Empire State Realty Trust, Inc.
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36105
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.)

111 West 33rd Street, 12th Floor
New York, New York 10120
(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 x No o
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 x No o
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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
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 164,463,762

Class B Common Stock, par value $0.01 per share	1,047,473
(Class)	(Outstanding on April 30, 2018)

EMPIRE STATE REALTY TRUST, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018
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ITEM 1. FINANCIAL STATEMENTS
Empire State Realty Trust, Inc.
Condensed Consolidated Balance Sheets
(amounts in thousands, except share and per share amounts)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Commercial real estate properties, at cost:		
Land	$201,196	$201,196
Development costs	7,986	7,986
Building and improvements	2,495,901	2,458,473
	2,705,083	2,667,655
Less: accumulated depreciation	(678,250)	(656,900)
Commercial real estate properties, net	2,026,833	2,010,755
Cash and cash equivalents	690,471	464,344
Restricted cash	61,699	65,853
Tenant and other receivables, net of allowance of $1,128 and $1,422 in 2018 and 2017, respectively	25,156	28,329
Deferred rent receivables, net of allowance of $0 and $185 in 2018 and 2017, respectively	184,667	178,629
Prepaid expenses and other assets	39,393	61,028
Deferred costs, net	255,844	262,701
Acquired below-market ground leases, net	366,271	368,229
Goodwill	491,479	491,479
Total assets	$4,141,813	$3,931,347
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$610,826	$717,164
Senior unsecured notes, net	1,043,677	707,895
Unsecured term loan facility, net	263,777	263,662
Unsecured revolving credit facility	—	—
Accounts payable and accrued expenses	106,830	110,849
Acquired below-market leases, net	62,418	66,047
Deferred revenue and other liabilities	37,499	40,907
Tenants' security deposits	43,448	47,086
Total liabilities	2,168,475	1,953,610
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, 163,321,049 shares issued and outstanding and 160,424,575 shares issued and outstanding in 2018 and 2017, respectively	1,633	1,604
Class B common stock, $0.01 par value per share, 50,000,000 shares authorized, 1,048,161 and 1,052,469 shares issued and outstanding in 2018 and 2017, respectively	10	11
Additional paid-in capital	1,138,600	1,128,460
Accumulated other comprehensive loss	(6,037)	(8,555)
Retained earnings	39,323	46,762

Total Empire State Realty Trust, Inc.'s stockholders' equity	1,173,529	1,168,282
Non-controlling interests in operating partnership	791,805	801,451
Private perpetual preferred units, $16.62 per unit liquidation preference, 1,560,360 issued and outstanding in 2018 and 2017	8,004	8,004
Total equity	1,973,338	1,977,737
Total liabilities and equity	$4,141,813	$3,931,347

The accompanying notes are an integral part of these consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Rental revenue	$122,311	$117,113
Tenant expense reimbursement	17,794	15,974
Observatory revenue	21,249	20,940
Lease termination fees	622	7,938
Third-party management and other fees	463	351
Other revenue and fees	6,057	2,638
Total revenues	168,496	164,954
Operating expenses:		
Property operating expenses	44,185	42,210
Ground rent expenses	2,331	2,331
General and administrative expenses	12,628	11,088
Observatory expenses	7,336	7,255
Real estate taxes	26,744	24,558
Depreciation and amortization	39,883	40,846
Total operating expenses	133,107	128,288
Total operating income	35,389	36,666
Other expenses:		
Interest expense	(17,591)	(17,742)
Loss from derivative financial instruments	—	(247)
Income before income taxes	17,798	18,677
Income tax benefit	260	468
Net income	18,058	19,145
Private perpetual preferred unit distributions	(234)	(234)
Net income attributable to non-controlling interests	(8,056)	(8,926)
Net income attributable to common stockholders	$9,768	$9,985
Total weighted average shares:		
Basic	162,667	156,493
Diluted	296,827	297,962
Earnings per share attributable to common stockholders:		
Basic	$0.06	$0.06
Diluted	$0.06	$0.06
Dividends per share	$0.105	$0.105

The accompanying notes are an integral part of these consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Net income	$18,058	$19,145
Other comprehensive income:		
Unrealized gain on valuation of interest rate swap agreements	4,180	1,394
Less amount reclassified into interest expense	599	—
Other comprehensive income	4,779	1,394
Comprehensive income	22,837	20,539
Net income attributable to non-controlling interests and private perpetual preferred unitholders	(8,290)	(9,160)
Other comprehensive income attributable to non-controlling interests	(2,160)	(658)
Comprehensive income attributable to common stockholders	$12,387	$10,721

