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Empire State Realty Trust, Inc.
Form 10-Q
May 07, 2014

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 March 31, 2014

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

(State or other jurisdiction of incorporation or organization)

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

94,495,247

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

1,122,130

(Class)

(Outstanding on May 5, 2014)

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DEFINITIONS

"annualized rent" represents annualized base rent and current reimbursement for operating expenses and real estate taxes;

"formation transactions" mean a series of transactions pursuant to which we acquired, substantially currently with the completion of the Offering on October 7, 2013 through a series of contributions and merger transactions, our portfolio of real estate assets that were held by the existing entities, the ownership interests in the certain management entities of our predecessor and one development parcel;

"fully diluted basis" means all outstanding shares of our Class A common stock at such time plus shares of Class A common stock that may be issuable upon the exchange of operating partnership units on a one-for-one basis and shares of Class A common stock issuable upon the conversion of Class B common stock on a one-for-one basis, which is not the same as the meaning of "fully diluted" under generally accepted accounting principles in the United States of America, or "GAAP";

"enterprise value" means all outstanding shares of our Class A common stock at such time plus shares of Class A common stock that may be issuable upon the exchange of operating partnership units on a one-for-one basis and shares of Class A common stock issuable upon the conversion of Class B common stock on a one-for-one basis multiplied by the Class A common share price at March 31, 2014 plus consolidated debt at March 31, 2014;

"greater New York metropolitan area" means Fairfield County, Connecticut and Westchester County, New York;

"Malkin Group" means all of the following, as a group: Anthony E. Malkin, Peter L. Malkin and each of their spouses and lineal descendants (including spouses of such descendants), any estates of any of the foregoing, any trusts now or hereafter established for the benefit of any of the foregoing, or any corporation, partnership, limited liability company or other legal entity controlled by Anthony E. Malkin or any permitted successor in such entity for the benefit of any of the foregoing; provided, however that solely with respect to tax protection rights and parties who entered into the contribution agreements with respect to the formation transactions, the Malkin Group shall also include the lineal descendants of Lawrence A. Wien and his spouse (including spouses of such descendants), any estates of the foregoing, any trusts now or hereafter established for the benefit of any of the foregoing, or any corporation, partnership, limited liability company or other legal entity controlled by Anthony E. Malkin for the benefit of the foregoing;

"the Offering" means the initial public offering of our Class A common stock;

"option properties" mean our right to acquire long-term leasehold and/or sub-leasehold interests in 1400 Broadway and/or 112 West 34th Street (including fee title interest in a small connected structure at 122 West 34th Street);

"our company," "we," "us" and "our" refer to Empire State Realty Trust, Inc., a Maryland real estate investment trust, together with its consolidated subsidiaries, including Empire State Realty OP, L.P., a Delaware limited partnership, which we refer to as "our operating partnership";

"our predecessor" means a combination of (i) controlling interests in (a) 16 office and retail properties, (b) one development parcel, and (c) certain management companies, which were owned by certain entities that Anthony E. Malkin and Peter L. Malkin, as sponsors, owned interests in and controlled, which we collectively refer to as the controlled entities, and (ii) non-controlling interests in four office properties (which include two of the 16 properties set forth in (i) above), held through entities which we collectively refer to as the "non-controlled entities," and are presented as uncombined entities in our consolidated financial statements. Specifically, the term "our predecessor"

