On May 13, 2013, Malkin Holdings LLC filed its brief in opposition to the motion for the stay. On June 18, 2013, the appellate court denied the motion for the stay. On July 16, 2013, these investors filed their brief and other supporting papers on their appeal of the April 30, 2013 decision, which are required to perfect the appeal. On September 4, 2013, Malkin Holdings LLC filed its brief on the appeal, and also moved to dismiss the appeal on the grounds that these investors lack standing to pursue it. Malkin Holdings LLC contended that these investors were not entitled to appraisal under the New York Limited Liability Company Law because, among other reasons (i) they are not members of Empire State Building Associates L.L.C., and only members have such rights; (ii) the transaction in question is not a merger or consolidation as defined by statute, and appraisal only applies in those transactions; and (iii) when Empire State Building Associates L.L.C. was converted into a limited liability company, the parties agreed that no appraisal would apply. Moreover, Malkin Holdings LLC contended that only the 12 investors who opted out of the class action settlement could pursue appraisal, because that settlement contains a broad release of (and there is an associated bar order from the court preventing) any such claims. Malkin Holdings LLC further noted that of the six investors attempting to pursue the appeal, only two had in fact opted out of the class action settlement. On September 13, 2013, these investors filed their reply brief on the appeal, and opposed the motion to dismiss. On September 19, 2013, Malkin Holdings LLC filed its reply brief on the motion to dismiss. On October 3, 2013, the appeals court denied the motion to dismiss without prejudice to address the matter directly on the appeal, effectively referring the issues raised in the motion to the panel that was to hear the appeal itself. The appeals court heard argument on November 21, 2013,

and in a Decision and Order dated February 25, 2014, it affirmed the trial court's ruling.

In addition, on June 20, 2013, these same investors, and one additional investor who also opposed the settlement of the Original Class Action, filed additional notices of appeal from the trial court's rulings in the Original Class Actions. These notices of appeal related to (i) the order entered February 22, 2013 granting preliminary approval of the Original Class Action settlement and setting a hearing for final approval; (ii) the order entered February 26, 2013, refusing to sign a proposed order to show cause for a preliminary injunction regarding the consolidation; (iii) an order entered April 2, 2013, denying the motion to

intervene and to file a separate class action on behalf of Empire State Building Associates L.L.C. investors; (iv) the order entered April 10, 2013, refusing to sign the order to show cause seeking to extend the deadline for class members to opt out of the Original Class Action settlement; (v) the Final Judgment and Order entered May 17, 2013; (vi) the order entered May 17, 2013 approving the Original Class Action settlement; and (vii) the order entered May 17, 2013 awarding class counsel attorneys' fees and costs. On January 6, 2014, Class counsel moved to dismiss these additional appeals on the grounds that they were not timely perfected by filing an appellate brief and record. On February 6, 2014, the appeals court granted the motion unless the appeals were perfected by March 17, 2014. On March 27, 2014, the investors who challenged the buyout provision moved in the appellate court for reargument or in the alternative for leave to appeal the appeals court's ruling to the New York Court of Appeals. Opposition to the motion was filed on April 7, 2014. The appellate court denied the motion on May 22, 2014. The investors moved in the New York Court of Appeals for leave to appeal on June 26, 2014. Opposition to this motion was filed on July 11, 2014 and the court dismissed the motion by order dated September 18, 2014. On October 20, 2014, the investors moved to re-argue that dismissal. That motion was denied on December 17, 2014, and counsel for these investors has represented that the investors do not intend to pursue further appellate review of the court's April 30, 2013 ruling rejecting the challenge to the buyout provision. On March 3, 2015, plaintiffs' counsel filed a motion with the court for its approval of distribution of the net settlement fund. In that motion plaintiffs' counsel also asked for additional fees and expenses to be paid out of the fund. On March 20, 2015, Malkin Holdings LLC filed a response to that motion in which it supported distribution of the fund and took no position on additional fees and expenses. No opposition to the motion was filed and the court granted the motion. Substantially all of the net settlement fund has been distributed to the class, but a small amount remains outstanding.

On March 14, 2014, one of the investors who had filed a notice of appeal from the trial court's rulings in the Original Class Actions noted above perfected an appeal from the court's May 17, 2013 Final Judgment and Order and orders approving the Original Class Action Settlement and awarding class counsel attorneys' fees and costs. By stipulation of all counsel to the appeal dated September 12, 2014, the appeal was dismissed with prejudice. No other appeals were filed by the March 17, 2014 deadline set by the appeals court in its February 6, 2014 order. The Original Class Actions Settlement is final and non-appealable.

In addition, commencing December 24, 2013, four putative class actions, or the "Second Class Actions," were filed in New York State Supreme Court, New York County, against Malkin Holdings LLC, Peter L. Malkin, Anthony E. Malkin and Thomas N. Keltner, Jr. on behalf of former investors in Empire State Building Associates L.L.C. Generally, the Second Class Actions alleged that the defendants breached their fiduciary duties and were unjustly enriched. One of the Second Class Actions named us and our operating partnership as defendants, alleging that they aided and abetted the breaches of fiduciary duty. The Second Class Actions were consolidated on consent, and co-lead class counsel was appointed by order dated February 11, 2014. A Consolidated Amended Complaint was filed February 7, 2014, which did not name us or our operating partnership as defendants. It seeks monetary damages. On March 7, 2014, defendants filed a motion to dismiss the Second Class Actions, which the plaintiffs opposed and was fully submitted to the court on April 28, 2014. The court heard oral arguments on the motion on July 7, 2014, and the motion to dismiss was granted in a ruling entered July 21, 2014. The plaintiffs filed a notice of appeal on August 8, 2014. On January 12, 2015, the plaintiffs filed a motion to supplement the record on appeal to include additional materials from the Original Class Action, which the defendants opposed. The motion was denied on March 5, 2015. The plaintiffs perfected this appeal by filing their brief and the appellate record with the court on March 23, 2015. Oral argument on the appeal was held on October 28, 2015. On November 25, 2015, the appellate court affirmed dismissal of the Second Class Actions. The plaintiffs moved the appellate court for leave to appeal to the New York Court of Appeals. On March 1, 2016, the appellate court denied the motion. On March 31, 2016, the plaintiffs moved for leave to appeal in the New York Court of Appeals, which the Court of Appeals denied on June 9, 2016.

We may incur costs in connection with this litigation. If an appeal were successful and the court were ultimately to rule against the defendants there is a risk that it could have a material adverse effect on us, which could take the form of monetary damages or other equitable relief. At this time, due to the spectrum of remedies which may result from the outcome of the matter and the difficulty in calculating and allocating damages (if any) among the defendants, we cannot reasonably assess the timing or outcome of this litigation and any related indemnification obligations, estimate

the amount of loss, or assess their effect, if any, on our financial statements.

On or about October 14, 2014, the 12 investors (out of approximately 4,500 investors covered by the Original Class Actions) who opted out of the Original Class Actions filed an arbitration with the American Arbitration Association against Peter L. Malkin, Anthony E. Malkin, Thomas N. Keltner, Jr., and Malkin Holdings LLC, as respondents, alleging breach of fiduciary duty and related claims in connection with the consolidation. The statement of claim in that arbitration seeks monetary damages and declaratory relief. The respondents filed an answering statement and counterclaims. On December 18, 2014, these claimants also filed a complaint in the United States District Court for the Southern District of New York alleging

the same claims that they asserted in the arbitration. As alleged in the complaint, the claimants filed this lawsuit to toll the statute of limitations on their claims in the event it is determined that the claims are not subject to arbitration, and they plan to move to stay the lawsuit in favor of the pending arbitration. On February 2, 2015, the claimants filed an amended complaint adding an additional claim and making other non-substantive modifications to the original complaint. On March 12, 2015, the court stayed the action on consent of all parties pending the arbitration. The arbitration hearings commenced May 24, 2016 and proceeded for several days. The hearings are scheduled to resume October 13, 2016.

As with the prior claims challenging the consolidation and related matters, the defendants believe the allegations in the arbitration are entirely without merit, and they intend to defend vigorously.

In connection with the Offering and formation transactions, we entered into indemnification agreements with our directors, executive officers and chairman emeritus, providing for the indemnification by us for certain liabilities and expenses incurred as a result of actions brought, or threatened to be brought, against them. As a result, Anthony E. Malkin, Peter L. Malkin and Thomas N. Keltner, Jr. have defense and indemnity rights from us with respect to the Second Class Actions and the above-referenced arbitration.

Additionally, there is a risk that other third parties will assert claims against us, Malkin Holdings LLC, or any other party entitled to defense and indemnity from us, including, without limitation, claims that Malkin Holdings LLC breached its fiduciary duties to investors in the Existing Entities or that the consolidation violates the relevant operating agreements, and third parties may commence litigation related to such claims. As a result, we may incur costs associated with defending or settling such litigation or paying any judgment if we lose.

Unfunded Capital Expenditures

At June 30, 2016, we estimate that we will incur approximately \$52.8 million of capital expenditures for tenant improvements and leasing commissions on our consolidated properties pursuant to existing lease agreements. We expect to fund these capital expenditures with operating cash flow, additional property level mortgage financings, our unsecured revolving credit facility, other issuances of debt, and cash on hand. Future property acquisitions may require substantial capital investments for refurbishment and leasing costs. We expect that these financing requirements will be met in a similar fashion.

Ground Leases

Aggregate required payments on ground leases at June 30, 2016 are as follows (amounts in thousands):

2016	\$760
2017	1,518
2018	1,518
2019	1,518
2020	1,518
Thereafter	56,730
	\$63,562

Concentration of Credit Risk

Financial instruments that subject us to credit risk consist primarily of cash, restricted cash, tenant and other receivables and deferred rent receivables. At June 30, 2016, we held on deposit at various major financial institutions cash and cash equivalents and restricted cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation.

