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Empire State Realty Trust, Inc.
Form 10-Q
August 05, 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 June 30, 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

97,042,377

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

1,232,183

(Class)

(Outstanding on July 31, 2014)

EMPIRE STATE REALTY TRUST, INC.		
FORM 10-Q		
TABLE OF CONTENTS		PAGE
PART 1.	FINANCIAL INFORMATION	
ITEM 1.	FINANCIAL STATEMENTS	
	Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 (unaudited)	4
	Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013 (unaudited)	5
	Condensed Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2014 (unaudited)	6
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 (unaudited)	7
	Notes to Condensed Consolidated Financial Statements (unaudited)	9
ITEM 2.	MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	36
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	58
ITEM 4.	CONTROLS AND PROCEDURES	59
PART II.	OTHER INFORMATION	59
ITEM 1.	LEGAL PROCEEDINGS	59
ITEM 1A.	RISK FACTORS	59
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	60
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	60
ITEM 4.	MINE SAFETY DISCLOSURES	60
ITEM 5.	OTHER INFORMATION	60
ITEM 6.	EXHIBITS	60
	SIGNATURES	61

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 June 30, 2014 plus consolidated debt at June 30, 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;

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

"option properties" mean the 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) that we previously had a right to acquire and did acquire on July 15, 2014;

"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

2

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)

	June 30, 2014	December 31, 2013
ASSETS	(unaudited)	
Commercial real estate properties, at cost:		
Land	\$ 187,566	\$ 187,566
Development costs	6,861	6,459
Building and improvements	1,508,309	1,455,398
	1,702,736	1,649,423
Less: accumulated depreciation	(332,766)	(295,351)
Commercial real estate properties, net	1,369,970	1,354,072
Cash and cash equivalents	41,791	60,743
Restricted cash	55,482	55,621
Tenant and other receivables, net of allowance of \$1,082 and \$499 in 2014 and 2013, respectively	26,185	24,817
Deferred rent receivables, net of allowance of \$262 and \$216 in 2014 and 2013, respectively	85,948	62,689
Prepaid expenses and other assets	39,658	35,407
Deferred costs, net	77,035	78,938
Acquired below-market ground lease, net	61,460	62,312
Acquired lease intangibles, net	227,617	249,983
Goodwill	491,479	491,479
Total assets	\$ 2,476,625	\$ 2,476,061
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 873,863	\$ 883,112
Term loan and credit facility	355,000	325,000
Accounts payable and accrued expenses	74,807	81,908
Acquired below-market leases, net	120,219	129,882
Deferred revenue and other liabilities	18,722	21,568
Tenants' security deposits	34,170	31,406
Total liabilities	1,476,781	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, 94,491,598 shares issued and 94,486,204 shares outstanding in 2014 and 94,484,023 shares issued and outstanding in 2013	945	945
Class B common stock, \$0.01 par value per share, 50,000,000 shares authorized, 1,121,786 and 1,122,130 shares issued and outstanding in 2014 and 2013, respectively	11	11
Additional paid-in capital	316,858	316,558
Retained earnings	65,596	67,644
Total Empire State Realty Trust, Inc.'s stockholders' equity	383,410	385,158

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Non-controlling interests in operating partnership	616,434	618,027
Total equity	999,844	1,003,185
Total liabilities and equity	\$2,476,625	\$2,476,061

The accompanying notes are an integral part of these financial statements

4

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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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	The Company	The Predecessor	The Company	The Predecessor
Revenues:				
Rental revenue	\$92,210	\$43,639	\$182,414	\$88,905
Tenant expense reimbursement	14,304	7,045	29,457	13,634
Observatory revenue	30,389	—	47,690	—
Construction revenue	12,963	6,218	27,926	12,400
Third-party management and other fees	753	1,526	1,364	4,183
Other revenue and fees	4,549	1,141	6,623	2,867
Total revenues	155,168	59,569	295,474	121,989
Operating expenses:				
Property operating expenses	35,596	12,152	71,907	25,958
Marketing, general, and administrative expenses	12,189	6,849	20,864	13,174
Observatory expenses	7,120	—	14,101	—
Construction expenses	12,795	6,529	27,078	12,789
Real estate taxes	18,186	7,916	36,559	15,787
Formation transaction expenses	—	1,305	—	3,000
Depreciation and amortization	28,637	13,111	58,752	25,267
Total operating expenses	114,523	47,862	229,261	95,975
Total operating income	40,645	11,707	66,213	26,014
Other income (expense):				
Equity in net income of non-controlled entities	—	6,079	—	7,898
Interest expense	(14,629)	) (14,715)	) (28,966)	) (28,911)
Acquisition expense	(735)	) —	(735)) —
Net income	25,281	3,071	36,512	5,001
Net income attributable to the predecessor	—	(3,071)	) —	(5,001)
Net income attributable to non-controlling interests	(15,447)	) —	(22,309)) —
Net income attributable to Empire State Realty Trust, Inc.	\$9,834	\$—	\$14,203	\$—
Total weighted average shares:				
Basic	95,573		95,574	
Diluted	95,615		95,616	
Net income per share attributable to Empire State Realty Trust, Inc.:				
Basic earnings per share	\$0.10		\$0.15	
Diluted earnings per share	\$0.10		\$0.15	
Dividends per share	\$0.085		\$0.17	

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, 2014
(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	Retained Earnings	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2013	94,484	\$ 945	1,122	\$ 11	\$316,558	\$67,644	\$ 385,158	\$ 618,027	\$1,003,185
Net income	—	—	—	—	—	14,203	14,203	22,309	36,512
Equity compensation:									
LTIP units	—	—	—	—	—	—	—	1,670	1,670
Restricted stock	2	—	—	—	300	—	300	—	300
Dividends and distributions	—	—	—	—	—	(16,251)	(16,251)	(25,572)	(41,823)
Balance at June 30, 2014	94,486	\$ 945	1,122	\$ 11	\$316,858	\$65,596	\$ 383,410	\$ 616,434	\$999,844

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 Cash Flows
 (unaudited)
 (amounts in thousands)

	Six Months Ended June 30,	
	2014	2013
	The Company	The Predecessor
Cash Flows From Operating Activities		
Net income	\$36,512	\$5,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,752	24,616
Amortization of deferred finance costs and debt premiums	1,171	4,183
Amortization of acquired above- and below-market leases, net	(3,912))
Amortization of acquired below-market ground lease	852	—
Straight-lining of rental revenue	(23,559)	) (1,907)
Equity based compensation	1,969	—
Equity in net income of non-controlled entities	—	(7,898)
Distributions of cumulative earnings of non-controlled entities	—	2,262
Increase (decrease) in cash flows due to changes in operating assets and liabilities:		
Restricted cash	(2,195)	) 1,469
Tenant and other receivables	(1,067)	) 848
Deferred leasing costs	(4,221)	) (7,432)
Prepaid expenses and other assets	(4,251)	) (509)
Accounts payable and accrued expenses	(11,073)	) 27,082
Deferred revenue and other liabilities	(2,846)	) (3,318)
Net cash provided by operating activities	46,132	44,397
Cash Flows From Investing Activities		
Decrease in restricted cash for investing activities	5,098	(501)
Development costs	—	92
Additions to building and improvements	(50,405)	) (33,011)
Net cash used in investing activities	(45,307)	) (33,420)

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 Cash Flows (continued)
 (unaudited)
 (amounts in thousands)