means (i) Malkin Holdings LLC, a New York

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limited liability company that acted as the supervisor of, and performed various asset management services and routine administration with respect to, certain of the existing entities, which we refer to as “the supervisor;” (ii) the limited liability companies or limited partnerships that previously (a) owned, directly or indirectly and either through a fee interest or a long-term leasehold in the underlying land, and/or (b) operated, directly or indirectly and through a fee interest, an operating lease, an operating sublease or an operating sub-sublease, the 18 office and retail properties (which include non-controlling interests in four office properties for which Malkin Holdings LLC acted as the supervisor but that are not consolidated into our predecessor for accounting purposes) and entitled land that will support the development of an approximately 380,000 rentable square foot office building and garage that we own after the formation transactions, which we refer to as the “existing entities;” (iii) Malkin Properties, L.L.C., a New York limited liability company that served as the manager and leasing agent for certain of the existing entities in Manhattan, which we refer to as “Malkin Properties;” (iv) Malkin Properties of New York, L.L.C., a New York limited liability company that served as the manager and leasing agent for certain of the existing entities in Westchester County, New York, which we refer to as “Malkin Properties NY;” (v) Malkin Properties of Connecticut, Inc., a Connecticut corporation that served as the manager and leasing agent for certain of the existing entities in the State of Connecticut, which we refer to as “Malkin Properties CT;” and (vi) Malkin Construction Corp., a Connecticut corporation that is a general contractor and provided services to certain of the existing entities and third parties (including certain tenants at the properties in our portfolio), which we refer to as “Malkin Construction.” The term “the predecessor’s management companies” refers to the supervisor, Malkin Properties, Malkin Properties NY, Malkin Properties CT and Malkin Construction, collectively;

• "securityholder" means holders of our Class A common stock and Class B common stock and holders of our operating partnership's Series ES, Series 250, Series 60 and Series PR operating partnership units.

• "traded OP units" mean our operating partnership's Series ES, 60 and 250 operating partnership units.

ITEM 1. FINANCIAL STATEMENTS

Empire State Realty Trust, Inc.

Condensed Consolidated Balance Sheets

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

	March 31, 2014	December 31, 2013
ASSETS	(unaudited)	
Commercial real estate properties, at cost:		
Land	\$ 187,566	\$ 187,566
Development costs	6,459	6,459
Building and improvements	1,473,665	1,455,398
	1,667,690	1,649,423
Less: accumulated depreciation	(315,256)	(295,351)
Commercial real estate properties, net	1,352,434	1,354,072
Cash and cash equivalents	44,703	60,743
Restricted cash	54,832	55,621
Tenant and other receivables, net of allowance of \$1,342 and \$499 in 2014 and 2013, respectively	29,644	24,817
Deferred rent receivables, net of allowance of \$534 and \$216 in 2014 and 2013, respectively	74,971	62,689
Prepaid expenses and other assets	23,535	35,407
Deferred costs, net	79,032	78,938
Acquired below-market ground lease, net	61,886	62,312
Acquired lease intangibles, net	237,900	249,983
Goodwill	491,479	491,479
Total assets	\$ 2,450,416	\$ 2,476,061
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 878,545	\$ 883,112
Term loan and credit facility	325,000	325,000
Accounts payable and accrued expenses	71,712	81,908
Acquired below-market leases, net	125,106	129,882
Deferred revenue and other liabilities	22,574	21,568
Tenants' security deposits	32,939	31,406
Total liabilities	1,455,876	1,472,876
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, 94,496,534 and 94,484,023 shares issued and outstanding in 2014 and 2013, respectively	945	945
Class B common stock, \$0.01 par value per share, 50,000,000 shares authorized, 1,122,130 shares issued and outstanding in 2014 and 2013, respectively	11	11
Additional paid-in capital	316,683	316,558
Retained earnings	63,885	67,644
Total Empire State Realty Trust, Inc.'s stockholders' equity	381,524	385,158
Non-controlling interests in operating partnership	613,016	618,027

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Total equity	994,540	1,003,185
Total liabilities and equity	\$2,450,416	\$2,476,061

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended March 31,	
	2014	2013
	The Company	The Predecessor
Revenues:		
Rental revenue	\$90,204	\$45,266
Tenant expense reimbursement	15,153	6,589
Observatory revenue	17,301	—
Construction revenue	14,963	6,182
Third-party management and other fees	611	2,657
Other revenue and fees	2,074	1,726
Total revenues	140,306	62,420
Operating expenses:		