Asset Retirement Obligations

We are required to accrue costs that we are legally obligated to incur on retirement of our properties which result from acquisition, construction, development and/or normal operation of such properties. Retirement includes sale, abandonment or disposal of a property. Under that standard, a conditional asset retirement obligation represents a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within a company's control and a liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site

assessments and investigations have identified asbestos or asbestos-containing building materials in certain of our properties. As of June 30, 2016, management has no plans to remove or alter these properties in a manner that would trigger federal and other applicable regulations for asbestos removal, and accordingly, the obligations to remove the asbestos or asbestos-containing building materials from these properties have indeterminable settlement dates. As such, we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligation. However ongoing asbestos abatement, maintenance programs and other required documentation are carried out as required and related costs are expensed as incurred.

Other Environmental Matters

Certain of our properties have been inspected for soil contamination due to pollutants, which may have occurred prior to our ownership of these properties or subsequently in connection with its development and/or its use. Required remediation to such properties has been completed, and as of June 30, 2016, our management believes that there are no obligations related to environmental remediation other than maintaining the affected sites in conformity with the relevant authority's mandates and filing the required documents. All such maintenance costs are expensed as incurred. We expect that resolution of the environmental matters relating to the above will not have a material impact on our business, assets, consolidated financial condition, results of operations or liquidity. However, we cannot be certain that we have identified all environmental liabilities at our properties, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that such environmental liabilities arise.

Insurance Coverage

We carry insurance coverage on our properties of types and in amounts with deductibles that we believe are in line with coverage customarily obtained by owners of similar properties.

9. Equity

Shares and Units

An operating partnership unit ("OP Unit") and a share of our common stock have essentially the same economic characteristics as they receive the same per unit profit distributions of our operating partnership. On the one-year anniversary of issuance, an OP Unit may be tendered for redemption for cash; however, we have sole and absolute discretion, and the authorized common stock, to exchange OP Units for shares of common stock on a one-for-one basis instead of cash.

Long-term incentive plan ("LTIP") units are a special class of partnership interests in our operating partnership. Each LTIP unit awarded will be deemed equivalent to an award of one share of stock under the Empire State Realty Trust, Inc. and Empire State Realty OP, L.P. 2013 Equity Incentive Plan ("2013 Plan"), reducing the availability for other equity awards on a one-for-one basis. The vesting period for LTIP units, if any, will be determined at the time of issuance. Under the terms of the LTIP units, our operating partnership will revalue for tax purposes its assets upon the occurrence of certain specified events, and any increase in valuation from the time of grant until such event will be allocated first to the holders of LTIP units to equalize the capital accounts of such holders with the capital accounts of OP unitholders. Subject to any agreed upon exceptions, once vested and having achieved parity with OP unitholders, LTIP units are convertible into OP Units in our operating partnership on a one-for-one basis.

With the exception of performance based LTIP units granted in 2016, all LTIP units issued in connection with annual equity awards, whether vested or not, receive the same per unit distributions as operating partnership units, which equal

per share dividends (both regular and special) on our common stock. Performance based LTIP units granted in 2016 will receive 10% of such distributions currently, unless and until such LTIP units are earned based on performance, at which time they will receive the accrued and unpaid 90% and will commence receiving 100% of such distributions thereafter.

The following is net income attributable to common stockholders and the issuance of our Class A shares in exchange for the conversion of OP Units into common stock (amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income attributable to common stockholders	\$11,089	\$11,120	\$18,517	\$14,258
Increase in additional paid-in capital for the conversion of OP Units into common stock	8,343	9,093	15,201	28,586
	\$19,432	\$20,213	\$33,718	\$42,844

Change from net income attributable to common stockholders and transfers from
noncontrolling interests

As of June 30, 2016, there were 269,488,679 OP Units outstanding, of which 123,881,223, or 46.0%, were owned by us and 145,607,456, or 54.0%, were owned by other limited partners, including certain directors, officers and other members of executive management.

Dividends and Distributions

Total dividends paid to common stockholders were \$13.0 million and \$23.3 million for the three and six months ended June 30, 2016, respectively, and \$9.7 million and \$19.1 million for the three and six months ended June 30, 2015, respectively. Total distributions paid to OP unitholders, excluding inter-company distributions, were \$15.4 million and \$28.0 million for the three and six months ended June 30, 2016, respectively, and \$13.1 million and \$26.4 million for the three and six months ended June 30, 2015, respectively. Total distributions paid to preferred unitholders were \$0.2 million and \$0.5 million for the three and six months ended June 30, 2016, respectively, and \$0.2 million and \$0.5 million for the three and six months ended June 30, 2015, respectively.

Incentive and Share-Based Compensation

The 2013 Plan provides for grants to directors, employees and consultants consisting of stock options, restricted stock, dividend equivalents, stock payments, performance shares, LTIP units, stock appreciation rights and other incentive awards. An aggregate of 12.2 million shares of our common stock is authorized for issuance under awards granted pursuant to the 2013 Plan, and as of June 30, 2016, 8.3 million shares of common stock remain available for future issuance.

In January 2015, we made a grant of LTIP units to an employee under the 2013 Plan. We granted a total of 9,531 LTIP units with a fair market value of \$0.2 million. The award is subject to time-based vesting and all LTIP units vest on April 1, 2020, subject generally to the grantee's continued employment.

In February 2015, we made grants of LTIP units to executive officers under the 2013 Plan. At such time, we granted a total of 168,033 LTIP units that are subject to time-based vesting and 154,266 LTIP units that are subject to performance-based vesting, with fair market values of \$2.9 million for the time-based vesting awards and \$1.3 million for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from January 1, 2015, subject generally to the grantee's continued employment. The first installment vests on the first-year anniversary date of January 1, 2015 and the remainder will vest thereafter in three equal annual installments. The vesting of the LTIP units subject to performance-based vesting is based on the achievement of absolute and relative total stockholder return hurdles over a three-year performance period, commencing on January 1, 2015. Following the completion of the three-year performance period, our compensation committee will determine the number of LTIP units to which the grantee is entitled based on our performance relative to the performance hurdles set forth in the LTIP unit award agreements the grantee entered into in connection with the award grant. These units then vest in two installments, with the first installment vesting on January 1, 2018 and the second installment vesting on January 1, 2019, subject generally to the grantee's continued employment on those dates.

In February 2015, we made grants of LTIP units and restricted stock to certain other employees under the 2013 Plan. At such time, we granted a total of 33,398 LTIP units and 14,315 shares of restricted stock that are subject to time-based vesting and 33,398 LTIP units and 14,315 shares of restricted stock that are subject to performance-based vesting, with fair market values of \$0.8 million for the time-based vesting awards and \$0.4 million for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from January 1, 2015, subject generally to the grantee's continued employment. The first installment vests on the first-year anniversary date of January 1, 2015 and the remainder will vest thereafter in three equal annual installments. The vesting of the awards subject to performance-based vesting is based on the achievement of absolute and relative total stockholder return hurdles over a three-year performance period, commencing on January 1, 2015. Following the completion of the three-year performance period, our compensation committee will determine the number of LTIP units or shares to which the grantee is entitled based on our performance relative to the performance hurdles set forth in the award agreements the grantee entered into in connection with the award grant. These units and shares then vest in two installments, with the first installment vesting on January 1, 2018 and the second installment vesting on January 1, 2019, subject generally to the grantee's continued employment on those dates.

In February 2015, we made a grant of LTIP units to an executive officer under the 2013 Plan. At such time, we granted a total of 13,736 LTIP units that are subject to time-based vesting and 13,736 LTIP units that are subject to performance-based vesting, with fair market values of \$0.2 million for the time-based vesting awards and \$0.1 million

for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from the date of the grant, subject generally to the grantee's continued employment. The first installment vests on the first-year anniversary date of the grant and the remainder will vest thereafter in three equal annual installments. The vesting of the LTIP units subject to performance-based vesting is based on the achievement of absolute and relative total stockholder return hurdles over a three-year performance period, commencing on February 1, 2015. Following the completion of the three-year performance period, our compensation committee will determine the number of LTIP units to which the grantee is entitled based on our performance relative to the performance hurdles set forth in the LTIP unit award agreements the grantee entered into in connection with the

award grant. These units then vest in two installments, with the first installment vesting on February 1, 2018 and the second installment vesting on February 1, 2019, subject generally to the grantee's continued employment on those dates.

In June 2015, we made grants of LTIP units to our non-employee directors under the 2013 Plan. At such time, we granted a total of 35,082 LTIP units that are subject to time-based vesting with fair market values of \$0.6 million. The awards vest ratably over three years from the date of the grant, subject generally to the director's continued service on our Board of Directors.

We made other grants during 2015 with fair market values of less than \$0.1 million in the aggregate.

In February 2016, we made grants of LTIP units to executive officers under the 2013 Plan. At such time, we granted a total of 368,225 LTIP units that are subject to time-based vesting and 1,230,228 LTIP units that are subject to performance-based vesting, with fair market values of \$5.6 million for the time-based vesting awards and \$8.8 million for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from January 1, 2016, subject generally to the grantee's continued employment. The first installment vests on January 1, 2017 and the remainder will vest thereafter in three equal annual installments. The vesting of the LTIP units subject to performance-based vesting is based on the achievement of absolute and relative total stockholder return hurdles over a three-year performance period, commencing on January 1, 2016. Following the completion of the three-year performance period, our compensation committee will determine the number of LTIP units to which the grantee is entitled based on our performance relative to the performance hurdles set forth in the LTIP unit award agreements the grantee entered into in connection with the award grant. These units then vest in two installments, with the first installment vesting on January 1, 2019 and the second installment vesting on January 1, 2020, subject generally to the grantee's continued employment on those dates.

In February 2016, we made a grant of LTIP units to an executive officer under the 2013 Plan. We granted a total of 62,814 LTIP units with a fair market value of \$1.0 million. The award is subject to time-based vesting of 30% after three years, 30% after four years, and 40% after five years, subject to the grantee's continued employment.