The accompanying notes are an integral part of these consolidated financial statements

Empire State Realty Trust, Inc.
Condensed Consolidated Statements of Stockholders' Equity
For The Three Months Ended March 31, 2018
(unaudited)
(amounts in thousands)

	Number of Class A Common Shares	Class A Common Stock	Number of Class B Common Shares	Class B Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Non-controlling Interests	Private Perpetual Preferred Units	Total Equit
Balance at December 31, 2017	160,425	$1,604	1,052	$11	$1,128,460	$(8,555)	$46,762	$1,168,282	$801,451	$8,004	$1,977,737
Conversion of operating partnership units and Class B shares to Class A shares	2,870	29	(4)	(1)	10,162	(101)	—	10,089	(10,089)	—	—
Equity compensation:											
LTIP units	—	—	—	—	—	—	—	—	4,577	—	4,577
Restricted stock, net of forfeitures	26	—	—	—	(22)	—	—	(22)	—	—	(22
Dividends and distributions	—	—	—	—	—	—	(17,207)	(17,207)	(14,350)	(234)	(31,791
Net income	—	—	—	—	—	—	9,768	9,768	8,056	234	18,058
Other comprehensive income (loss)	—	—	—	—	—	2,619	—	2,619	2,160	—	4,779
Balance at March 31, 2018	163,321	$1,633	1,048	$10	$1,138,600	$(6,037)	$39,323	$1,173,529	$791,805	$8,004	$1,973,338

The accompanying notes are an integral part of these consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities		
Net income	$18,058	$19,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,883	40,846
Amortization of non-cash items within interest expense	993	225
Amortization of acquired above- and below-market leases, net	(1,168)	(1,428)
Amortization of acquired below-market ground leases	1,958	1,958
Straight-lining of rental revenue	(5,853)	(5,931)
Equity based compensation	4,555	3,154
Unrealized loss from derivative financial instruments	—	104
Increase (decrease) in cash flows due to changes in operating assets and liabilities:		
Security deposits	(3,637)	15
Tenant and other receivables	2,989	1,963
Deferred leasing costs	(7,372)	(7,733)
Prepaid expenses and other assets	25,738	17,867
Accounts payable and accrued expenses	(4,176)	(8,141)
Deferred revenue and other liabilities	(3,408)	(1,115)
Net cash provided by operating activities	68,560	60,929
Cash Flows From Investing Activities		
Development costs	—	(26)
Additions to building and improvements	(44,112)	(47,040)
Net cash used in investing activities	(44,112)	(47,066)

The accompanying notes are an integral part of these consolidated financial statements

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Financing Activities		
Proceeds from mortgage notes payable	160,000	—
Repayment of mortgage notes payable	(263,863)	(3,167)
Proceeds from unsecured senior notes	335,000	—
Deferred financing costs	(1,821)	(45)
Private perpetual preferred unit distributions	(234)	(234)
Dividends paid to common stockholders	(17,207)	(16,482)
Distributions paid to non-controlling interests in the operating partnership	(14,350)	(14,914)
Net cash provided (used in) by financing activities	197,525	(34,842)
Net increase (decrease) in cash and cash equivalents and restricted cash	221,973	(20,979)
Cash and cash equivalents and restricted cash—beginning of period	530,197	615,885
Cash and cash equivalents and restricted cash—end of period	$752,170	$594,906
Reconciliation of Cash and Cash Equivalents and Restricted Cash:		
Cash and cash equivalents at beginning of period	464,344	554,371
Restricted cash at beginning of period	65,853	61,514
Cash and cash equivalents and restricted cash at beginning of period	530,197	615,885
Cash and cash equivalents at end of period	690,471	532,442
Restricted cash at end of period	61,699	62,464
Cash and cash equivalents and restricted cash at end of period	752,170	594,906
Supplemental disclosures of cash flow information:		
Cash paid for interest	$16,989	$19,073
Cash paid for income taxes	$659	$507
Non-cash investing and financing activities:		
Building and improvements included in accounts payable and accrued expenses	$74,008	$67,614
Derivative instruments at fair values included in prepaid expenses and other assets	4,103	1,547
Derivative instruments at fair values included in accounts payable and accrued expenses	—	5,234
Conversion of operating partnership units and Class B shares to Class A shares	10,089	7,809

The accompanying notes are an integral part of these consolidated 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 ("REIT") that owns, manages, operates, acquires and repositions office and retail properties in Manhattan and the greater New York metropolitan area.