	Six Months Ended June 30,	
	2014	2013
	The Company	The Predecessor
Cash Flows From Financing Activities		
Proceeds from mortgage notes payable	—	63,882
Repayment of mortgage notes payable	(7,954	) (16,377
Proceeds from credit facility	40,000	—
Repayments of credit facility	(10,000) —
Proceeds from unsecured loan payable	—	1,500
Deferred financing costs	—	(2,325
Deferred offering costs	—	(5,125
Contributions from owners	—	3,912
Distributions to Predecessor owners	—	(27,427
Dividends paid to common stockholders	(16,251) —
Distributions paid to non-controlling interests in the operating partnership	(25,572) —
Net cash provided by (used in) financing activities	(19,777	) 18,040
Net increase (decrease) in cash and cash equivalents	(18,952	) 29,017
Cash and cash equivalents—beginning of period	60,743	51,499
Cash and cash equivalents—end of period	\$41,791	\$80,516
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$27,758	\$25,451
Cash paid for income taxes	\$1,594	\$—
Non-cash investing and financing activities -		
Commercial real estate properties included in accounts payable and accrued expenses	\$20,156	\$428

The accompanying notes are an integral part of these financial statements

Empire State Realty Trust, Inc. and Empire State Realty Trust, Inc. Predecessor
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 our predecessor (as defined below) for the periods presented and Empire State Realty Trust, Inc. and its consolidated subsidiaries upon the consummation of its initial public offering of Class A common stock (the "Offering") and the formation transactions defined below.

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, 2014, our total portfolio contained 8.4 million rentable square feet of office and retail space. We owned 12 office properties (including one long-term ground leasehold interest) encompassing approximately 7.8 million rentable square feet of office space. Seven of these properties are located in the midtown Manhattan market and encompass in the aggregate approximately 5.9 million rentable square feet of office space, including the Empire State Building. Our Manhattan office properties also contain an aggregate of 415,339 rentable square feet of premier retail space on their ground floor and/or lower levels. Our remaining five office properties are located in Fairfield County, Connecticut and Westchester County, New York, encompassing in the aggregate approximately 1.8 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, 2014, our portfolio also included four standalone retail properties located in Manhattan and two standalone retail properties located in the city center of Westport, Connecticut, encompassing 204,175 rentable square feet in the aggregate.

Subsequent to June 30, 2014, on July 15, 2014, we completed the acquisition of the ground and operating leases at 112 West 34th Street (and the fee title to 122 West 34th Street) and the ground lease at 1400 Broadway. These two office properties are located in midtown Manhattan and encompass approximately 1.5 million rentable square feet of office space and approximately 112,270 rentable square feet of retail space.

We were organized as a Maryland corporation on July 29, 2011. We did not have any assets other than cash and did not have any meaningful operating activity until the consummation of the Offering and the related acquisition of the assets of our predecessor and certain non-controlled entities controlled by our predecessor on October 7, 2013, as described in the financial statements for the year ended December 31, 2013 contained in our Annual Report on Form 10-K.

Our operations commenced upon completion of the Offering and related formation transactions on October 7, 2013. Empire State Realty OP, L.P. holds substantially all of our assets and conducts substantially all of our business. As of June 30, 2014, we owned approximately 38.9% of the aggregate operating partnership units in our operating partnership. We, as the sole general partner of our operating partnership, have responsibility and discretion in the management and control of our operating partnership, and the limited partners of 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 intend to elect 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.

We formed and acquired two entities that have elected to be treated as taxable REIT subsidiaries, or TRSs, and are owned by our operating partnership. The TRSs, through several wholly-owned limited liability companies, conduct third-party services businesses, which include the Empire State Building Observatory, cleaning services, cafeteria,

restaurant and fitness center, property management and leasing, construction, and property maintenance.

For all periods prior to the completion of the Offering and formation transactions, our predecessor results of operations contain unconsolidated results for certain non-controlled entities (as defined below) that owned interests in the Empire State Building, 1350 Broadway, 1333 Broadway, and 501 Seventh Avenue, which were accounted for by our predecessor under the equity method of accounting and make up a significant portion of our company subsequent to the completion of the Offering and formation transactions. Our results of operations for the three and six months ended June 30, 2013 reflect the financial

condition and results of operations of our predecessor. Our financial condition as of June 30, 2014 and December 31, 2013 and results of operations for the three and six months ended June 30, 2014 reflect the financial condition and results of operations of our predecessor consolidated with the non-controlling interests in those four properties we acquired at the time of the Offering and formation transactions.

The Predecessor

Our predecessor is not a legal entity but rather 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 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. Our predecessor accounted for its investment in the non-controlled entities under the equity method of accounting.

Controlled Entities:

Properties that the sponsors owned interests in and controlled, and whose operations were 100% consolidated into the financial statements of our predecessor include:

Office:

One Grand Central Place, New York, New York
250 West 57th Street, New York, New York
1359 Broadway, New York, New York
First Stamford Place, Stamford, Connecticut
Metro Center, Stamford, Connecticut
383 Main Avenue, Norwalk, Connecticut
500 Mamaroneck Avenue, Harrison, New York
10 Bank Street, White Plains, New York
Fee ownership position of 350 Fifth Avenue (Empire State Building), New York, New York
Fee ownership position of 501 Seventh Avenue, New York, New York

Retail:

10 Union Square, New York, New York

1010 Third Avenue, New York, New York
77 West 55th Street, New York, New York
1542 Third Avenue, New York, New York
69-97 Main Street, Westport, Connecticut
103-107 Main Street, Westport, Connecticut

Land Parcels:

We own 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.

The acquisition of interests in our predecessor were recorded at historical cost at the time of the formation transactions.

Non-Controlled Entities:

Properties in which the sponsors owned and controlled non-controlling interests and whose operations are reflected in our predecessor's consolidated financial statements as an equity interest include:

Office:

Master operating lease position of 350 Fifth Avenue, New York, New York—Empire State Building Company L.L.C.

Master operating lease position of 1350 Broadway, New York, New York—1350 Broadway Associates L.L.C. (long term ground lease)

1333 Broadway, New York, New York—1333 Broadway Associates L.L.C.

Master operating lease position of 501 Seventh Avenue, New York, New York—501 Seventh Avenue Associates L.L.C.

2. Summary of Significant Accounting Policies

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 2013 unaudited consolidated financial statements have been reclassified to conform to the presentation used for 2014.

Our predecessor's consolidated financial statements include all the accounts and operations of our predecessor. The real estate entities included in the accompanying consolidated financial statements have been consolidated on the basis that, for the periods presented, such entities were under common control, common management and common ownership of the sponsors. Equity interests in the entities that were not controlled by the sponsors are shown as investments in non-controlled entities. We acquired these interests as a result of the formation transactions and we currently own and control 100% of the interests in these entities.

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, 2013 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 of our annual observatory revenue, approximately 16.0% to

18.0% 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.

Our predecessor consolidated variable interest entities, or VIEs, in which it was considered a primary beneficiary. The primary beneficiary 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. We had no VIEs as of June 30, 2014 and December 31, 2013.

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, the entity's tax return before filing, and 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. Such agreements could also contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the investment and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

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 consolidated balance sheets and in the consolidated statements of income by requiring earnings and other comprehensive income to be attributed to controlling and non-controlling interests. As the financial statements of our predecessor have been prepared on a consolidated basis, there is no non-controlling interest for our predecessor for the periods presented.

Accounting Estimates

The preparation of the 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 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.