In February 2016, we made grants of LTIP units and restricted stock to certain other employees under the 2013 Plan. At such time, we granted a total of 47,168 LTIP units and 44,198 shares of restricted stock that are subject to time-based vesting and 112,925 LTIP units that are subject to performance-based vesting, with fair market values of \$1.4 million for the time-based vesting awards and \$0.8 million for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from January 1, 2016, subject generally to the grantee's continued employment. The first installment vests on January 1, 2017 and the remainder will vest thereafter in three equal annual installments. The vesting of the awards subject to performance-based vesting is based on the achievement of absolute and relative total stockholder return hurdles over a three-year performance period, commencing on January 1, 2016. Following the completion of the three-year performance period, our compensation committee will determine the number of LTIP units to which the grantee is entitled based on our performance relative to the performance hurdles set forth in the award agreements the grantee entered into in connection with the award grant. These units and shares then vest in two installments, with the first installment vesting on January 1, 2019 and the second installment vesting on January 1, 2020, subject generally to the grantee's continued employment on those dates.

In June 2016, we made grants of LTIP units to our non-employee directors under the 2013 Plan. At such time, we granted a total of 43,257 LTIP units that are subject to time-based vesting with fair market values of \$0.8 million. The awards vest ratably over three years from the date of the grant, subject generally to the director's continued service on our Board of Directors.

We made other grants during 2016 with fair market values of \$0.1 million in the aggregate.

Share-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. For the performance-based LTIP units and restricted stock awards, the fair value of the awards was estimated using a Monte Carlo Simulation model. Our stock price, along with the prices of the comparative indexes, is assumed to follow the Geometric Brownian Motion Process. Geometric Brownian Motion is a common assumption when modeling in financial markets, as it allows the modeled quantity (in this case

the stock price) to vary randomly from its current value and take any value greater than zero. The volatilities of the returns on our stock price and the comparative indexes were estimated based on implied volatilities and historical volatilities using a six-year look-back period. The expected growth rate of the stock prices over the performance period is determined with consideration of the risk free rate as of the grant date. For LTIP units and restricted stock grants that are time-vesting, we estimate the stock compensation expense based on the fair value of the stock at the grant date.

Share-based compensation expense has been adjusted by an amount of estimated forfeitures. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on an analysis of historical data, we have calculated a 0% annual forfeiture rate for members of the Board of Directors, a 0% annual forfeiture rate for executive officers, and for all other employees a 5% annual forfeiture rate. We reevaluate this analysis periodically and adjust these estimated forfeiture rates as necessary. To the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised.

LTIP units and restricted stock issued during the six months ended June 30, 2016 were valued at \$18.4 million. The weighted-average per unit or share fair value was \$9.60 for grants issued in 2016. The per unit or share granted in 2016 was estimated on the respective dates of grant using the following assumptions: an expected life of 2.8 years, a dividend rate of 2.10%, a risk-free interest rate of 0.84% and an expected price volatility of 24.0%.

No other stock options, dividend equivalents, or stock appreciation rights were issued or outstanding in 2016.

The following is a summary of restricted stock and LTIP unit activity for the six months ended June 30, 2016:

	Restricted Stock	LTIP Units	Weighted Average Grant Fair Value
Unvested balance at December 31, 2015	97,592	1,415,895	\$ 11.04
Vested	(4,350)	(124,843)	15.89
Granted	47,071	1,868,629	9.58
Forfeited	(278)	—	17.97
Unvested balance at June 30, 2016	140,035	3,159,681	\$ 10.00

The LTIP unit and restricted stock awards will immediately vest upon the later of (i) the date the grantee attains the age of 60 and (ii) the date on which grantee has first completed ten years of continuous service with our company or its affiliates. For award agreements that qualify, we recognize noncash compensation expense on the grant date for the time-based awards and ratably over the vesting period for the performance-based awards, and accordingly, we recognized \$0.1 million and \$0.5 million for the three and six months ended June 30, 2016, respectively, and \$0.5 million for the six months ended June 30, 2015. Unrecognized compensation expense was \$0.6 million at June 30, 2016, which will be recognized over a period of 2.3 years.

For the remainder of the LTIP unit and restricted stock awards, we recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized noncash compensation expense of \$2.5 million and \$4.2 million for the three and six months ended June 30, 2016, respectively, and \$1.2 million and \$2.4 million for the three and six months ended June 30, 2015, respectively. Unrecognized compensation expense was \$23.5 million at June 30, 2016, which will be recognized over a weighted average period of 2.8 years.

Earnings Per Share

Earnings per share for the three and six months ended June 30, 2016 and 2015 is computed as follows (amounts in thousands, except per share amounts):

	Three Months Ended,		Six Months Ended,	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Numerator - Basic:				
Net income	\$24,640	\$26,585	\$41,345	\$34,473
Private perpetual preferred unit distributions	(234)	(234)	(468)	(468)
Net income attributable to non-controlling interests	(13,317)	(15,231)	(22,360)	(19,747)
Earnings allocated to unvested shares	(10)	(7)	(18)	(13)
Net income attributable to common stockholders - basic	\$11,079	\$11,113	\$18,499	\$14,245
Numerator - Diluted:				
Net income	\$24,640	\$26,585	\$41,345	\$34,473
Private perpetual preferred unit distributions	(234)	(234)	(468)	(468)
Earnings allocated to unvested shares and LTIP units	(215)	(161)	(387)	(284)
Net income attributable to common stockholders - diluted	\$24,191	\$26,190	\$40,490	\$33,721
Denominator:				
Weighted average shares outstanding - basic	122,502	112,852	121,640	111,136
Operating partnership units	143,665	153,015	144,511	154,730
Effect of dilutive securities -				
Stock-based compensation plans	—	—	970	—
Weighted average shares outstanding - diluted	266,167	265,867	267,121	265,866
Earnings per share:				
Basic	\$0.09	\$0.10	\$0.15	\$0.13
Diluted	\$0.09	\$0.10	\$0.15	\$0.13

There were 1,069,803 antidilutive shares and LTIP units and no antidilutive shares and LTIP units for the three and six months ended June 30, 2016, respectively, and 744,007 and 628,935 antidilutive shares and LTIP units for three and six months ended June 30, 2015.

10. Related Party Transactions

Supervisory Fee Revenue

We earned supervisory fees from affiliated entities not included in our condensed consolidated financial statements of \$0.4 million and \$0.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.8 million and \$0.9 million for the six months ended June 30, 2016 and 2015, respectively. These fees are included within third-party management and other fees.

Property Management Fee Revenue

We earned property management fees from affiliated entities not included in our condensed consolidated financial statements of \$0.1 million and \$0.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.2 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. These fees are included within third-party management and other fees.

Other

We are reimbursed at allocable cost for 647 square feet of shared office space, equipment, and administrative support, as was done prior to our formation, and we receive rent generally at market rental rate for 3,074 square feet of leased space, from entities affiliated with Anthony E. Malkin at one of our properties aggregating \$0.05 million and \$0.05 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.1 million and \$0.1 million for the six months ended June 30, 2016 and 2015, respectively. In each case the space is expected to be temporary, and such affiliate has the right to cancel such lease without special payment on 90 days' notice.

One of our directors is a general partner in an investment fund, which owns more than a 10% economic and voting interest in one of our tenants with an annualized rent of \$5.7 million as of June 30, 2016.

11. Segment Reporting

We have identified two reportable segments: (1) real estate and (2) observatory. Our real estate segment includes all activities related to the ownership, management, operation, acquisition, redevelopment, repositioning and disposition of our real estate assets. Our observatory segment includes the operation of the 86th and 102nd floor observatories at the Empire State Building. These two lines of businesses are managed separately because each business requires different support infrastructures, provides different services and has dissimilar economic characteristics such as investments needed, stream of revenues and marketing strategies. We account for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. We include our historical construction operation in "Other," and it includes all activities related to providing construction services to tenants and to other entities within and outside our company. As of March 27, 2015, we no longer solicited new business for our construction management business. We completed all projects that were in progress.

The following tables provide components of segment profit for each segment for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

	Three Months Ended June 30, 2016			
	Real Estate	Observatory	Intersegment Elimination	Total
Revenues:				
Rental revenue	\$ 112,613	\$ —	\$ —	\$ 112,613
Intercompany rental revenue	18,488	—	(18,488)	—
Tenant expense reimbursement	19,054	—	—	19,054
Observatory revenue	—	31,838	—	31,838
Third-party management and other fees	423	—	—	423
Other revenue and fees	1,882	5	—	1,887
Total revenues	152,460	31,843	(18,488)	165,815
Operating expenses:				
Property operating expenses	37,386	—	—	37,386
Intercompany rent expense	—	18,488	(18,488)	—
Ground rent expense	2,330	—	—	2,330
General and administrative expenses	12,907	—	—	12,907
Observatory expenses	—	6,895	—	6,895
Real estate taxes	23,557	—	—	23,557
Acquisition expenses	—	—	—	—
Depreciation and amortization	38,451	97	—	38,548
Total operating expenses	114,631	25,480	(18,488)	121,623
Total operating income	37,829	6,363	—	44,192
Interest expense	(17,420)	—	—	(17,420)
Income before income taxes	20,409	6,363	—	26,772
Income tax expense	(281)	(1,851)	—	(2,132)
Net income	\$ 20,128	\$ 4,512	\$ —	\$ 24,640
Segment assets	\$ 3,056,928	\$ 244,726	\$ —	\$ 3,301,654
Expenditures for segment assets	\$ 63,766	\$ 47	\$ —	\$ 63,813