As of March 31, 2018, 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 7.6 million rentable square feet of office space, including the Empire State Building. Our Manhattan office properties also contain an aggregate of 506,352 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. As of March 31, 2018, our portfolio included four standalone retail properties located in Manhattan and two standalone retail properties located in the city center of Westport, Connecticut, encompassing 205,708 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. (the "Operating Partnership"), holds substantially all of our assets and conducts substantially all of our business. As of March 31, 2018, we owned approximately 54.2% of the aggregate operating partnership units in the Operating Partnership. We, as the sole general partner in the Operating Partnership, have responsibility and discretion in the management and control of the Operating Partnership, and the limited partners in the Operating Partnership, in such capacity, have no authority to transact business for, or participate in the management activities of, the Operating Partnership. Accordingly, the 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, 2017 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.

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, 2017 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. For variable interest entities ("VIE"), we consolidate the entity if we are deemed to have a variable interest in the entity and through that interest we are deemed 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. The Operating Partnership is a variable interest entity of our company, Empire State Realty Trust, Inc. As the Operating Partnership is already consolidated in the financial statements of Empire State Realty Trust, Inc., the identification of this entity as a variable interest entity has no impact on our consolidated financial statements.

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 tenant expense reimbursements, 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.

Reclassification

Certain prior year balances have been reclassified to conform to our current year presentation. The prior year balances of other revenues and interest expense have been reclassified to separately present lease termination fees and loss on early extinguishment of debt, respectively.

Recently Issued or Adopted Accounting Standards

During January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which contain amendments that modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. ASU No. 2017-04 should be applied on a prospective basis and the amendments adopted for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the impact of adopting this new accounting standard on our consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which contain amendments to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in ASU No. 2017-01 provide a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Real estate acquisitions that do not meet the definition of a business will be accounted for as asset acquisitions and the corresponding acquisition costs will be capitalized rather than expensed. These amendments narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606, Revenue from Contracts with Customers. ASU No. 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments are applied prospectively on or after the effective date. No disclosures are required at transition. We believe that acquisitions of real estate properties will generally be considered asset acquisitions.

During November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which contain amendments that require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted this standard on January 1, 2018 using a retrospective transition method. The adoption did not have a material impact on our consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard on January 1, 2018 using a retrospective transition method. The adoption did not have a material impact on our consolidated financial statements.

During June 2016, the FASB issued 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. This ASU is expected to result in the recognition of a right-to-use asset and related liability to account for our future obligations under our ground lease agreements for which we are the lessee. As of March 31, 2018, the remaining contractual payments under our ground lease agreements aggregated $60.9 million. In addition, under ASU 2016-02, lessors may only capitalize incremental direct leasing costs. As a result, we expect that we will no longer capitalize our internal leasing costs and instead will expense these costs as incurred. These costs totaled $2.6 million for the year ended December 31, 2017. We continue to evaluate the impact of adopting this new accounting standard on our consolidated financial statements.

During May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which replaces 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. We adopted this standard on January 1, 2018 and it did not have a material impact on our consolidated financial statements.

3. Deferred Costs, Acquired Lease Intangibles and Goodwill

Deferred costs, net, consisted of the following as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	March 31, 2018	December 31, 2017
Leasing costs	$166,908	$ 164,751
Acquired in-place lease value and deferred leasing costs	227,086	237,364
Acquired above-market leases	63,191	67,415
	457,185	469,530
Less: accumulated amortization	(209,143)	(215,102)
Total deferred costs, net, excluding net deferred financing costs	$248,042	$ 254,428

At March 31, 2018 and December 31, 2017, $7.8 million and $8.3 million, respectively, 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 $6.2 million and $6.2 million for the three months ended March 31, 2018 and 2017, respectively. Amortization expense related to acquired lease intangibles was $3.4 million and $4.4 million for the three months ended March 31, 2018 and 2017, respectively.

Amortizing acquired intangible assets and liabilities consisted of the following as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	March 31, 2018	December 31, 2017
Acquired below-market ground leases	$396,916	$ 396,916
Less: accumulated amortization	(30,645)	(28,687)
Acquired below-market ground leases, net	$366,271	$ 368,229

	March 31, 2018	December 31, 2017
Acquired below-market leases	$(124,615)	$ (132,026)
Less: accumulated amortization	62,197	65,979
Acquired below-market leases, net	$(62,418)	$ (66,047)

Rental revenue related to the amortization of below-market leases, net of above-market leases, was $1.2 million and $1.4 million for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, 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.