Revenue Recognition

Rental Revenue

Rental revenue includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. In addition, many of our leases contain fixed percentage increases over the base rent to cover escalations. We account for all of our leases as operating leases. Deferred rent receivables, including free rental periods and leasing arrangements allowing for increased base rent payments are accounted for in a manner that provides an even amount of fixed lease revenues over the respective non-cancellable lease terms. Differences between rental income recognized and amounts due under the respective lease agreements are recognized as an increase or decrease to deferred rents receivable.

The timing of rental revenue recognition is impacted by the ownership of tenant improvements and allowances. When we are the owner of the tenant improvements, revenue recognition commences after both the improvements are completed and the tenant takes possession or control of the space. In contrast, if we determine that the tenant allowances we are funding are lease incentives, then we commence revenue recognition when possession or control of

the space is turned over to the tenant. Tenant improvement ownership is determined based on various factors including, but not limited to, whether the lease stipulates how and on what a tenant improvement allowance may be spent, whether the tenant or landlord retains legal title to

12

the improvements at the end of the lease term, whether the tenant improvements are unique to the tenant or general-purpose in nature, and whether the tenant improvements are expected to have any residual value at the end of the lease.

In addition to base rent, our tenants also generally will pay their pro rata share of increases in real estate taxes and operating expenses for the building over a base year. In some leases, in lieu of paying additional rent based upon increases in building operating expenses, the tenant will pay additional rent based upon increases in the wage rate paid to porters over the porters' wage rate in effect during a base year or increases in the Consumer Price Index over the index value in effect during a base year.

We will recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases, including, for below-market leases, fixed option renewal periods, if any.

Lease cancellation fees are recognized when the fees are determinable, tenant vacancy has occurred, collectability is reasonably assured, we have no continuing obligation to provide services to such former tenants and the payment is not subject to any conditions that must be met or waived. Such fees are included in other income and fees in our consolidated statements of operations.

Observatory Revenue

Revenue from the sale of Observatory tickets are recognized upon admission or ticket expirations. Deferred income related to unused and unexpired tickets as of June 30, 2014 was \$5.1 million.

Construction Revenue

Revenues from construction contracts are recognized under the percentage-of completion method. Under this method, progress towards completion is recognized according to the ratio of incurred costs to estimated total costs. This method is used because management considers the "cost-to-cost" method the most appropriate in the circumstances. Contract costs include all direct material, direct labor and other direct costs and an allocation of certain overhead related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Gains on Sale of Real Estate

We record a gain on sale of real estate when title is conveyed to the buyer and we have no substantial economic involvement with the property. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and accounts for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Gains from sales of depreciated properties are included in discontinued operations and the net proceeds from the sale of these properties are classified in the investing activities section of the statements of cash flows. During the periods presented, we did not sell any properties.

Third-Party Management, Leasing and Other Fees

We earn revenue arising from contractual agreements with affiliated entities. This revenue is recognized as the related services are performed under the respective agreements in place.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The expense for the three months ended June 30, 2014 and 2013 was \$2.4 million and \$0.6 million, respectively, and for the six months ended June 30, 2014 and 2013 was \$4.7 million and \$0.9 million, respectively, and is included within operating expenses in our consolidated statements of income.

Real Estate Properties and Related Intangible Assets

Land and buildings and improvements are recorded at cost less accumulated depreciation and amortization. The recorded cost includes cost of acquisitions, development and construction and tenant allowances and improvements. Expenditures for ordinary repairs and maintenance are charged to operations as incurred. Significant replacements and betterments which improve or extend the life of the asset are capitalized. Tenant improvements which improve or extend the life of the asset are capitalized. If a tenant vacates its space prior to the contractual termination of its lease, the unamortized balance of any tenant improvements are written off if they are replaced or have no future value. For developed properties, direct and indirect costs that clearly relate to projects under development are capitalized. Costs include construction costs, professional services such as architectural and legal costs, travel expenses, capitalized interest and direct payroll and other acquisition costs. We begin capitalization when the project is probable. Capitalization of interest ceases when the property is ready for its intended use, which is generally near the date that a certificate of occupancy is obtained.

Depreciation and amortization are computed using the straight-line method for financial reporting purposes. Buildings and improvements are depreciated over the shorter of 39 years, the useful life, or the remaining term of any leasehold interest. Tenant improvement costs, which are included in building and improvements in the consolidated balance sheets, are depreciated over the shorter of (i) the related remaining lease term or (ii) the life of the improvement. Corporate equipment, which is included in "Other assets," is depreciated over three to seven years.

Acquisitions of properties are accounted for utilizing the acquisition method and accordingly the purchase cost is allocated to tangible and intangible assets and liabilities based on their fair values. The fair value of tangible assets acquired is determined by valuing the property as if it were vacant, applying methods similar to those used by independent appraisers of income-producing property. The resulting value is then allocated to land, buildings and improvements, and tenant improvements based on our determination of the fair value of these assets. The assumptions used in the allocation of fair values to assets acquired are based on our best estimates at the time of evaluation.

Fair value is assigned to above-market and below-market leases based on the difference between (a) the contractual amounts to be paid by the tenant based on the existing lease and (b) our estimate of current market lease rates for the corresponding in-place leases, over the remaining terms of the in-place leases. Capitalized above-market lease amounts are amortized as a decrease to rental revenue over the remaining terms of the respective leases. Capitalized below-market lease amounts are amortized as an increase to rental revenue over the remaining terms of the respective leases. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off.

The aggregate value of other acquired intangible assets consists of acquired ground leases and acquired in-place leases and tenant relationships. The fair value allocated to acquired in-place leases consists of a variety of components including, but not necessarily limited to: (a) the value associated with avoiding the cost of originating the acquired in-place leases (i.e. the market cost to execute a lease, including leasing commissions and legal fees, if any); (b) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period (i.e. real estate taxes, insurance and other operating expenses); (c) the value associated with lost rental revenue from existing leases during the assumed lease-up period; and (d) the value associated with any other inducements to secure a tenant lease.

Regarding certain of our 2013 and 2014 property acquisitions, the fair value asset and liability allocations are preliminary and may be adjusted as final information becomes available.

We assess the potential for impairment of our long-lived assets, including real estate properties, annually or whenever events occur or a change in circumstances indicate that the recorded value might not be fully recoverable. We determine whether impairment in value has occurred by comparing the estimated future undiscounted cash flows expected from the use and eventual disposition of the asset to its carrying value. If the undiscounted cash flows do not exceed the carrying value, the real estate is adjusted to fair value and an impairment loss is recognized. Assets held for sale are recorded at the lower of cost or fair value less costs to sell. We do not believe that the carrying value of any of our properties and intangible assets were impaired during the six months ended June 30, 2014 and 2013.

All operations and gains and losses associated with sales of real estate property or assets classified as held for sale are reclassified and presented as discontinued operations. See Recently Issued or Adopted Accounting Standards.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term liquid investments with original maturities of three months or less when purchased. The majority of our cash and cash equivalents are

14

held at major commercial banks which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

Restricted Cash

Restricted cash consists of amounts held by lenders and/or escrow agents to provide for future real estate tax expenditures and insurance expenditures, tenant vacancy related costs, debt service obligations and amounts held for tenants in accordance with lease agreements such as security deposits, as well as amounts held by our third-party property managers.