	Three Months Ended June 30, 2015				
	Real Estate	Observatory	Other	Intersegment Elimination	Total
Revenues:					
Rental revenue	\$ 112,866	\$ —	\$ —	\$ —	\$ 112,866
Intercompany rental revenue	18,910	—	—	(18,910)	—
Tenant expense reimbursement	18,582	—	—	—	18,582
Observatory revenue	—	30,600	—	—	30,600
Construction revenue	—	—	1,774	(1,400)	374
Third-party management and other fees	594	—	—	—	594
Other revenue and fees	1,757	—	—	—	1,757
Total revenues	152,709	30,600	1,774	(20,310)	164,773
Operating expenses:					
Property operating expenses	37,262	—	—	—	37,262
Intercompany rent expense	—	18,910	—	(18,910)	—
Ground rent expense	2,332	—	—	—	2,332
General and administrative expenses	9,113	—	—	—	9,113
Observatory expenses	—	8,093	—	—	8,093
Construction expenses	—	—	1,566	(1,213)	353
Real estate taxes	22,952	—	—	—	22,952
Depreciation and amortization	39,542	87	—	—	39,629
Total operating expenses	111,201	27,090	1,566	(20,123)	119,734
Total operating income (loss)	41,508	3,510	208	(187)	45,039
Interest expense	(17,571)	—	—	—	(17,571)
Income (loss) before income taxes	23,937	3,510	208	(187)	27,468
Income tax benefit (expense)	(422)	(528)	67	—	(883)
Net income (loss)	\$ 23,515	\$ 2,982	\$ 275	\$ (187)	\$ 26,585
Segment assets	\$ 3,051,768	\$ 240,374	\$ 1,822	\$ —	\$ 3,293,964
Expenditures for segment assets	\$ 31,796	\$ 24	\$ —	\$ —	\$ 31,820

	Six Months Ended June 30, 2016			
	Real Estate	Observatory	Intersegment Elimination	Total
Revenues:				
Rental revenue	\$ 227,521	\$ —	\$ —	\$ 227,521
Intercompany rental revenue	32,206	—	(32,206)	—
Tenant expense reimbursement	37,174	—	—	37,174
Observatory revenue	—	53,019	—	53,019
Third-party management and other fees	968	—	—	968
Other revenue and fees	4,202	5	—	4,207
Total revenues	302,071	53,024	(32,206)	322,889
Operating expenses:				
Property operating expenses	76,490	—	—	76,490
Intercompany rent expense	—	32,206	(32,206)	—
Ground rent expense	4,663	—	—	4,663
General and administrative expenses	23,825	—	—	23,825
Observatory expenses	—	14,650	—	14,650
Real estate taxes	47,082	—	—	47,082
Acquisition expenses	98	—	—	98
Depreciation and amortization	77,581	194	—	77,775
Total operating expenses	229,739	47,050	(32,206)	244,583
Total operating income	72,332	5,974	—	78,306
Interest expense	(35,371)	—	—	(35,371)
Income before income taxes	36,961	5,974	—	42,935
Income expense	(686)	(904)	—	(1,590)
Net income	\$ 36,275	\$ 5,070	\$ —	\$ 41,345
Expenditures for segment assets	\$ 87,224	\$ 47	\$ —	\$ 87,271

Six Months Ended June 30, 2015

	Real Estate Observatory	Other	Intersegment Elimination	Total
Revenues:				
Rental revenue	\$222,924	\$ —	\$ —	\$222,924
Intercompany rental revenue	30,574	—	(30,574)	—
Tenant expense reimbursement	36,782	—	—	36,782
Observatory revenue	—	48,823	—	48,823
Construction revenue	—	—	5,696 (3,715)	1,981
Third-party management and other fees	1,040	—	—	1,040
Other revenue and fees	5,105	—	—	5,105
Total revenues	296,425	48,823	5,696 (34,289)	316,655
Operating expenses:				
Property operating expenses	79,289	—	—	79,289
Intercompany rent expense	—	30,574	— (30,574)	—
Ground rent expense	4,663	—	—	4,663
General and administrative expenses	18,213	—	—	18,213
Observatory expenses	—	15,495	—	15,495
Construction expenses	—	—	6,539 (3,317)	3,222
Real estate taxes	45,930	—	—	45,930
Depreciation and amortization	80,775	171	101 —	81,047
Total operating expenses	228,870	46,240	6,640 (33,891)	247,859
Total operating income (loss)	67,555	2,583	(944) (398)	68,796
Interest expense	(33,618)	—	—	(33,618)
Income (loss) before income taxes	33,937	2,583	(944) (398)	35,178
Income tax benefit (expense)	(773)	(272)	340 —	(705)
Net income (loss)	\$33,164	\$ 2,311	\$(604) \$ (398)	\$34,473
Expenditures for segment assets	\$69,189	\$ 24	\$— \$ —	\$69,213

12. Subsequent Events

None.

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

Unless the context otherwise requires or indicates, references in this section to "we," "our" and "us" refer to our company and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Section. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "estimates," "contemplates," "aims," "continues," "would" or "anticipates" or the negative of these words and phrases or similar words or phrases. In particular, statements pertaining to our capital resources, portfolio performance, dividend policy and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our portfolio from operations, acquisitions and anticipated market conditions, demographics and results of operations are forward-looking statements.

Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control, and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise, and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all).

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- changes in our industry, the real estate markets, either nationally or in Manhattan or the greater New York metropolitan area;
- resolution of the litigations and arbitration involving the company;
- reduced demand for office or retail space;
- general volatility of the capital and credit markets and the market price of our Class A common stock and our publicly-traded OP Units;
- changes in our business strategy;
- changes in technology and market competition, which affect utilization of our broadcast or other facilities;
- changes in domestic or international tourism, including geopolitical events and currency exchange rates;
- defaults on, early terminations of, or non-renewal of leases by tenants;
- bankruptcy or insolvency of a major tenant or a significant number of smaller tenants;
- fluctuations in interest rates;
- increased operating costs;
- declining real estate valuations and impairment charges;
- termination or expiration of our ground leases;
- availability, terms and deployment of capital;
- our failure to obtain necessary outside financing, including our unsecured revolving credit facility;
- our leverage;
- decreased rental rates or increased vacancy rates;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- our failure to redevelop and reposition properties successfully or on the anticipated timeline or at the anticipated costs;
- difficulties in identifying properties to acquire and completing acquisitions;
-

risks of real estate development (including our Metro Tower development site), including the cost of construction delays and cost overruns;

• failure to operate properties successfully;

• inability to manage our growth effectively;

• inability to make distributions to our stockholders in the future;

• impact of changes in governmental regulations, tax law and rates and similar matters;

• failure to continue to qualify as a real estate investment trust, or REIT;

• a future terrorist event in the U.S.;

• environmental uncertainties and risks related to adverse weather conditions and natural disasters;

- lack, or insufficient amounts, of insurance;

• unavailability of, and inability to attract and retain, qualified personnel;
• conflicts of interest affecting any of our senior management team;
• misunderstanding of our competition;
• changes in real estate and zoning laws and increases in real property tax rates;
• risks associated with security breaches through cyberattacks, cyber intrusions or otherwise, as well as other significant disruptions of our technology (IT) networks related systems, which support our operations and our buildings;
• inability to comply with the laws, rules and regulations applicable to companies and, in particular, public companies; and
• other factors discussed under “Item 1A, Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015 and additional factors that may be contained in any filing we make with the SEC, including Part II, Item 1A of our Quarterly Reports on Form 10-Q.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, or new information, data or methods, future events or other changes after the date of this Quarterly Report on Form 10-Q, except as required by applicable law. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the sections entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 which we filed with the SEC. You should not place undue reliance on any forward-looking statements, which are based only on information currently available to us.

Overview

We are a self-administered and self-managed real estate investment trust, or REIT, that owns, manages, operates, acquires and repositions office and retail properties in Manhattan and the greater New York metropolitan area.

Highlights for the three months ended June 30, 2016 included:

• Achieved net income attributable to the Company of \$0.09 per fully diluted share.

• Occupancy and leased percentages at June 30, 2016:

• Total portfolio was 86.6% occupied; including signed leases not commenced (“SLNC”), the total portfolio was 89.4% leased.

• Manhattan office portfolio (excluding the retail component of these properties) was 84.9% occupied; including SLNC, the Manhattan office portfolio was 88.4% leased.

• Retail portfolio was 83.6% occupied; including SLNC, the retail portfolio was 86.0% leased.

• Empire State Building was 88.7% occupied; including SLNC, the Empire State Building was 90.7% leased.

• Executed 45 leases, representing 176,533 rentable square feet across the total portfolio, achieving a 39.4% increase in mark-to-market rent over previous fully escalated rents on new, renewal, and expansion leases.

• Signed 19 new leases representing 99,180 rentable square feet in the second quarter 2016 for the Manhattan office portfolio (excluding the retail component of these properties), achieving an increase of 58.1% in mark-to-market rent over previous fully escalated rents.

• The Empire State Building Observatory revenue for the second quarter 2016 grew 4.0% to \$31.8 million from \$30.6 million in the second quarter 2015.

• Declared a dividend in the amount of \$0.105 per share for the second quarter 2016, a 24% increase from previous quarters.

As of June 30, 2016, our total portfolio contained 10.1 million rentable square feet of office and retail space. We owned 14 office properties (including three long-term ground leasehold interests) encompassing approximately 9.4 million rentable square feet of office space. Nine of these properties are located in the midtown Manhattan market and aggregate approximately 7.5 million rentable square feet of office space, including the Empire State Building. Our Manhattan office properties also contain an aggregate of 504,294 rentable square feet of premier retail space on their ground floor and/or contiguous levels. Our remaining five office properties are located in Fairfield County, Connecticut and Westchester County, New York, encompassing in the aggregate approximately 1.9 million rentable square feet. The majority of square footage for

these five properties is located in densely populated metropolitan communities with immediate access to mass transportation. Additionally, we have entitled land at the Stamford Transportation Center in Stamford, Connecticut, adjacent to one of our office properties, that will support the development of an approximately 380,000 rentable square foot office building and garage, which we refer to herein as Metro Tower. As of June 30, 2016, our portfolio included four standalone retail properties located in Manhattan and two standalone retail properties located in the city center of Westport, Connecticut, encompassing 204,452 rentable square feet in the aggregate.