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4. Debt

Debt consisted of the following as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	Principal Balance		As of March 31, 2018		
	March 31, 2018	December 31, 2017	Stated Rate	Effective Rate[1]	Maturity Date[2]
Mortgage debt collateralized by:					
Fixed rate mortgage debt					
Metro Center	$93,428	$93,948	3.59%	3.68 %	11/5/2024
10 Union Square	50,000	50,000	3.70%	3.97 %	4/1/2026
1542 Third Avenue	30,000	30,000	4.29%	4.54 %	5/1/2027
First Stamford Place[3]	180,000	180,000	4.28%	4.39 %	7/1/2027
1010 Third Avenue and 77 West 55th Street	39,534	39,710	4.01%	4.22 %	1/5/2028
10 Bank Street	34,399	34,602	4.23%	4.35 %	6/1/2032
383 Main Avenue	30,000	30,000	4.44%	4.55 %	6/30/2032
1333 Broadway	160,000	66,602	4.21%	4.21 %	2/5/2033
1400 Broadway					
(first lien mortgage loan)	—	66,632	—	—	—
(second lien mortgage loan)	—	9,172	—	—	—
111 West 33rd Street					
(first lien mortgage loan)	—	74,045	—	—	—
(second lien mortgage loan)	—	9,369	—	—	—
1350 Broadway	—	37,144	—	—	—
Total mortgage debt	617,361	721,224			
Senior unsecured notes - exchangeable	250,000	250,000	2.63%	3.93 %	8/15/2019
Senior unsecured notes:[6]					
Series A	100,000	100,000	3.93%	3.96 %	3/27/2025
Series B	125,000	125,000	4.09%	4.12 %	3/27/2027
Series C	125,000	125,000	4.18%	4.21 %	3/27/2030
Series D	115,000	115,000	4.08%	4.11 %	1/22/2028
Series E	160,000	—	4.26%	4.26 %	3/22/2030
Series F	175,000	—	4.44%	4.44 %	3/22/2033
Unsecured revolving credit facility[6]	—	—	[4]	[4]	8/29/2021
Unsecured term loan facility[6]	265,000	265,000	[5]	[5]	8/29/2022
Total principal	1,932,361	1,701,224			
Unamortized discount, net of unamortized premium	(3,651)	(3,370)			
Deferred financing costs, net	(10,430)	(9,133)			
Total	$1,918,280	$1,688,721			

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(1) The effective rate is the yield as of March 31, 2018, 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) Represents a $164 million mortgage loan bearing interest at 4.09% and a $16 million loan bearing interest at 6.25%.

(4) At March 31, 2018, the unsecured revolving credit facility bears a floating rate at 30 day LIBOR plus 1.10%. The rate at March 31, 2018 was 2.98%.

(5) The unsecured term loan facility bears a floating rate at 30 day LIBOR plus 1.20%. Pursuant to an interest rate swap agreement, the LIBOR rate is fixed at 2.1485% through maturity. The rate at March 31, 2018 was 3.35%.
(6) At March 31, 2018, we were in compliance with all debt covenants.

Mortgage Debt

During January 2018, we refinanced and increased our mortgage debt on 1333 Broadway from $66.6 million to $160.0 million, due February 2033 with interest fixed at 4.21%. A portion of this increase was applied to release the $75.8 million mortgage lien on 1400 Broadway.

Principal Payments

Aggregate required principal payments at March 31, 2018 are as follows (amounts in thousands):

Year	Amortization	Maturities	Total
2018	$ 2,749	$—	$2,749
2019	3,790	250,000	253,790
2020	3,938	—	3,938
2021	4,090	—	4,090
2022	5,628	265,000	270,628
Thereafter	41,744	1,355,422	1,397,166
Total	$ 61,939	$1,870,422	$1,932,361

Deferred Financing Costs

Deferred financing costs, net, consisted of the following at March 31, 2018 and December 31, 2017 (amounts in thousands):

	March 31, 2018	December 31, 2017
Financing costs	$25,587	$24,446
Less: accumulated amortization	(7,364)	(7,039)
Total deferred financing costs, net	$18,223	$17,407

At March 31, 2018 and December 31, 2017, $7.8 million and $8.3 million, respectively, 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 financing costs was $1.0 million and $1.3 million for the three months ended March 31, 2018 and 2017, respectively, and was included in interest expense.

Unsecured Revolving Credit and Term Loan Facility

During August 2017, through the Operating Partnership, we entered into an amended and restated senior unsecured revolving credit and term loan facility (the "Facility") with Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC as Joint Lead Arrangers and Joint Bookrunners, Wells Fargo, National Association and Capital One, National Association, as co-syndication agents, and the lenders party thereto.