Allowance for Doubtful Accounts

We maintain an allowance against tenant and other receivables and deferred rents receivables for future potential tenant credit losses. The credit assessment is based on the estimated accrued rental revenue that is recoverable over the term of the respective lease. The computation of this allowance is based on the tenants' payment history and current credit status, as well as certain industry or geographic specific credit considerations. If our estimate of collectability differs from the cash received, then the timing and amount of our reported revenue could be impacted. Bad debt expense is included in operating expenses on our consolidated statements of income and includes the impact of changes in the allowance for doubtful accounts on our consolidated balance sheets.

Deferred Lease Costs

Deferred lease costs consist of fees and direct costs incurred to initiate and renew leases, are amortized on a straight-line basis over the related lease term and the expense is included in depreciation and amortization in our consolidated statements of income. Upon the early termination of a lease, unamortized deferred leasing costs are charged to expense.

Deferred Financing Costs

Fees and costs incurred to obtain long-term financing have been deferred and are being amortized as a component of interest expense in our consolidated statements of income over the life of the respective mortgage on the straight-line method which approximates the effective interest method. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking debt, which do not close, are expensed in the period in which it is determined that the financing will not close.

Equity Method Investments

We account for our investments under the equity method of accounting where we do not have control but have the ability to exercise significant influence. Under this method, our investments are recorded at cost, and the investment accounts are adjusted for our share of the entities' income or loss and for distributions and contributions. Equity income or loss is allocated based on the portion of the ownership interest that is controlled by us. The agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of the entity's income or loss generally follows the entity's distribution priorities, which may change upon the achievement of certain investment return thresholds.

To the extent that we contributed assets to an entity, our investment in the entity is recorded at cost basis in the assets that were contributed to the entity. Upon contributing assets to an entity, we make a judgment as to whether the economic substance of the transaction is a sale. If so, gain or loss is recognized on the portion of the asset to which the other partners in the entity obtain an interest.

To the extent that the carrying amount of these investments on our consolidated balance sheets is different than the basis reflected at the entity level, the basis difference would be amortized over the life of the related asset and included in our share of equity in net income of the entity.

On a periodic basis, we assess whether there are any indicators that the carrying value of our investments in entities may be impaired on an other than temporary basis. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment on an other than temporary basis. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying value of the investment over the fair value of the investment.

Our predecessor recognized incentive income in the form of overage fees from certain uncombined entities (which include non-controlled and other properties not included in our predecessor) as income to the extent it has been earned and not subject to a clawback feature.

If our predecessor's share of distributions and net losses exceeded our investments for certain of the equity method investments and if our predecessor remained liable for future obligations of the entity or was otherwise committed to provide future additional financial support, the investment balances would have been presented in the consolidated balance sheets as liabilities. The effects of material intercompany transactions with these equity method investments are eliminated. None of the entity debt is recourse to us.

As of June 30, 2014 and December 31, 2013, we had no equity method investments.

Goodwill

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount, including goodwill, exceeds the reporting unit's fair value and the implied fair value of goodwill is less than the carrying amount of that goodwill. Non-amortizing intangible assets, such as trade names and trademarks, are subject to an annual impairment test based on fair value and amortizing intangible assets are tested whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Fair Value

Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Financial Accounting Standards Board ("FASB") guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

We use the following methods and assumptions in estimating fair value disclosures for financial instruments.

For cash and cash equivalents, restricted cash, tenant and other receivables, prepaid expenses and other assets, deferred revenue, tenants' security deposits, accounts payable and accrued expenses in our consolidated balance sheets approximate their fair value due to the short term maturity of these instruments.

The fair value of our mortgage notes payable and term loan and credit 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 methodologies used for valuing financial instruments have been categorized into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical instruments.

Level 2 - Valuations based principally on other observable market parameters, including:

• Quoted prices in active markets for similar instruments;

• Quoted prices in less active or inactive markets for identical or similar instruments;

• Other observable inputs (such as risk free interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates); and

• Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs, including:

• Valuations based on third-party indications (broker quotes or counterparty quotes) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 3 valuations; and

Valuations based on internal models with significant unobservable inputs.

These levels form a hierarchy. We follow this hierarchy for our financial instruments measured or disclosed at fair value on a recurring and nonrecurring basis and other required fair value disclosures. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Income Taxes

We intend to elect to be taxed as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986 (the "Code"), as amended, commencing with the taxable year ended December 31, 2013. REITs are subject to a number of organizational and operational requirements, including a requirement that 90% of ordinary "REIT taxable income" (as determined without regard to the dividends paid deduction or net capital gains) be distributed. As a REIT, we will generally not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed REIT taxable income. For all periods subsequent to the effective date of our REIT election, we have met the organizational and operational requirements and distributions have exceeded net taxable income. Accordingly, no provision has been made for federal and state income taxes.

We have elected to treat ESRT Observatory TRS, L.L.C., our subsidiary which holds our observatory operations, and ESRT Holdings TRS, L.L.C., our subsidiary that holds our third party management, construction, cafeteria, health club and cleaning operations, as taxable REIT subsidiaries. Taxable REIT subsidiaries may participate in non-real estate activities and/or perform non-customary services for tenants and their operations are generally subject to regular corporate income taxes. Our taxable REIT subsidiaries account for their income taxes in accordance with GAAP, which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. The calculation of the taxable REIT subsidiaries' tax provisions may require interpreting tax laws and regulations and could result in the use of judgments or estimates which could cause its recorded tax liability to differ from the actual amount due. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The taxable REIT subsidiaries periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, or federal statutory tax audits or estimates and judgments used.

We apply provisions for measuring and recognizing tax benefits associated with uncertain tax positions. Penalties and interest, if incurred, would be recorded as a component of marketing, general and administrative expenses. As of June 30, 2014 and 2013, we do not have a liability for uncertain tax positions. As of June 30, 2014, the tax years ended December 31, 2010 through December 31, 2013 remain open for an audit by the Internal Revenue Service and state authorities. We have not received a notice of audit from the Internal Revenue Service and state authorities for any of the open tax years.

During the periods presented, the entities included in our predecessor's consolidated financial statements are treated as partnerships or S corporations for U.S. federal and state income tax purposes and, accordingly, are not subject to entity-level tax. Rather, each entity's taxable income or loss is allocated to its owners. Therefore, no provision or liability for U.S. federal or state income taxes has been included in the accompanying consolidated financial statements.

Two of the limited liability companies in our predecessor had non-real estate income subject to New York City unincorporated business tax ("NYCUBT"). As of June 30, 2013, both entities generated taxable income. No provision or liability for U.S. federal, state, or local income taxes was included in our Predecessor's consolidated financial statements as taxable income as referred to above was fully offset by a NYCUBT net operating loss carry forward from previous years.

Share-Based Compensation

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. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of our stock, expected dividend yield, expected term, and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds. We believe that the assumptions and estimates utilized are appropriate based on the

information available to our management at the time of grant.

Per Share Data

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the respective period.

17

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 operates 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 different 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 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.

Recently Issued or Adopted Accounting Standards

During May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers". This new standard will replace all current U.S. 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. We are evaluating the impact of adopting this new accounting standard on our financial statements.

During April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". ASU No. 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We are currently evaluating the impact of adopting ASU No. 2014-08 which is effective prospectively for fiscal years beginning after December 15, 2014.

During July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU provides explicit guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when net operating losses or tax credit carryforwards exist. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted, and is applicable to our fiscal year beginning January 1, 2014. The adoption of this guidance did not have a material impact on our consolidated financial statements.