The Empire State Building is our flagship property. The Empire State Building provides us with a diverse source of revenue through its office and retail leases, observatory operations and broadcasting licenses, and related leased space. Our observatory operations are a separate reporting segment. Our observatory operations are subject to regular patterns of tourist activity in Manhattan. During the past ten years, approximately 16.0% to 18.0% of our annual observatory revenue was realized in the first quarter, 26.0% to 28.0% was realized in the second quarter, 31.0% to 33.0% was realized in the third quarter, and 23.0% to 25.0% was realized in the fourth quarter.

The components of the Empire State Building revenue are as follows (dollars in thousands):

	Six months ended June 30,					
	2016			2015		
Office leases	\$58,254	40.2	%	\$53,658	39.8	%
Retail leases	5,282	3.7	%	5,228	3.9	%
Tenant reimbursements & other income	13,563	9.4	%	11,763	8.8	%
Observatory operations	53,019	36.6	%	48,823	36.3	%
Broadcasting licenses and leases	14,651	10.1	%	15,011	11.2	%
Total	\$144,769	100.0	%	\$134,483	100.0	%

We have been undertaking a comprehensive redevelopment and repositioning strategy of our Manhattan office properties. This strategy is designed to improve the overall value and attractiveness of our properties and has contributed significantly to our tenant repositioning efforts, which seek to increase our occupancy; raise our rental rates; increase our rentable square feet; increase our aggregate rental revenue; lengthen our average lease term; increase our average lease size; and improve our tenant credit quality. These improvements include restored, renovated and upgraded or new lobbies; elevator modernization; renovated public areas and bathrooms; refurbished or new windows; upgrade and standardization of retail storefront and signage; façade restorations; modernization of building-wide systems; and enhanced tenant amenities. We have also aggregated smaller spaces in order to offer larger blocks of office space, including multiple floors, that are attractive to larger, higher credit-quality tenants and to offer new, pre-built suites with improved layouts. This strategy has shown what we believe to be attractive results to date, and we believe has the potential to improve our operating margins and cash flows in the future. We believe we will continue to enhance our tenant base and improve rents as our pre-redevelopment leases continue to expire and be re-leased. From 2002 through June 30, 2016, we have invested a total of approximately \$681.0 million (excluding tenant improvement costs and leasing commissions) in our Manhattan office properties pursuant to this program. We are in the process of substantially completing the redevelopment and repositioning program as originally contemplated. We intend to fund these capital improvements through a combination of operating cash flow and borrowings.

As of June 30, 2016, excluding principal amortization, we had no debt maturing in 2016 and approximately \$336.0 million of debt maturing in 2017, and we had total debt outstanding of approximately \$1.7 billion, with a weighted average interest rate of 4.08% (excluding premiums and discount) and a weighted average maturity of 5.1 years. Our consolidated debt to total market capitalization was approximately 24% as of June 30, 2016.

As of March 2015, we no longer solicited new business for our construction management business. We have since completed all projects that were in progress.

Results of Operations

Overview

The discussion below relates to our financial condition and results of operations for the three and six months ended June 30, 2016 and 2015, respectively.

Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

The following table summarizes our historical results of operations for the three months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended June 30,				
	2016	2015	Change	%	
Revenues:					
Rental revenue	\$ 112,613	\$ 112,866	\$ (253)	(0.2)	%
Tenant expense reimbursement	19,054	18,582	472	2.5	%
Observatory revenue	31,838	30,600	1,238	4.0	%
Construction revenue	—	374	(374)	(100.0)	%
Third-party management and other fees	423	594	(171)	(28.8)	%
Other revenues and fees	1,887	1,757	130	7.4	%
Total revenues	165,815	164,773	1,042	0.6	%
Operating expenses:					
Property operating expenses	37,386	37,262	124	0.3	%
Ground rent expenses	2,330	2,332	(2)	(0.1)	%
General and administrative expenses	12,907	9,113	3,794	41.6	%
Observatory expenses	6,895	8,093	(1,198)	(14.8)	%
Construction expenses	—	353	(353)	(100.0)	%
Real estate taxes	23,557	22,952	605	2.6	%
Depreciation and amortization	38,548	39,629	(1,081)	(2.7)	%
Total operating expenses	121,623	119,734	1,889	1.6	%
Operating income	44,192	45,039	(847)	(1.9)	%
Interest expense	(17,420)	(17,571)	151	(0.9)	%
Income before income taxes	26,772	27,468	(696)	(2.5)	%
Income tax expense	(2,132)	(883)	(1,249)	141.4	%
Net income	24,640	26,585	(1,945)	(7.3)	%
Private perpetual preferred unit distributions	(234)	(234)	—	—	
Net income attributable to non-controlling interests	(13,317)	(15,231)	1,914	(12.6)	%
Net income attributable to common stockholders	\$ 11,089	\$ 11,120	\$ (31)	(0.3)	%

Rental Revenue

Rental revenue was consistent with the three months ended June 30, 2015.

Tenant Expense Reimbursement

Tenant expense reimbursements were consistent with the three months ended June 30, 2015.

Observatory Revenue

Observatory revenues were higher due to an improvement in our ticket mix and more favorable weather conditions in the second quarter 2016 versus the prior year period.

Construction Revenue

The construction business ceased operations in 2015 which is reflected in the elimination of construction revenues.

Third-Party Management and Other Fees

The decrease reflects lower management fee income in the three months ended June 30, 2016, due to a transaction related fee received in the three months ended June 30, 2015.

Other Revenues and Fees

The increase in other revenues and fees was primarily due to higher percentage rent.

Property Operating Expenses

Property operating expenses were consistent with the three months ended June 30, 2015.

General and Administrative Expenses

The increase in general and administrative expenses is due to \$1.5 million of incremental legal costs pertaining to formation transactions litigation, \$1.3 million related to higher 2016 incentive compensation bonus accruals and salaries, and \$1.3 million related to equity compensation expense. We went public in October 2013 and we are still ramping up, adding layers of amortization of non-cash compensation expense associated with equity incentive compensation. Once we conclude four years as a public company, this expense should stabilize.

Observatory Expenses

The decrease in Observatory expenses primarily reflects lower public relations costs and lower personnel expenses.

Construction Expenses

The construction business ceased operations in 2015 which is reflected in the elimination of construction expenses.

Real Estate Taxes

Real estate taxes were consistent with the three months ended June 30, 2015.

Depreciation and Amortization

The decrease in depreciation and amortization was primarily attributable to assets that became fully depreciated during 2015.

Interest Expense

Interest expense was consistent with the three months ended June 30, 2015.

Income taxes

The increase in income tax expense was attributable to activities within our taxable REIT subsidiaries, primarily related to a higher taxable income estimate related to the Observatory for the three months ended June 30, 2016.

Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

The following table summarizes our historical results of operations for the six months ended June 30, 2016 and 2015 (dollars in thousands):

	Six months ended June 30,				
	2016	2015	Change	%	
Revenues:					
Rental revenue	\$227,521	\$222,924	\$4,597	2.1	%
Tenant expense reimbursement	37,174	36,782	392	1.1	%
Observatory revenue	53,019	48,823	4,196	8.6	%
Construction revenue	—	1,981	(1,981)	(100.0)	%
Third-party management and other fees	968	1,040	(72)	(6.9)	%
Other revenues and fees	4,207	5,105	(898)	(17.6)	%
Total revenues	322,889	316,655	6,234	2.0	%
Operating expenses:					
Property operating expenses	76,490	79,289	(2,799)	(3.5)	%
Ground rent expenses	4,663	4,663	—	—	%
General and administrative expenses	23,825	18,213	5,612	30.8	%
Observatory expenses	14,650	15,495	(845)	(5.5)	%
Construction expenses	—	3,222	(3,222)	(100.0)	%
Real estate taxes	47,082	45,930	1,152	2.5	%
Acquisition expenses	98	—	98	100.0	%
Depreciation and amortization	77,775	81,047	(3,272)	(4.0)	%
Total operating expenses	244,583	247,859	(3,276)	(1.3)	%
Operating income	78,306	68,796	9,510	13.8	%
Interest expense	(35,371)	(33,618)	(1,753)	5.2	%
Income before income taxes	42,935	35,178	7,757	22.1	%
Income tax expense	(1,590)	(705)	(885)	125.5	%
Net income	41,345	34,473	6,872	19.9	%
Private perpetual preferred unit distributions	(468)	(468)	—	—	
Net income attributable to non-controlling interests	(22,360)	(19,747)	(2,613)	13.2	%
Net income attributable to common stockholders	\$18,517	\$14,258	\$4,259	29.9	%

Rental Revenue

The increase in rental income was primarily attributable to increased rental rates.

Tenant Expense Reimbursement

Tenant expense reimbursements were consistent with the six months ended June 30, 2015.

Observatory Revenue

Observatory revenues were higher in part due to increased tourist visits, favorable weather conditions in 2016 and changes in ticket mix.

Construction Revenue

The construction business ceased operations in 2015 which is reflected in the elimination of construction revenues.

Third-Party Management and Other Fees

Third party management fees were consistent with the six months ended June 30, 2015.

Other Revenues and Fees

The decrease in other revenues and fees was primarily due to lower lease cancellation income in the six months ended June 30, 2016.

Property Operating Expenses

The decrease in property operating expenses was primarily due to lower repairs and maintenance costs and lower utility costs, partially offset by higher bad debt expenses.

General and Administrative Expenses

The increase in general and administrative expenses is due to \$1.7 million of incremental legal costs pertaining to formation transactions litigation, \$2.6 million related to higher 2016 incentive compensation bonus accruals and salaries, and \$1.7 million related to equity compensation expense. We went public in October 2013 and we are still ramping up, adding layers of amortization of non-cash compensation expense associated with equity incentive compensation. Once we conclude four years as a public company, this expense should stabilize.

Observatory Expenses

The decrease in Observatory expenses primarily reflects lower public relations costs, lower personnel costs and lower legal fees.

Construction Expenses

The construction business ceased operations in 2015 which is reflected in the elimination of construction expenses.

Real Estate Taxes

The increase in real estate taxes was primarily due to higher assessed values for several properties.