The Facility is in the original principal amount of up to $1.365 billion, which consists of a $1.1 billion revolving credit facility and a $265 million term loan facility. We may request the Facility be increased through one or more increases in the revolving credit facility or one or more increases in the term loan facility or the addition of new pari passu term loan tranches, for a maximum aggregate principal amount not to exceed $1.75 billion.

The initial maturity of the unsecured revolving credit facility is August 2021. 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 0.0625% and 0.075% of the then outstanding commitments under the unsecured revolving credit facility on the first and the second extensions, respectively. The term loan facility matures on August 2022. We may prepay the loans under the Facility at any time, subject to reimbursement of the lenders' breakage and redeployment costs in the case of prepayment of Eurodollar Rate borrowings.

Exchangeable Senior Notes

Issued in August 2014, the $250.0 million 2.625% Exchangeable Senior Notes (“2.625% Exchangeable Senior Notes”) are due August 15, 2019. The 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 it is our intent and ability to settle the principal amount of the 2.625% Exchangeable Senior Notes in cash. As of March 31, 2018, the exchange rate of the 2.625% Exchangeable Senior Notes was 51.8215 shares per $1,000 principal amount of notes (equivalent to an initial exchange price of approximately $19.30 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 months ended March 31, 2018, total interest expense related to the 2.625% Exchangeable Senior Notes was $2.4 million consisting of (i) the contractual interest expense of $1.6 million, (ii) the additional non-cash interest expense of $0.7 million relating to the accretion of the debt discount, and (iii) the amortization of deferred financing costs of $0.1 million. For the three months ended March 31, 2017, total interest expense related to the 2.625% Exchangeable Senior Notes was $2.4 million consisting of (i) the contractual interest expense of $1.6 million, (ii) the additional non-cash interest expense of $0.7 million relating to the accretion of the debt discount, and (iii) the amortization of deferred financing costs of $0.1 million.

Senior Unsecured Notes

During December 2017, we entered into an agreement to issue and sell an aggregate principal amount of $450.0 million of senior unsecured notes consisting of $115.0 million of 4.08% Series D Senior Notes due 2028, $160.0 million of 4.26% Series E Senior Notes due 2030, and $175.0 million of 4.44% Series F Senior Notes due 2033. We issued and sold the Series D Senior Notes in December 2017 and the Series E and F Senior Notes in March 2018. In connection with the March 2018 issuance of the notes, we repaid our mortgage indebtedness on 111 West 33rd Street and 1350 Broadway, before their maturity dates in early April 2018.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	March 31, 2018	December 31, 2017
Accrued capital expenditures	$74,008	$ 71,769
Accounts payable and accrued expenses	28,516	32,509
Interest rate swap agreements liability	—	436
Accrued interest payable	3,642	5,687
Due to affiliated companies	664	448
Total accounts payable and accrued expenses	$106,830	$ 110,849

6. Financial Instruments and Fair Values

Derivative Financial Instruments

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 March 31, 2018, we did not have any derivatives in a net liability position.

As of March 31, 2018 and December 31, 2017, we had one interest rate LIBOR swap with an aggregate notional value of $265.0 million. The notional value does not represent exposure to credit, interest rate or market risks. As of March 31, 2018, the fair value of this derivative instrument amounted to $4.1 million which is included in prepaid expenses and other assets on the condensed consolidated balance sheet. As of December 31, 2017, the fair value of this derivative instrument

amounted to ($0.4 million) which was included in accounts payable and accrued expenses on the condensed consolidated balance sheet. This interest rate swap has been designated as a cash flow hedge and hedges the future cash outflows on our term loan facility that is subject to a floating interest rate. As of March 31, 2018 and 2017, our cash flow hedges are deemed highly effective and a net unrealized gain of $4.8 million and $1.4 million for the three months ended March 31, 2018 and 2017, respectively, are reflected in the condensed consolidated statements of comprehensive income. 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 $0.04 million of the current balance held in accumulated other comprehensive income (loss) will be reclassified into interest expense within the next 12 months relating to the interest rate swap contract in effect as of March 31, 2018.
As of March 31, 2018 and December 31, 2017, the deferred net losses from terminated hedges amounted to $14.8 million and $15.1 million, respectively, which are included in accumulated other comprehensive income (loss) related to derivatives. We will reclassify into earnings, as an increase to interest expense, approximately $1.5 million within the next 12 months related to the deferred losses from the terminated hedges. For the three months ended March 31, 2017, we also recognized a $0.2 million loss from derivative financial instruments incurred in connection with the partial termination and re-designation of related cash flow hedges on a $20.0 million notional amount.
The table below summarizes the terms of the agreement and the fair value of our derivative financial instrument as of March 31, 2018 and December 31, 2017 (dollar amounts in thousands):