3. Acquisitions

On July 15, 2014, we acquired the ground and operating lease at 112 West 34th Street (and the fee title to 122 West 34th Street) for \$423.6 million, consisting of \$87.7 million by assumption of existing mortgage debt, \$106.9 million in cash and \$229.0 million in shares of Class A and Class B common stock and Series PR OP units. In connection with this transaction, we issued 1,217,685 shares of Class A common stock and 77,495 shares of Class B common stock at a share price of \$16.65 and 12,457,379 Series PR OP Units at a unit price of \$16.65.

On July 15, 2014, we acquired the ground lease at 1400 Broadway for \$310.0 million, consisting of \$80.0 million by assumption of existing mortgage debt, \$79.7 million in cash and \$150.3 million in shares of Class A and Class B common stock and Series PR OP units. In connection with this transaction, we issued 1,338,488 shares of Class A common stock and 32,452 shares of Class B common stock at a share price of \$16.65 and 7,658,516 Series PR OP Units at a unit price of \$16.65.

The purchase price is allocated between net tangible and intangible assets based on their estimated fair values as determined by management using information available at the time the acquisition closed. The following table is the preliminary allocation of the purchase price for the assets and liabilities acquired (amounts in thousands). The fair value asset

and liability allocations are preliminary and may be adjusted as final information becomes available.

Consideration paid:

Cash and issuance of Class A Common Stock, Class B Common Stock, and Series PR OP units	\$ 565,916
Debt assumed	167,684
Total consideration paid	\$ 733,600

Net assets acquired:

Land and building and improvements	439,965
Acquired below-market ground lease	261,899
Acquired above-market leases	24,133
Acquired in place lease value and deferred leasing costs	64,473
Mortgage notes payable	(183,401)
Acquired below-market leases	(41,153)
Total net assets acquired	\$ 565,916

The acquisitions occurred subsequent to June 30, 2014. The results of operations from these acquired properties are not included in our condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013.

The following summary of selected unaudited pro forma results of operations presents information as if the acquisitions had occurred on January 1, 2013. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or which may occur in the future (amounts in thousands, except per share amounts):

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	The Company	The Predecessor	The Company	The Predecessor
Total revenues	\$ 172,355	\$ 77,069	\$ 330,164	\$ 156,488
Net income	25,940	3,323	36,471	3,490
Net income attributable to Empire State Realty Trust, Inc.	9,494	—	13,348	—
Net income attributable to Empire State Realty Trust, Inc. per share - basic and diluted	\$ 0.09	\$ —	\$ 0.13	\$ —

4. Investments in Non-controlled Entities

On October 7, 2013, as part of the Offering and formation transactions, we acquired the assets and liabilities held by the four non-controlled entities. The investments in non-controlled entities consisted of the following at June 30, 2013:

Entity	Property	Nominal % Ownership
Empire State Building Company, L.L.C.	350 Fifth Ave, New York, NY	23.750 %
1333 Broadway Associates, L.L.C.	1333 Broadway, New York, NY	50.000 %
1350 Broadway Associates, L.L.C.	1350 Broadway, New York, NY	50.000 %
501 Seventh Avenue Associates, L.L.C.	501 Seventh Ave, New York, NY	20.469 %

Empire State Building Company, L.L.C. was the operating lessee of the property at 350 Fifth Avenue. The land and fee owner, Empire State Building Associates L.L.C., was a predecessor controlled entity whose operations are included in our predecessor's consolidated financial statements.

1333 Broadway Associates, L.L.C. owned the fee and leasehold positions at the same address.

1350 Broadway Associates, L.L.C. was the operating lessee of the property at the same address.

501 Seventh Avenue Associates L.L.C. was the operating lessee of the property at the same address. The fee owner, Seventh Avenue Building Associates L.L.C., was a predecessor controlled entity whose operations are included in our predecessor's consolidated financial statements.

Our predecessor's share of income from these entities may have exceeded nominal ownership percentages based on the achievement of certain income thresholds as set forth in the relevant partnership agreements.

The following table reflects the activity in our investments in non-controlled entities for the six months ended June 30, 2013 (amounts in thousands):

	2013
Balance at beginning of year	\$76,879
Equity in net income	7,898
Distributions	(2,262)
Balance at end of period	\$82,515

The following reflects summarized financial information of the non-controlled entities for the six months ended June 30, 2013 (amounts in thousands):

Statements of Operations	Empire State Building Co.	1333 Broadway Associates	1350 Broadway Associates	501 Seventh Avenue Associates	Total
Revenue:					
Rental revenue and other	\$62,866	\$7,062	\$10,622	\$8,865	\$89,415
Observatory revenue	44,052	—	—	—	44,052
Total revenue	106,918	7,062	10,622	8,865	133,467
Expenses:					
Operating expenses—rental	57,602	3,315	5,051	6,578	72,546
Operating expenses—overage rent	14,424	—	—	450	14,874
Operating expenses—observatory	10,669	—	—	—	10,669
Interest	—	2,369	1,567	—	3,936
Depreciation and amortization	7,287	1,459	2,157	761	11,664
Total expenses	89,982	7,143	8,775	7,789	113,689
Net income (loss)	\$16,936	\$(81)	\$1,847	\$1,076	\$19,778
Our predecessor's share of equity in net income (loss) of non-controlled entities	\$7,267	\$(41)	\$803	\$(131)	\$7,898

At June 30, 2014, we had no investments in non-controlled entities.

5. Deferred Costs, Acquired Lease Intangibles and Goodwill

Deferred costs, net consisted of the following (amounts in thousands):

	June 30, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Leasing costs	\$92,601	\$(29,294)	\$90,198	\$(27,459)
Financing costs	27,671	(13,943)	27,416	(11,217)
Total deferred costs	\$120,272	\$(43,237)	\$117,614	\$(38,676)

Amortization expense related to deferred leasing costs was \$2.4 million and \$2.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$4.8 million and \$4.0 million for the six months ended June 30, 2014 and 2013, respectively. Amortization expense related to deferred financing costs was \$1.4 million and \$1.9 million for the three months ended June 30, 2014 and 2013, respectively, and \$2.5 million and \$3.5 million for the six months ended June 30, 2014 and 2013, respectively.

Amortizing acquired intangible assets and liabilities consisted of the following (amounts in thousands):

	June 30, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Acquired below-market ground lease	\$ 62,738	(1,278)	\$ 62,738	(426)
Acquired in-place lease value and deferred leasing costs	185,717	(21,615)	186,415	(5,697)
Acquired above-market leases	72,090	(8,575)	72,123	(2,858)
Acquired below-market leases	(134,525)	14,306	(134,651)	4,769

Amortization expense related to acquired lease intangibles for the three months ended June 30, 2014 was \$5.3 million and \$10.5 million for the six months ended June 30, 2014. Rental revenue related to the amortization of below-market leases, net of above-market leases for the three months ended June 30, 2014 was \$2.0 million and \$3.9 million for the six months ended June 30, 2014. There was no amortization expense for the three and six months ended June 30, 2013 related to acquired intangible assets and liabilities.

As of June 30, 2014, we had goodwill of \$491.5 million. In 2013, we acquired the interests in Empire State Building Company, L.L.C. and 501 Seventh Avenue Associates, L.L.C. for an amount in excess of their net tangible and identified intangible assets and liabilities and as a result we recorded goodwill related to the transaction. Goodwill was allocated \$227.5 million to the observatory operations of the Empire State Building, \$250.8 million to Empire State Building Company, L.L.C., and \$13.2 million to 501 Seventh Avenue Associates, L.L.C.