Depreciation and Amortization

The decrease in depreciation and amortization was primarily attributable to assets that became fully depreciated during 2015.

Interest Expense

The increase in interest expense was due to higher debt balances as well as higher interest rates. In March 2015, we issued \$350.0 million of senior unsecured notes with a weighted average fixed interest rate of 4.08%. The proceeds were partially used to repay our unsecured revolving credit facility which had a variable interest rate of 1.33% in the first quarter 2015.

Income taxes

The increase in income tax expense was attributable to activities within our taxable REIT subsidiaries, primarily related to a higher taxable income estimate related to the Observatory for the six months ended June 30, 2016.

Liquidity and Capital Resources

At June 30, 2016, we had approximately \$35.5 million available in cash and cash equivalents, and there was \$760.0 million available under our unsecured revolving credit facility. In addition, on July 6, 2016 we increased our committed borrowing capacity under the unsecured revolving credit facility from \$800 million to \$1.1 billion.

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, including lease-up costs, fund our redevelopment and repositioning programs, acquire properties, make distributions to our securityholders and fulfill other general business needs. Based on the historical experience of our management and our business strategy, in the foreseeable future we anticipate that we will generate positive cash flows from operations. In order to qualify as a REIT, we are required under the Internal Revenue Code of 1986 to distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. We expect to make quarterly distributions to our securityholders.

While we may be able to anticipate and plan for certain liquidity needs, there may be unexpected increases in uses of cash that are beyond our control and which would affect our financial condition and results of operations. For example, we may be required to comply with new laws or regulations that cause us to incur unanticipated capital expenditures for our properties, thereby increasing our liquidity needs. Even if there are no material changes to our anticipated liquidity requirements, our sources of liquidity may be fewer than, and the funds available from such sources may be less than,

anticipated or needed. Our primary sources of liquidity will generally consist of cash on hand and cash generated from our operating activities, mortgage and debt financings and unused borrowing capacity under our unsecured revolving credit facility. We expect to meet our short-term liquidity requirements, including distributions, operating expenses, working capital, debt service, and capital expenditures from cash flows from operations, debt issuances, and available borrowing capacity under our unsecured revolving credit facility. The availability of these borrowings is subject to the conditions set forth in the applicable loan agreements. We expect to meet our long-term capital requirements, including acquisitions, redevelopments and capital expenditures through our cash flows from operations, our unsecured revolving credit facility, mortgage financings, debt issuances, common and/or preferred equity issuances and asset sales. Our properties require periodic investments of capital for individual lease related tenant improvements allowances, general capital improvements and costs associated with capital expenditures. Our overall leverage will depend on our mix of investments and the cost of leverage. Our charter does not restrict the amount of leverage that we may use.

As of June 30, 2016, we had approximately \$1.7 billion of total consolidated indebtedness outstanding, with a weighted average interest rate of 4.08% (excluding premiums and discount) and a weighted average maturity of 5.1 years. Excluding principal amortization, we have no debt maturing in 2016 and approximately \$336.0 million of debt maturing in 2017. Our consolidated debt to total market capitalization was approximately 24% as of June 30, 2016.

Unsecured Revolving Credit Facility

On January 23, 2015, we entered into an unsecured revolving credit agreement, which is referred to herein as the “unsecured revolving credit facility,” with Bank of America, Merrill Lynch, Goldman Sachs and the other lenders party thereto. Merrill Lynch acted as joint lead arranger; Bank of America acted as administrative agent; and Goldman Sachs acted as syndication agent and joint lead arranger. Certain of our subsidiaries are guarantors of our obligations under the unsecured revolving credit facility.

The unsecured revolving credit facility is comprised of a revolving credit facility in the maximum original principal amount of \$800.0 million. The unsecured revolving credit facility contains an accordion feature that would allow us to increase the maximum aggregate principal amount to \$1.25 billion under specified circumstances. Amounts outstanding under the unsecured revolving credit facility bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread that will range from 0.875% to 1.600% depending upon our leverage ratio and credit rating; or (y) a base rate, plus a spread that will range from 0.000% to 0.600% depending upon our leverage ratio and credit rating. In addition, the unsecured revolving credit facility permits us to borrow at competitive bid rates determined in accordance with procedures described in the unsecured revolving credit facility agreement.

The unsecured revolving credit facility has an initial maturity in January 2019. We have the option to extend the initial term of the unsecured revolving credit facility for up to two additional six-month periods, subject to certain conditions, including the payment of an extension fee equal to 0.075% of the then outstanding commitments under the unsecured revolving credit facility.

The unsecured revolving credit facility includes the following financial covenants: (i) maximum leverage ratio of total indebtedness to total asset value (as defined in the agreement) of the loan parties and their consolidated subsidiaries will not exceed 60%, (ii) consolidated secured indebtedness will not exceed 40% of total asset value, (iii) tangible net worth will not be less than \$745.4 million plus 75% of net equity proceeds received by the operating partnership (other than proceeds received within ninety (90) days after the redemption, retirement or repurchase of ownership or equity interests in the operating partnership up to the amount paid by the operating partnership in connection with such redemption, retirement or repurchase, where, the net effect is that the operating partnership shall not have increased its net worth as a result of any such proceeds), (iv) adjusted EBITDA (as defined in the unsecured revolving credit facility) to consolidated fixed charges will not be less than 1.50x, (v) the aggregate net operating income with respect to all unencumbered eligible properties to the portion of interest expense attributable to unsecured indebtedness will not be less than 1.75x, (vi) the ratio of total unsecured indebtedness to unencumbered asset value will not exceed 60%, and (vii) consolidated secured recourse indebtedness will not exceed 10% of total asset value (provided, however, this covenant shall not apply at any time after either the company or the operating partnership

achieves debt ratings from at least two of Moody's, S&P and Fitch, and such debt ratings are Baa3 or better (in the case of a rating by Moody's) or BBB- or better (in the case of a rating by S&P or Fitch)). As of June 30, 2016,

we were in compliance with the covenants:

Financial covenant	Required	June 30, 2016	In Compliance
Maximum total leverage	< 60%	30.2	% Yes
Maximum secured debt	< 40%	13.7	% Yes
Minimum fixed charge coverage	> 1.50x	3.4x	Yes
Minimum unencumbered interest coverage	> 1.75x	7.7x	Yes
Maximum unsecured leverage	< 60%	23.5	% Yes
Maximum secured recourse indebtedness	< 10%	0.0	% Yes
Minimum tangible net worth	\$745,356	\$964,822	Yes

The unsecured revolving credit facility contains customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates, and requires certain customary financial reports.

The unsecured revolving credit facility contains customary events of default (subject in certain cases to specified cure periods), including but not limited to non-payment, breach of covenants, representations or warranties, cross defaults, bankruptcy or other insolvency events, judgments, ERISA events, invalidity of loan documents, loss of real estate investment trust qualification, and occurrence of a change of control (as defined in the agreement for the unsecured credit facility).

On July 6, 2016, we partially exercised the accordion feature and increased our borrowing capacity under the unsecured revolving credit facility from \$800 million to \$1.1 billion.

Senior Unsecured Notes

During March 2015, we issued and sold an aggregate principal amount of \$350.0 million of senior unsecured notes ("Series A, B and C Senior Notes") in a private placement to entities affiliated with Prudential Capital Group. The Series A, B and C Senior Notes consist of \$100 million of 3.93% Series A Senior Notes due 2025, \$125 million of 4.09% Series B Senior Notes due 2027, and \$125 million of 4.18% Series C Senior Notes due 2030. The proceeds were used to repay outstanding mortgage debt, to reduce amounts outstanding under our unsecured revolving credit facility and for other general corporate purposes.

The Series A, B and C Senior Notes are senior unsecured obligations and are unconditionally guaranteed by each of our subsidiaries that guarantees indebtedness under the senior unsecured revolving credit facility. Interest on the Series A, B and C Senior Notes is payable quarterly.

The terms of the Series A, B and C Senior Notes include customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates and require certain customary financial reports. The Series A, B and C Senior Notes also require compliance with financial ratios consistent with the unsecured credit facility including a maximum leverage ratio, a maximum secured leverage ratio, a minimum amount of tangible net worth, a minimum fixed charge coverage ratio, a minimum unencumbered interest coverage ratio, a maximum unsecured leverage ratio and a maximum amount of secured recourse indebtedness. As of June 30, 2016, we were in compliance with the covenants under the Series A, B and C Senior Notes.

Unsecured Term Loan Facility

During August 2015, we entered into a new seven year \$265.0 million senior unsecured term loan facility ("term loan facility"). The term loan facility matures on August 24, 2022. The term loan facility bears interest at a floating rate equal to, at our election, a LIBOR rate, plus a spread ranging from 1.400% to 2.350%; or a base rate, plus a spread ranging from 0.400% to 1.350%. In each case the spread is determined by our leverage ratio and credit rating. Pursuant to a forward interest rate swap agreement, we effectively fixed LIBOR at 2.1485% for \$265.0 million of the term loan facility for the period from August 31, 2017 through maturity. The proceeds from the term loan facility were used to repay borrowings made under our unsecured revolving credit facility.

The terms of the term loan facility agreement include customary covenants, including limitations on liens, investment, debt, fundamental changes, and transactions with affiliates and require certain customary financial reports. The term loan facility requires compliance with financial ratios including a maximum leverage ratio, a maximum secured leverage ratio, a minimum amount of tangible net worth, a minimum fixed charge coverage ratio, a minimum unencumbered interest coverage

ratio, a maximum unsecured leverage ratio and a maximum amount of secured recourse indebtedness. It also contains customary events of default (subject in certain cases to specified cure periods). These terms in the term loan facility agreement are consistent with the terms in our unsecured revolving credit facility agreement. As of June 30, 2016, we were in compliance with the covenants under the term loan facility.