						March 31, 2018		December 31, 2017	
Derivative	Notional Amount	Receive Rate	Pay Rate	Effective Date	Expiration Date	Asset	Liability	Asset	Liability
Interest rate swap	$265,000	1 Month LIBOR	2.1485%	August 31, 2017	August 24, 2022	$4,103	$ —	$ —	$(436)
						$4,103	$ —	$ —	$(436)

The table below shows the effect of our derivative financial instruments designated as cash flow hedges on accumulated other comprehensive income (loss) for the three months ended March 31, 2018 and 2017 (amounts in thousands):

	Three Months Ended	
Effects of Cash Flow Hedges	March 31, 2018	March 31, 2017
Amount of gain (loss) recognized in other comprehensive income (loss)	$4,180	$1,394
Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into interest expense	(599)	—

The table below shows the effect of our derivative financial instruments designated as cash flow hedges on the condensed consolidated statements of income for the three months ended March 31, 2018 and 2017 (amounts in thousands):

	Three Months Ended	
Effects of Cash Flow Hedges	March 31, 2018	March 31, 2017
Total interest (expense) presented in the condensed consolidated statements of income in which the effects of cash flow hedges are recorded	$(17,591)	$(17,742)
Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into interest expense	(599)	—

Fair Valuation

The estimated fair values at March 31, 2018 and December 31, 2017 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 our senior unsecured notes - exchangeable was derived from quoted prices in active markets and is classified as Level 2 since trading volumes are low.

The fair value of derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Although the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. The impact of such credit valuation adjustments, determined based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of our derivatives were classified as Level 2 of the fair value hierarchy.

The fair value of our mortgage notes payable, senior unsecured notes - Series A, B, C, D, E and F, and unsecured term loan facility which are determined using Level 3 inputs, are estimated by discounting the future cash flows using current interest rates at which similar borrowings could be made to us.

The following tables summarize the carrying and estimated fair values of our financial instruments as of March 31, 2018 and December 31, 2017 (amounts in thousands):

	March 31, 2018				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
Interest rate swaps included in prepaid expenses and other assets	$4,103	$4,103	$ —	$4,103	$ —
Interest rate swaps included in accounts payable and accrued expenses	—	—	—	—	—
Mortgage notes payable	610,826	588,596	—	—	588,596
Senior unsecured notes - Exchangeable	245,556	257,903	—	257,903	—
Senior unsecured notes - Series A, B, C, D, E and F	798,121	791,005	—	—	791,005
Unsecured term loan facility	263,777	265,000	—	—	265,000

	December 31, 2017				
		Estimated Fair Value			
	Carrying Value	Total	Level 1	Level 2	Level 3
Interest rate swaps included in prepaid expenses and other assets	$ —	$ —	$ —	$ —	$ —
Interest rate swaps included in accounts payable and accrued expenses	436	436	—	436	—
Mortgage notes payable	717,164	707,300	—	—	707,300
Senior unsecured notes - Exchangeable	242,739	275,723	—	275,723	—
Senior unsecured notes - Series A, B, C and D	463,156	460,352	—	—	460,352
Unsecured term loan facility	263,662	265,000	—	—	265,000

Disclosure about the fair value of financial instruments is based on pertinent information available to us as of March 31, 2018 and December 31, 2017. Although we are not aware of any factors that would significantly affect the reasonable 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 spaces to tenants over terms ranging from one to 21 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

Except as described below, as of March 31, 2018, 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.

As previously disclosed, in October 2014, 12 former investors in Empire State Building Associates L.L.C. (“ESBA”), which prior to the initial public offering of our company (the "Offering"), owned the fee title to the Empire State Building, filed an arbitration with the American Arbitration Association against Peter L. Malkin, Anthony E. Malkin, Thomas N. Keltner, Jr., and our subsidiary ESRT MH Holdings LLC, the former supervisor of ESBA, as respondents. The statement of claim (also filed later in federal court in New York for the expressed purpose of tolling the statute of limitations) alleges breach of fiduciary duty and related claims in connection with the Offering and formation transactions and seeks monetary damages and declaratory relief. These investors had opted out of a prior class action bringing similar claims that was settled with court approval. The respondents filed an answer and counterclaims. In March 2015, the federal court action was stayed on consent of all parties pending the arbitration. Arbitration hearings for a select number of sessions started in May 2016 and are now scheduled through August 2018.

The respondents believe the allegations in the arbitration are entirely without merit, and they intend to continue to defend them vigorously.