6. Debt

Mortgage notes payable are collateralized by the following respective real estate properties and assignment of operating leases as of June 30, 2014 and December 31, 2013 (amounts in thousands):

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	Principal Balance as of June 30, 2014	Principal Balance as of December 31, 2013	Stated Rate	Effective Rate ⁽¹⁾	Maturity Date ⁽²⁾	
Mortgage debt collateralized by:						
Fixed rate debt						
501 Seventh Avenue ⁽³⁾	\$ 39,026	\$ —	5.80	% 5.89	% 8/1/2014	(14)
(Note 1) ⁽³⁾	—	1,037				
(Note 2) ⁽³⁾	—	31,459				
(Note 2) ⁽³⁾	—	6,889				
1359 Broadway ⁽⁴⁾	44,276	—	6.04	% 6.45	% 8/1/2014	(14)
(first lien mortgage loan) ⁽⁴⁾	—	9,579				
(second lien mortgage loan) ⁽⁴⁾	—	5,561				
(second lien mortgage loan) ⁽⁴⁾	—	11,311				
(second lien mortgage loan) ⁽⁴⁾	—	18,572				
One Grand Central Place						
(first lien mortgage loan)	70,578	71,723	5.34	% 5.98	% 11/5/2014	
(second lien mortgage loan)	14,724	14,884	7.00	% 7.64	% 11/5/2014	
500 Mamaroneck Avenue						
250 West 57th Street	32,260	32,620	5.41	% 6.58	% 1/1/2015	
(first lien mortgage loan)	25,194	25,621	5.33	% 5.82	% 1/5/2015	
(second lien mortgage loan)	11,109	11,252	6.13	% 6.62	% 1/5/2015	
Metro Center						
10 Union Square	95,062	96,158	5.89	% 6.24	% 1/1/2016	
10 Bank Street	20,807	20,972	6.00	% 6.65	% 5/1/2017	
10 Bank Street	33,150	33,444	5.72	% 6.15	% 6/1/2017	
1542 Third Avenue	18,820	19,011	5.90	% 6.49	% 6/1/2017	
First Stamford Place	243,966	245,629	5.65	% 6.26	% 7/5/2017	
1010 Third Avenue and 77 West 55th Street	27,849	28,096	5.69	% 6.17	% 7/5/2017	
383 Main Avenue	30,131	30,403	5.59	% 5.95	% 7/5/2017	
1333 Broadway	76,733	⁽⁵⁾ 78,121	6.32	% 6.54	% 1/5/2018	
1350 Broadway (first lien mortgage loan)	42,545	⁽⁶⁾ 43,305	5.87	% 6.20	% 4/5/2018	
Total fixed rate debt	826,230	835,647				
Floating rate debt						
501 Seventh Avenue (second lien mortgage loan)	6,540	6,540	⁽⁷⁾	⁽⁷⁾	8/1/2014	(14)
1350 Broadway (second lien mortgage loan)	13,711	⁽⁸⁾ 13,543	⁽⁹⁾	⁽⁹⁾	10/10/2014	
One Grand Central Place (third lien mortgage loan)	6,382	6,382	⁽¹⁰⁾	⁽¹⁰⁾	11/5/2014	
250 West 57th Street (third lien mortgage loan)	21,000	21,000	⁽¹¹⁾	⁽¹¹⁾	1/5/2015	
Secured revolving credit facility	55,000	25,000	⁽¹²⁾	⁽¹²⁾	10/5/2017	
Secured term credit facility	300,000	300,000	⁽¹³⁾	⁽¹³⁾	10/5/2018	
Total floating rate debt	402,633	372,465				
Total	\$ 1,228,863	\$ 1,208,112				

- (1) The effective rate is the yield as of June 30, 2014, including the effects of debt issuance costs.
- (2) Pre-payment is generally allowed for each loan upon payment of a customary pre-payment penalty.
- (3) The loan was consolidated in February 2014.
- (4) The loan was consolidated in February 2014.
- (5) Includes unamortized premium of \$6,715.
- (6) Includes unamortized premium of \$3,381.
- (7) Floating at 30 day LIBOR plus 2.0%. The rate as of June 30, 2014 was 2.16%.
- (8) Includes unamortized premium of \$34.
- (9) Interest at the greater of 4.25% and Prime plus 1%. The rate at June 30, 2014 was 4.25%.

- (10) Interest at the greater of Prime plus 0.50% and 3.75%. The rate as of June 30, 2014 was 3.75%.
Interest at the greater of 4.25% and prime plus 1%. Prior to January 5, 2015, we have the option to fix the interest rate on all or any portion of the principal then outstanding, up to three times and in minimum increments of \$5,000 to an annual rate equal to either (i) the greater of (a) 4.75% or (b) 300 basis points in excess of the weekly average yield on United States Treasury Securities adjusted to a maturity closest to January 5, 2015 as most recently made available by the Federal Reserve Board as of two days prior to the effective date of the fixing of the interest rate, and (ii) the greater of (a) 5.00% or (b) 300 basis points in excess of the weekly average yield on United States Treasury Securities adjusted to a maturity closest to January 5, 2015 as most recently made available by the Federal Reserve Board as of 30 days prior to the effective date of the fixing of the interest rate. If option (i) is selected, we will be subject to the payment of pre payment fees, and if option (ii) is selected, we may prepay the loan without any pre payment fees. The rate as of June 30, 2014 was 4.25%.
- (11) Floating at 30 day LIBOR plus 1.20%. The rate as of June 30, 2014 was 1.36%.
- (12) Floating at 30 day LIBOR plus 1.35%. The rate at June 30, 2014 was 1.52%.
- (13) Debt maturing on August 1, 2014 has been extended to February 1, 2015.
- (14) Debt maturing on August 1, 2014 has been extended to February 1, 2015.

Principal Payments

Aggregate required principal payments on mortgage notes payable at June 30, 2014 are as follows (amounts in thousands):

2014	\$200,895
2015	98,481
2016	99,490
2017	416,154
2018	413,843
Total principal maturities	\$1,228,863

Given our current liquidity, including availability under our secured revolving credit facility, and the low leverage financing of our 2014 and 2015 balloon maturities, we believe we will be able to refinance those maturities.

Secured Revolving and Term Credit Facility

Our secured revolving and term credit facility has a maximum aggregate original principal amount of up to \$800.0 million with an accordion feature to increase the availability to \$1.25 billion under certain circumstances. The secured revolving and term credit facility was used to fully repay the existing \$500.0 million term loan previously secured by the Empire State Building, which had a balance of \$300.0 million. The secured revolving and term credit facility has an outstanding balance of \$355.0 million at June 30, 2014.

Amounts outstanding under the term loan bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread ranging from 1.00% to 2.00% depending upon our leverage ratio and credit rating which, at December 31, 2013, was 1.35%; or (y) a base rate, plus a spread ranging from 0.00% to 1.00% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 0.35%. Amounts outstanding under the revolving credit facility bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread ranging from 0.925% to 1.70% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 1.20%; or (y) a base rate, plus a spread ranging from 0.00% to 0.70% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 0.20%. In addition, the revolving credit facility permits us to borrow at competitive bid rates determined in accordance with the procedures described in the revolving credit facility.