Mortgage Debt

As of June 30, 2016, we had mortgage debt outstanding of \$767.7 million. During the first quarter of 2016, we refinanced at a lower rate a \$20.2 million 6.0% mortgage loan secured by 10 Union Square East. The new \$50.0 million mortgage loan has a ten year maturity and bears interest at a fixed rate of 3.7%. As a result of the refinancing, we expensed \$0.2 million of unamortized deferred financing costs and incurred a \$0.4 million prepayment penalty which will be offset by interest cost savings.

Leverage Policies

We expect to employ leverage in our capital structure in amounts determined from time to time by our board of directors. Although our board of directors has not adopted a policy that limits the total amount of indebtedness that we may incur, we anticipate that our board of directors will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed or floating rate. Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur nor do they restrict the form in which our indebtedness will be taken (including, but not limited to, recourse or non-recourse debt and cross-collateralized debt). Our overall leverage will depend on our mix of investments and the cost of leverage, however, we currently intend to maintain a level of indebtedness consistent with our plan to seek an investment grade credit rating. Our board of directors may from time to time modify our leverage policies in light of the then-current economic conditions, relative costs of debt and equity capital, market values of our properties, general market conditions for debt and equity securities, fluctuations in the market price of our common stock, growth and acquisition opportunities and other factors.

Capital Expenditures

The following tables summarize our tenant improvement costs, leasing commission costs and our capital expenditures for each of the periods presented (dollars in thousands, except per square foot amounts).

Office Properties⁽¹⁾

Six months ended June 30,

Total New Leases, Expansions, and Renewals	2016	2015
Number of leases signed ⁽²⁾	85	129
Total square feet	417,447	604,085
Leasing commission costs ⁽³⁾	\$ 6,761	\$ 8,798
Tenant improvement costs ⁽³⁾	22,304	31,672
Total leasing commissions and tenant improvement costs ⁽³⁾	\$ 29,065	\$ 40,470
Leasing commission costs per square foot ⁽³⁾	\$ 16.20	\$ 14.56
Tenant improvement costs per square	53.43	52.43

foot⁽³⁾

Total leasing

commissions and

tenant improvement	\$	69.63		\$	66.99
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costs per square

foot⁽³⁾

Retail Properties⁽⁴⁾

41

	Six months ended June 30,	
	2016	2015
Total New Leases, Expansions, and Renewals		
Number of leases signed ⁽²⁾	7	10
Total square feet	14,809	68,367
Leasing commission costs ⁽³⁾	\$ 1,508	\$ 10,048
Tenant improvement costs ⁽³⁾	2,393	2,234
Total leasing commissions and tenant improvement costs ⁽³⁾	\$ 3,901	\$ 12,282
Leasing commission costs per square foot ⁽³⁾	\$ 101.81	\$ 146.97
Tenant improvement costs per square foot ⁽³⁾	161.58	32.68
Total leasing commissions and tenant improvement costs per square foot ⁽³⁾	\$ 263.39	\$ 179.65

(1) Excludes an aggregate of 504,294 rentable square feet of retail space in our Manhattan office properties. Includes the Empire State Building broadcasting licenses and observatory operations.

(2) Presents a renewed and expansion lease as one lease signed.

(3) Presents all tenant improvement and leasing commission costs as if they were incurred in the period in which the lease was signed, which may be different than the period in which they were actually paid.

(4) Includes an aggregate of 504,294 rentable square feet of retail space in our Manhattan office properties. Excludes the Empire State Building broadcasting licenses and observatory operations.

	Six months ended	
	June 30,	
	2016	2015
Total Portfolio		
Capital expenditures ⁽¹⁾	\$36,459	\$23,514

Includes all capital expenditures, excluding tenant improvements and leasing commission costs, which are (1) primarily attributable to the redevelopment and repositioning program conducted at our Manhattan office properties.

As of June 30, 2016, we expect to incur additional costs relating to obligations under signed new leases of approximately \$52.8 million during the 12 months ending June 30, 2017. This consists of approximately \$52.3 million for tenant improvements and other improvements related to new leases and approximately \$0.5 million for leasing commissions. We intend to fund the tenant improvements and leasing commission costs through a combination of operating cash flow and borrowings under the unsecured revolving credit facility.

Capital expenditures are considered part of both our short-term and long-term liquidity requirements. We intend to fund the capital improvements to complete the redevelopment and repositioning program through a combination of operating cash flow and borrowings under the unsecured revolving credit facility.

Contractual Obligations

Refer to our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of our contractual obligations. There have been no material changes, outside the ordinary course of business, to these contractual obligations during the six months ended June 30, 2016.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements.

Distribution Policy

In order to qualify as a REIT, we must distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. In addition, we will be subject to U.S. federal income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income (including net capital gains) and will be subject to a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax laws. We intend to distribute our net income to our securityholders in a manner intended to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax liability on our income and the 4% nondeductible excise tax.

Before we pay any distribution, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and obligations to make payments of principal and interest, if any. However, under some circumstances, we may be required to use cash reserves, incur debt or liquidate assets at rates or times that we regard as unfavorable or make a taxable distribution of our shares in order to satisfy the REIT 90% distribution requirement and to avoid U.S. federal income tax and the 4% nondeductible excise tax in that year.

Distributions to Securityholders

Distributions and dividends amounting to \$51.7 million have been made to securityholders for the six months ended June 30, 2016.

Cash Flows

Comparison of Six Months Ended June 30, 2016 to the Six Months Ended June 30, 2015

Net cash. Cash and cash equivalents were \$35.5 million and \$34.2 million, respectively, as of June 30, 2016 and 2015. Operating activities. Net cash provided by operating activities increased by \$15.0 million to \$92.1 million for the six months ended June 30, 2016 compared to \$77.1 million for the six months ended June 30, 2015 primarily due to higher cash rents and lower leasing commission costs.

Investing activities. Net cash used in investing activities increased by \$10.9 million to \$74.0 million for the six months ended June 30, 2016 compared to \$63.1 million for the six months ended June 30, 2015 primarily due to higher expenditures on tenant improvements.

Financing activities. Net cash used in financing activities increased by \$3.8 million to \$29.3 million for the six months ended June 30, 2016 compared to \$25.5 million for the six months ended June 30, 2015. The increase was primarily due to higher dividends and distributions paid in 2016.

Net Operating Income ("NOI")

Our internal financial reports include a discussion of property net operating income. NOI is a non-GAAP financial measure of performance. NOI is used by our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by: (i) the cost of funds of the property owner, (ii) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP, (iii) acquisition expenses and break-up fee, or (iv) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net operating income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our office or retail properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly-timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue, generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating

performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole.

NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the components of net income that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly titled measures and, accordingly, our NOI may not be comparable to similarly titled measures reported by other companies that do not define the measure exactly as we do.

The following table presents a reconciliation of our net income, the most directly comparable GAAP measure, to NOI for the periods presented (amounts in thousands):

	Three Months Ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	\$24,640	\$26,585	\$41,345	\$34,473
Add:				
General and administrative expenses	12,907	9,113	23,825	18,213
Depreciation and amortization	38,548	39,629	77,775	81,047
Interest expense	17,420	17,571	35,371	33,618
Construction expenses	—	353	—	3,222
Acquisition expenses	—	—	98	—
Income tax expense	2,132	883	1,590	705
Less:				
Construction revenue	—	(374)	—	(1,981)
Third-party management and other fees	(423)	(594)	(968)	(1,040)
Net operating income	\$95,224	\$93,166	\$179,036	\$168,257
Other Net Operating Income Data				
Straight-line rental revenue	\$6,796	\$5,622	\$11,876	\$9,724
Net increase in rental revenue from the amortization of above- and below-market lease assets and liabilities	\$844	\$4,576	\$5,075	\$9,867
Amortization of acquired below-market ground leases	\$1,958	\$1,958	\$3,916	\$3,916

Funds from Operations ("FFO")

We present below a discussion of FFO. We compute FFO in accordance with the "White Paper" on FFO published by the National Association of Real Estate Investment Trusts, or NAREIT, which defines FFO as net income (loss) (determined in accordance with GAAP), excluding impairment writedowns of investments in depreciable real estate and investments in in-substance real estate investments, gains or losses from sales of depreciable operating properties, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs), less distributions to non-controlling interests and gains/losses from discontinued operations and after adjustments for unconsolidated partnerships and joint ventures. FFO is a widely recognized non-GAAP financial measure for REITs that we believe, when considered with financial statements determined in accordance with GAAP, is useful to investors in understanding financial performance and providing a relevant basis for comparison among REITs. In addition, FFO is useful to investors as it captures features particular to real estate performance by recognizing that real estate has generally appreciated over time or maintains residual value to a much greater extent than do other depreciable assets. Investors should review FFO, along with GAAP net income, when trying to understand an equity REIT's operating performance. We present FFO because we consider it an important supplemental measure of our operating performance and believe that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs. However, because FFO excludes depreciation and amortization and captures

neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results of operations, the utility of FFO as a measure of performance is

limited. There can be no assurance that FFO presented by us is comparable to similarly titled measures of other REITs. FFO does not represent cash generated from operating activities and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or to cash flow from operating activities determined in accordance with GAAP. FFO is not indicative of cash available to fund ongoing cash needs, including the ability to make cash distributions. Although FFO is a measure used for comparability in assessing the performance of REITs, as the NAREIT White Paper only provides guidelines for computing FFO, the computation of FFO may vary from one company to another.

Modified Funds From Operations ("Modified FFO")

Modified FFO adds back an adjustment for any above or below-market ground lease amortization to traditionally defined FFO. We consider this a useful supplemental measure in evaluating our operating performance due to the non-cash accounting treatment under GAAP, which stems from the July 2014 acquisition of two properties as they carry significantly below market ground leases, the amortization of which is material to our overall results. We present Modified FFO because we consider it an important supplemental measure of our operating performance in that it adds back the non-cash amortization of below-market ground leases. There can be no assurance that Modified FFO presented by us is comparable to similarly titled measures of other REITs. Modified FFO does not represent cash generated from operating activities and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or to cash flow from operating activities determined in accordance with GAAP. Modified FFO is not indicative of cash available to fund ongoing cash needs, including the ability to make cash distributions.