Pursuant to indemnification agreements which were made with our directors, executive officers and chairman emeritus as part of our formation transactions, Anthony E. Malkin, Peter L. Malkin and Thomas N. Keltner, Jr. have defense and indemnity rights from us with respect to this arbitration.

Unfunded Capital Expenditures

At March 31, 2018, we estimate that we will incur approximately $88.0 million of capital expenditures (including tenant improvements and leasing commissions) on our properties pursuant to existing lease agreements. We expect to fund these capital expenditures with operating cash flow, additional property level mortgage financings, our unsecured credit facility, cash on hand and other borrowings. 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 March 31, 2018 were as follows (amounts in thousands):

2018	$1,138
2019	1,518
2020	1,518
2021	1,518
2022	1,518
Thereafter	53,694
	$60,904

Concentration of Credit Risk

Financial instruments that subject us to credit risk consist primarily of cash and cash equivalents, restricted cash, tenant and other receivables and deferred rent receivables. At March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, 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 of the Operating Partnership ("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 the 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 sufficient 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 the Operating Partnership. Each LTIP unit awarded will be deemed equivalent to an award of one share of stock under the First Amended and Restated 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, the 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 the Operating Partnership on a one-for-one basis.

LTIP units subject to time based vesting, whether vested or not, receive the same per unit distributions as OP units, which equal per share dividends (both regular and special) on our common stock. Performance based LTIP units 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

	March 31, 2018	March 31, 2017
Net income attributable to common stockholders	$9,768	$9,985
Increase in additional paid-in capital for the conversion of OP Units into common stock	10,162	7,811
Change from net income attributable to common stockholders and transfers from non-controlling interests	$19,930	$17,796

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As of March 31, 2018, there were 302,996,359 OP Units outstanding, of which 164,369,210, or 54.2%, were owned by us and 138,627,149, or 45.8%, were owned by other partners, including certain directors, officers and other members of executive management.

Dividends and Distributions

Total dividends paid to common stockholders were $17.2 million and $16.5 million for the three months ended March 31, 2018 and 2017, respectively. Total distributions paid to OP unitholders, excluding inter-company distributions, were $14.4 million and $14.9 million for the three months ended March 31, 2018 and 2017, respectively. Total distributions paid to preferred unitholders were $0.2 million and $0.2 million for the three months ended March 31, 2018 and 2017, 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 March 31, 2018, 4.4 million shares of common stock remain available for future issuance.

In March 2018, we made grants of LTIP units to executive officers under the 2013 Plan. At such time, we granted to executive officers a total of 386,876 LTIP units that are subject to time-based vesting and 1,737,917 LTIP units that are subject to performance-based vesting, with fair market values of $6.1 million for the time-based vesting awards and $9.6 million for the performance-based vesting awards. In March 2018, we made grants of LTIP units and restricted stock to certain other employees under the 2013 Plan. At such time, we granted to certain other employees a total of 67,449 LTIP units and 39,608 shares of restricted stock that are subject to time-based vesting and 223,950 LTIP units that are subject to performance-based vesting, with fair market values of $1.7 million for the time-based vesting awards and $1.1 million for the performance-based vesting awards. The awards subject to time-based vesting vest ratably over four years from January 1, 2018, subject generally to the grantee's continued employment. The first installment vests on January 1, 2019 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, 2018. 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, 2021 and the second installment vesting on January 1, 2022, subject generally to the grantee's continued employment on those dates.

In 2017, our board of directors determined to reinforce the alignment of our executive officers’ interests with that of stockholders by designing a new bonus election program, under which named executive officers could elect to receive their annual incentive bonus in any combination of (i) cash or vested LTIP's at the face amount of such bonus or (ii) time-vesting LTIP's which would vest over three years, subject to continued employment, at 125% of such face amount. In February 2018, we made grants of LTIP units to executive officers under the 2013 Plan in connection with the 2017 bonus election program. We granted to executive officers a total of 238,609 LTIP units that are subject to time based vesting with a fair market value of $4.0 million. Of these LTIP units, 25,158 LTIP units vested immediately on the grant date and 213,451 LTIP units vest ratably over three years from January 1, 2018, subject generally to the grantee's continued employment. The first installment vests on January 1, 2019 and the remainder will vest thereafter in two equal annual installments.

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 unit awards that are time-based, the fair value of the awards was estimated based on the fair value of our stock at the grant date discounted for the restriction period during which the LTIP units cannot be redeemed or transferred and the uncertainty regarding if, and when, the book capital account of the LTIP units will equal that of the common units. For restricted stock awards that are time-based, we estimate the stock compensation expense based on the fair value of the stock at the grant date.