The term loan has a term of five years and the revolving credit facility has an initial term of four years. We have the option to extend the initial term of the revolving credit facility for an additional one-year period, subject to certain conditions, including the payment of an extension fee equal to 0.20% of the then-outstanding commitments under the revolving credit facility. The secured revolving and term credit facility also includes an unused facility fee of 0.20%. In addition, the secured revolving and term credit facility includes covenants which may restrict our ability to pay dividends if we fail to meet certain tests.

As of June 30, 2014, availability under the secured revolving and term credit facility is reduced by \$27.3 million until certain capital expenditures at the Empire State Building are made by us from proceeds from the secured revolving and term credit facility or cash on hand.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of June 30, 2014 and December 31, 2013 (amounts in thousands):

23

	June 30, 2014	December 31, 2013
Accounts payable and accrued expenses	\$50,291	\$57,657
Payable to the estate of Leona M. Helmsley ⁽¹⁾	18,367	18,367
Accrued interest payable	4,111	4,074
Due to affiliated companies	2,038	1,810
Accounts payable and accrued expenses	\$74,807	\$81,908

(1) Reflects a payable to the estate of Leona M. Helmsley for New York City transfer taxes.

8. Fair Value of Financial Instruments

The following disclosures of estimated fair value at June 30, 2014 and December 31, 2013 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 following table presents the aggregate carrying value of our debt and the corresponding estimates of fair value based on discounted cash flow models, based on Level 3 inputs including current interest rates at which similar borrowings could be made by us as of June 30, 2014 and December 31, 2013 (amounts in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Mortgage notes payable and term loan and credit facility	\$1,228,863	\$1,242,580	\$1,208,112	\$1,225,064

Disclosure about fair value of financial instruments is based on pertinent information available to us as of June 30, 2014 and December 31, 2013. 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.

9. Rental Income

We lease various office spaces to tenants over terms ranging from one to 18 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 consolidated statements of income as tenant expense reimbursement.

10. Commitments and Contingencies

Legal Proceedings

Litigation

Except as described below, as of June 30, 2014, 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 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. Furthermore, 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 is 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. They are bound by the settlement agreement regarding equitable relief, so they cannot seek an injunction to halt the consolidation or the Offering. The settlement will not become final until resolution of any appeal.

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 will 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 are 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 it is awaiting a ruling

from the court. We cannot predict the timing or outcome of these proceedings, or, if a motion for leave is granted, the appeal process or any related relief, if such further appeal were successful. If the trial and appeals courts' decisions were reversed by the Court of Appeals, 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, and the court could order some or all of the relief that the objecting investors have requested, as described above. Although there can be no assurance, we believe that the trial and appeals courts' decisions were correct, that they will be upheld on any further appeal.

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. Responses to this appeal were filed April 16, 2014, and the appellate court has not yet scheduled oral argument, which we anticipate will be in the fall. We cannot predict the timing or outcome of an appeal. If the court's decision were reversed by an appellate court, there is a risk that it could have a material adverse effect on us, including the imposition of monetary damages, injunctive relief or both. Although there can be no assurance, we believe that the trial court's decision was correct, and that it will be upheld on appeal. No other appeals were filed by the March 17, 2014 deadline set by the appeals court in its February 6, 2014 order.

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 was granted in a ruling entered July 21, 2014. The plaintiffs have a right to appeal this ruling.

We will incur costs in connection with this litigation. If an appeal is 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.

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.

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, 2014, we estimate that we will incur approximately \$60.8 million of capital expenditures (including tenant improvements and leasing commissions) on our wholly-owned properties pursuant to existing lease agreements. We expect to fund these capital expenditures with operating cash flow, additional property level mortgage financings, our secured credit facility, 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.

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.

Beginning January 1, 2013, non interest bearing transaction accounts are no longer insured separately from depositors' other accounts at the same Federal Deposit Insurance Corporation ("FDIC") Insured Depository Institution ("IDI"). Instead, non interest bearing transaction accounts are added to any of a depositor's other accounts in the applicable ownership

category, and the aggregate balance will be insured up to at least the standard maximum deposit insurance amount of \$250,000, per depositor, at each separately chartered IDI. At June 30, 2014, we held on deposit at various major financial institutions cash and cash equivalents and restricted cash balances in excess of amounts insured by the FDIC.

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, 2014, 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, 2014, 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.

11. 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 or after October 7, 2014, an OP Unit may be tendered for redemption for cash, however, we have sole and absolute discretion and the authorized common stock to exchange for shares of common stock on a one-for-one basis.

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 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. Cash distributions on each LTIP unit, whether vested or not, will be the same as those made on the OP Units. 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.

As of June 30, 2014, there were 245,964,043 OP Units outstanding, of which 95,607,990, or 38.9%, were owned by us and 150,356,053, or 61.1%, were owned by other limited partners, including certain directors, officers and other

members of executive management.

Dividends and Distributions

28

During the three months ended June 30, 2014, we declared, for the second quarter of 2014, a dividend of \$0.085 per share and OP Unit, which was paid on June 30, 2014, to securityholders of record on June 13, 2014. During the three months ended March 31, 2014, we declared, for the first quarter of 2014, a dividend of \$0.085 per share and OP Unit, which was paid on March 31, 2014, to securityholders of record on March 14, 2014.

Total dividends paid to common stockholders were \$8.1 million and \$16.3 million for the three and six months ended June 30, 2014, respectively. Total distributions paid to OP unitholders, excluding inter-company distributions, were \$12.8 million and \$25.6 million for three and six months ended June 30, 2014, respectively.

Incentive and Share-Based Compensation

The 2013 Plan provides for grants to directors, employees and consultants of our company and operating partnership, stock options, restricted stock, dividend equivalents, stock payments, performance shares, LTIP units, stock appreciation rights and other incentive awards. An aggregate of 12,220,515 shares of our common stock are authorized for issuance under awards granted pursuant to the 2013 Plan, and as of June 30, 2014, 10,661,347 shares of common stock remain available for future issuance.

In June 2014, we made grants of LTIP units to our non-employee directors under the 2013 Plan. At such time, we granted a total of 32,196 LTIP units that are subject to time-based vesting, with fair market values of \$0.5 million. The awards vest in three substantially equal installments, subject to the director's continued service on our Board of Directors. The first installment vests on the first anniversary of the grant date and the remainder will vest thereafter in two equal annual installments.

In April 2014, we made a grant of LTIP units to an employee under the 2013 Plan. We granted a total of 48,923 LTIP units with a fair market value of \$0.7 million. The award is subject to time-based vesting of 30% after three years (April 2017), 30% after four years (April 2018), and 40% after five years (April 2019), subject to the grantee's continued employment.

In January 2014, we made grants of LTIP units to executive officers under the 2013 Plan. We granted a total of 180,260 LTIP units that are subject to time-based vesting and 180,263 LTIP units that are subject to performance-based vesting, with fair market values of \$2.5 million for the time-based vesting awards and \$0.9 million for the performance-based vesting awards. The awards subject to time-based vesting vest in four substantially equal installments, subject to the grantee's continued employment. The first installment vests on 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, 2014. Following the completion of the three-year performance period, our compensation committee will determine the number of shares 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 initial award grant. These units then vest in two substantially equal installments, with the first installment vesting on January 1, 2017 and the second installment vesting on January 1, 2018, subject to the grantee's continued employment on those dates.