Core Funds From Operations ("Core FFO")

Core FFO adds back to Modified FFO the following items: private perpetual preferred exchange offering expenses, acquisition expenses, gain on settlement of lawsuit related to the Observatory, net of income taxes, deferred financing costs write-offs, prepayment penalties, construction severance expenses and acquisition break-up fee. The Company presents Core FFO because it considers it an important supplemental measure of its operating performance in that it excludes non-recurring items. There can be no assurance that Core FFO presented by the Company is comparable to similarly titled measures of other REITs. Core FFO does not represent cash generated from operating activities and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or to cash flow from operating activities determined in accordance with GAAP. Core FFO is not indicative of cash available to fund ongoing cash needs, including the ability to make cash distributions. In future periods, we may also exclude other items from Core FFO that we believe may help investors compare our results.

The following table presents a reconciliation of our net income, the most directly comparable GAAP measure, to FFO, Modified FFO and Core FFO for the periods presented (amounts in thousands, except per share amounts):

	Three Months Ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net income	\$24,640	\$26,585	\$41,345	\$34,473
Private perpetual preferred unit distributions	(234)	(234)	(468)	(468)
Real estate depreciation and amortization	38,386	39,542	77,461	80,775
FFO attributable to common stockholders and non-controlled interests	62,792	65,893	118,338	114,780
Amortization of below-market ground leases	1,958	1,958	3,916	3,916
Modified FFO attributable to common stockholders and non-controlled interests	64,750	67,851	122,254	118,696
Deferred financing costs write-off and prepayment penalty	—	404	552	1,749
Acquisition expenses	—	—	98	—
Construction severance expenses, net of taxes	—	—	—	480
Core FFO attributable to common stockholders and non-controlled interests	\$64,750	\$68,255	\$122,904	\$120,925
Weighted average shares and Operating Partnership Units				
Basic	266,167	265,867	266,151	265,866
Diluted	266,167	265,867	266,151	265,866

Factors That May Influence Future Results of Operations

Leasing

We signed 1.2 million rentable square feet of new leases, expansions and lease renewals for the year ended December 31, 2015. During the six months ended June 30, 2016, we signed 0.4 million rentable square feet of new leases, expansions and renewals.

Due to the relatively small number of leases that are signed in any particular quarter, one or more larger leases may have a disproportionately positive or negative impact on average rent, tenant improvement and leasing commission costs for that period. As a result, we believe it is more appropriate when analyzing trends in average rent and tenant improvement and leasing commission costs to review activity over multiple quarters or years. Tenant improvement costs include expenditures for general improvements occurring concurrently with, but that are not directly related to, the cost of installing a new tenant. Leasing commission costs are similarly subject to significant fluctuations depending upon the length of leases being signed and the mix of tenants from quarter to quarter.

As of June 30, 2016, there were approximately 1.1 million rentable square feet of space in our portfolio available to lease (excluding leases signed but not yet commenced) representing 10.6% of the net rentable square footage of the properties in our portfolio. In addition, leases representing 3.0% and 6.8% of net rentable square footage of the properties in our portfolio will expire in 2016 and in 2017, respectively. These leases are expected to represent approximately 3.5% and 7.5%, respectively, of our annualized rent for such periods. Our revenues and results of operations can be impacted by expiring leases that are not renewed or re-leased or that are renewed or re-leased at base rental rates equal to, above or below the current average base rental rates. Further, our revenues and results of operations can also be affected by the costs we incur to re-lease available space, including payment of leasing commissions, redevelopments and build-to-suit remodeling that may not be borne by the tenant.

We believe that as we complete the redevelopment and repositioning of our properties we will, over the long-term, experience increased occupancy levels and rents. Over the short term, as we renovate and reposition our properties, which includes aggregating smaller spaces to offer large blocks of space, we may experience lower occupancy levels as a result of having to relocate tenants to alternative space and the strategic expiration of existing leases. We believe that despite the short-

term lower occupancy levels we may experience, we will continue to experience increased rental revenues as a result of the increased rents which we expect to obtain following the redevelopment and repositioning of our properties.

Observatory and Broadcasting Operations

The Empire State Building Observatory revenue for the second quarter 2016 was \$31.8 million, compared to \$30.6 million for the second quarter 2015. The Observatory hosted approximately 1,124,000 visitors in the second quarter 2016 versus 1,165,000 visitors in the second quarter 2015. In the second quarter of 2016, there were two bad weather weekend days. This compares to the second quarter of 2015, in which there were five bad weather weekend days. In addition, Easter weekend was in the first quarter in 2016 and was in the second quarter in 2015.

For the six months ended June 30, 2016, the Empire State Building Observatory hosted 1,843,000 visitors versus 1,787,000 visitors from the same period in 2015. Observatory revenue was \$53.0 million for the six months ended June 30, 2016, an 8.6% increase from \$48.8 million for the six months ended June 30, 2015. For the six months of 2016, there were four bad weather weekend days. This compares to the six months of 2015, in which there were 14 bad weather weekend days.

Observatory revenues and admissions are dependent upon the following: (i) the number of tourists (domestic and international) that come to New York City and visit the observatory, as well as any related tourism trends; (ii) the prices per admission that can be charged; (iii) seasonal trends affecting the number of visitors to the observatory; (iv) competition, in particular from the One World Trade Center and Rockefeller Center observatories; and (v) weather trends.

We license the use of the Empire State Building mast to third party television and radio broadcasters and providers of data communications. We also lease space in the upper floors of the building to such licensees to house their transmission equipment and related facilities. During the six months ended June 30, 2016, we derived \$10.8 million of revenue and \$3.9 million of expense reimbursements from the Empire State Building's broadcasting licenses and related leases. The broadcasting licenses and related leases generally expire between 2016 and 2025. The business of broadcasting TV and radio signals over the air is in flux, due to deteriorating industry fundamentals and the upcoming Federal Communications Commission spectrum auction, and there is a new competitor in the market at One World Trade Center. We have made preliminary renewal proposals which, if accepted, would yield reduced revenues and higher capital expenditures.

We have renewed and extended our leases with Univision Television Group from their current expirations in 2016 and 2018 to a new expiration in December 2025. Three of our existing broadcast tenants, CBS Broadcasting, NBC Universal Media, and WNET have notified us that they will vacate the Empire State Building at the end of their current lease terms. The non-renewing leases with CBS, NBC and WNET generated approximately \$6.3 million in aggregate revenue in 2015, inclusive of expense reimbursements, and their leases expire in 2017 and 2018. Revenue from Univision totaled approximately \$2.9 million, inclusive of expense reimbursements in 2015. Effective January 2016, annual revenue from Univision adjusted to an initial amount of \$1.9 million, and is subject to escalations.

We renewed and extended our lease and licenses with Emmis Communications, which operates three FM radio stations at the Empire State Building, for 16 years. For the year ended December 31, 2015, revenue from Emmis Communications totaled approximately \$1.7 million (inclusive of expense reimbursements). Effective January 2016, annual revenue from Emmis Communications adjusted to an initial amount of \$1.3 million, and is subject to escalations.

Critical Accounting Estimates

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. One of the principal market risks facing us is interest rate risk on our variable rate indebtedness. As of June 30, 2016, our variable rate debt of \$305.0 million represented 4.4% of our total enterprise value.

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes, we may mitigate the risk of interest rate volatility through the use of hedging instruments, such as interest rate swap agreements and interest rate cap agreements. Our primary objectives when undertaking hedging transactions and derivative positions will be to reduce our floating rate exposure and to fix a portion of the interest rate for anticipated financing and refinancing transactions. This in turn will reduce the risk that the variability of cash flows will impose on floating rate debt.

However, we can provide no assurances that our efforts to manage interest rate volatility will successfully mitigate the risks of such volatility on our portfolio. We are not subject to foreign currency risk.

We are exposed to interest rate changes primarily on our unsecured revolving credit facility. Our objectives with respect to interest rate risk are to limit the impact of interest rate changes on operations and cash flows, and to lower our overall borrowing costs. To achieve these objectives, we may borrow at fixed rates and may enter into derivative financial instruments such as interest rate swaps or caps in order to mitigate our interest rate risk on a related floating rate financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes.

During 2015 we entered into three interest rate LIBOR swaps with effective dates of July 5, 2017 and August 31, 2017 and an aggregate notional value of \$465.0 million, which fixes interest rates at 2.1485% and 2.5050%, and mature between August 24, 2022 and July 5, 2027. These interest rate swaps have been designated as cash flow hedges and are deemed effective as of June 30, 2016 with a net liability fair value of \$32.2 million which is included in accounts payable and accrued expenses on the condensed consolidated balance sheet.

Based on our variable rate debt balances, interest expense would have increased by approximately \$3.0 million if short-term interest rates had been 1% higher. As of June 30, 2016, the weighted average interest rate on the \$1.4 billion of fixed-rate indebtedness outstanding was 4.55% per annum, each with maturities at various dates through March 27, 2030.

As of June 30, 2016, the fair value of our outstanding debt was approximately \$1.7 billion, which was approximately \$45.2 million more than the historical book value as of such date. Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of June 30, 2016, the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our

disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

48

No changes to our internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 8 to the Notes to Condensed Consolidated Financial Statements for a description of legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in the section entitled "Risk Factors" in our December 31, 2015 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The information under the heading "Exhibit Index" below is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMPIRE STATE REALTY TRUST, INC.

Date: August 3, 2016 By:/s/ David A. Karp
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 3, 2016 By:/s/ Andrew J. Prentice
Senior Vice President, Chief Accounting Officer and Treasurer
(Principal Accounting Officer)

Exhibit Index

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Document
101.DEF*	XBRL Taxonomy Extension Definitions Document
101.LAB*	XBRL Taxonomy Extension Labels Document
101.PRE*	XBRL Taxonomy Extension Presentation Document

Notes:

* Filed herewith.