LTIP units and restricted stock issued during the three months ended March 31, 2018 were valued at $22.6 million. The weighted-average per unit or share fair value was $8.38 for grants issued in 2018. The per unit or share granted in 2018 was estimated on the respective dates of grant using the following assumptions: an expected life of 5.6 years, a dividend rate of 2.30%, a risk-free interest rate of 2.50%, and an expected price volatility of 17.0%.
No other stock options, dividend equivalents, or stock appreciation rights were issued or outstanding in 2018.
The following is a summary of restricted stock and LTIP unit activity for the three months ended March 31, 2018:

	Restricted Stock	LTIP Units	Weighted Average Grant Fair Value
Unvested balance at December 31, 2017	90,791	3,588,609	$ 11.20
Vested	(28,123)	(437,558)	14.19
Granted	39,608	2,654,801	8.38
Forfeited or unearned	(6,101)	(94,173)	8.39
Unvested balance at March 31, 2018	96,175	5,711,679	$ 9.70

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 $1.2 million and $0.6 million for the three months ended March 31, 2018 and 2017, respectively. Unrecognized compensation expense was $1.3 million at March 31, 2018, which will be recognized over a weighted average period of 2.6 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 $3.4 million and $2.6 million for the three months ended March 31, 2018 and 2017, respectively. Unrecognized compensation expense was $40.5 million at March 31, 2018, which will be recognized over a weighted average period of 2.7 years.

Earnings Per Share

Earnings per share for the three months ended March 31, 2018 and 2017 is computed as follows (amounts in thousands, except per share amounts):

	Three Months Ended,	
	March 31, 2018	March 31, 2017
Numerator - Basic:		
Net income	$18,058	$19,145
Private perpetual preferred unit distributions	(234)	(234)
Net income attributable to non-controlling interests	(8,056)	(8,926)
Earnings allocated to unvested shares	(6)	(7)
Net income attributable to common stockholders - basic	$9,762	$9,978
Numerator - Diluted:		
Net income	$18,058	$19,145
Private perpetual preferred unit distributions	(234)	(234)
Earnings allocated to unvested shares	(6)	(7)
Net income attributable to common stockholders - diluted	$17,818	$18,904
Denominator:		
Weighted average shares outstanding - basic	162,667	156,493
Operating partnership units	134,157	139,895
Effect of dilutive securities:		
Stock-based compensation plans	3	775
Exchangeable senior notes	—	799
Weighted average shares outstanding - diluted	296,827	297,962
Earnings per share:		
Basic	$0.06	$0.06
Diluted	$0.06	$0.06

There were 419,347 and 622,565 antidilutive shares and LTIP units for the three months ended March 31, 2018 and 2017.

10. Related Party Transactions

Supervisory Fee Revenue

We earned supervisory fees from entities affiliated with Anthony E. Malkin, our Chairman and Chief Executive Officer, of $0.3 million and $0.3 million for the three months ended March 31, 2018 and 2017, respectively. These fees are included within third-party management and other fees.

Property Management Fee Revenue

We earned property management fees from entities affiliated with Anthony E. Malkin of $0.1 million and $0.1 million for the three months ended March 31, 2018 and 2017, respectively. These fees are included within third-party management and other fees.

Other

We receive rent generally at market rental rate for 5,351 square feet of leased space from entities affiliated with Anthony E. Malkin, at one of our properties. Under the lease, the tenant has the right to cancel such lease without special payment on 90 days' notice. We also have a shared use agreement with such tenant, to occupy a portion of the leased premises as the office location for Peter L. Malkin, our chairman emeritus and employee, utilizing approximately 15% of the space, for which we pay an allocable pro rata share of the cost to such tenant. We also have agreements with these entities to provide them with general computer-related support. Total revenue aggregated $0.1 million and $0.1 million for the three months ended March 31, 2018 and, 2017, respectively.

One of our directors, James D. Robinson IV, is a general partner in an investment fund, which owns more than a 10% economic and voting interest in one of our tenants, OnDeck Capital, with an annualized rent of $4.0 million as of March 31, 2018.

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 rent as if the sales or rent were to third parties, that is, at current market prices.

The following tables provide components of segment profit for each segment for the three months ended March 31, 2018 and 2017 (amounts in thousands):

	Three Months Ended March 31, 2018			
	Real Estate	Observatory	Intersegment Elimination	Total
Revenues:				
Rental revenue	$122,311	$ —	$ —	$122,311
Intercompany rental revenue	13,561	—	(13,561)	—
Tenant expense reimbursement	17,794	—		