In January 2014 and April 2014, 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 23,487 LTIP units and 7,061 shares of restricted stock that are subject to time-based vesting and 23,484 LTIP units and 7,059 shares of restricted stock that are subject to performance-based vesting, with fair market values of \$0.4 million for the time-based vesting awards and \$0.2 million for the performance-based vesting awards. These shares are subject to time-based and performance-based vesting, with the terms described above.

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.

LTIP units and restricted stock issued during the six months ended June 30, 2014 were valued at \$5.3 million. The weighted-average per unit or share fair value was \$10.65 for grants in 2014. The per unit or share granted in 2014 was

estimated on the date of grant using the following assumptions: an expected life of 3.0 years, a dividend rate of 2.60%, a risk-free interest rate of 0.8%, and an expected price volatility of 26.0%.

No other stock options, dividend equivalents, or stock appreciation rights were issued or outstanding in 2014.

The following is a summary of restricted stock and LTIP unit activity for the six months ended June 30, 2014:

	Restricted Stock	LTIP Units	Weighted Average Grant Price
Unvested balance at December 31, 2013	144,371	913,561	\$13.00
Vested	(5,856)	—	(13.58)
Granted	14,120	488,613	15.04
Forfeited	(10,691)	(3,413)	(13.21)
Unvested balance at June 30, 2014	141,944	1,398,761	\$13.66

The LTIP unit and restricted stock award agreements will immediately vest the later of the grantee attains the (i) 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 \$0.2 million for the six months ended June 30, 2014. Unrecognized compensation expense was \$0.5 million at June 30, 2014, 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 \$1.9 million in noncash compensation expense for the six months ended June 30, 2014. Unrecognized compensation expense was \$11.4 million at June 30, 2014, which will be recognized over a weighted average period of 3.2 years.

Earnings Per Share

Earnings per share for the three and six months ended June 30, 2014 is computed as follows (amounts in thousands, except per share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Numerator:		
Net income attributable to Empire State Realty Trust, Inc. - basic and diluted	\$9,834	\$14,203
Denominator:		
Weighted average shares outstanding - basic	95,573	95,574
Effective of dilutive securities - share-based compensation	42	42
Weighted average shares outstanding - dilutive	95,615	95,616
Earnings per share:		
Basic earnings per share	\$0.10	\$0.15
Diluted earnings per share	\$0.10	\$0.15

There were no antidilutive shares for the three and six months ended June 30, 2014.

12. Related Party Transactions

In connection with the closing of the acquisition of the ground and operating leases at 112 West 34th Street from 112 West 34th Street Associates L.L.C. and 112 West 34th Street Company L.L.C. (the "112 Property"), and the ground lease at 1400 Broadway from 1400 Broadway Associates L.L.C. (the "1400 Property"), we entered into a registration rights agreement covering Class A and Class B common stock and Series PR operating partnership units issued to investors in entities that

owned the 112 Property and 1400 Property. Under the registration rights agreement, subject to certain limitations, not later than 12 months from the beginning of the first full calendar month following the completion of our initial public offering, we will file one or more registration statements, which we refer to as the resale shelf registration statements, covering the resale of all shares of Class A common stock issued in connection with the transactions, and all shares of Class A common stock that may be issued upon redemption of Series PR operating partnership units or upon conversion of Class B common stock, or collectively the registrable shares. We may, at our option, satisfy our obligation to prepare and file a resale shelf registration statement with respect to shares of Class A common stock issued upon redemption of Series PR operating partnership units or issued upon conversion of shares of Class B common stock by filing one or more issuer shelf registration statements which, collectively with the resale shelf registration statements, we refer to as the shelf registration statements, registering the issuance by us of shares of Class A common stock under the Securities Act of 1933, as amended (the "Securities Act"). We have agreed to use our commercially reasonable efforts to cause each shelf registration statement to be declared effective within 120 days of filing. Additionally, the registrable shares held by the Malkin family pursuant to the registration rights agreement are subject to the demand and piggy-back rights that the Malkin family has under the registration rights agreement we entered into in connection with the consolidation and initial public offering of our Class A common stock. The foregoing does not purport to be a complete description of the terms of the registration rights agreement and is qualified in its entirety by the registration rights agreement, which is attached as exhibit 10.3 to this Quarterly Report on Form 10-Q.

Option Agreements

We executed option agreements with affiliates of our predecessor granting us the 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), both office properties in midtown Manhattan. Subsequent to June 30, 2014, on July 15, 2014, we completed the acquisition of the option properties. Our subsidiary supervised each of the option properties pursuant to a management agreement entered into by our subsidiary and the owners of the option properties. The purchase price for each of the option properties was based on an appraisal by independent third parties utilizing the appraisal process set forth in the option agreements. As part of the option agreements, we agreed that Anthony E. Malkin, our Chairman, Chief Executive Officer and President, would not participate in the negotiations and valuation process on our behalf. Our Chairman Emeritus, Peter L. Malkin, also agreed not to participate in the process. In addition our Board of Directors appointed a special committee consisting of independent members of such Board to review the appraisal process on its behalf. The independent members of our Board of Directors unanimously approved the price and terms of the acquisition of interests in each of the option properties. The purchase price was payable in a combination of cash, shares of our common stock and operating partnership units, but the estate of Leona M. Helmsley (a member of affiliates of our predecessor and of the owners of option properties) received all cash. Reference is made to Note 3.

Excluded Properties and Businesses

Our portfolio represents all of our predecessor's Manhattan and greater New York metropolitan area office and retail assets in which it holds a majority interest. The Malkin Group, including Anthony E. Malkin, our Chairman, Chief Executive Officer and President, owns non-controlling interests in, and Anthony E. Malkin and Peter L. Malkin control the general partners or managers of, the entities that own interests in six multi-family properties, six net leased retail properties and a development parcel that is zoned for residential use. The Malkin Group also owns non-controlling interests in one Manhattan office property, two Manhattan retail properties and several retail properties outside of Manhattan, none of which were contributed to us in the formation transactions. We refer to the non-controlling interests described above collectively as the excluded properties. In addition, the Malkin Group owns interests in six mezzanine and senior equity funds, two industrial funds and five residential property managers, none of which were contributed to us in the formation transactions, and which we refer to collectively as the excluded businesses. The Malkin Group also owns certain non-real estate family investments that were not contributed to us in

the formation transactions. Other than one retail property, located in Greenwich, Connecticut, which at the time of our formation was subject to a rezoning authorization and therefore inconsistent with our portfolio composition, we did not believe that the excluded properties or the excluded businesses were consistent with our portfolio geographic or property type composition, management or strategic direction.

Pursuant to management and/or service agreements with the owners of interests in those excluded properties and services agreements with the five residential property managers and the managers of certain other excluded businesses which historically were managed by affiliates of our predecessor, we are designated as the manager of the excluded properties and will provide services to the owners of certain of the excluded properties and the five residential property managers and provide services and access to office space to the existing managers of the other excluded businesses. As the manager or service provider, we are paid a management or other fee with respect to those excluded properties and excluded businesses where our predecessor had previously received a management fee on the same terms as the fee paid to our predecessor, and reimbursed for

our costs in providing the management and other services to those excluded properties and businesses where our predecessor had not previously received a management fee. Our management of the excluded properties and provision of services to the five residential property managers and the existing managers of the other excluded businesses represent a minimal portion of our overall business. There is no established time period in which we will manage such properties or provide services to the owners of certain of the excluded properties and the five residential property managers and provide services and access to office space to the existing managers of the other excluded businesses and Peter L. Malkin and Anthony E. Malkin expect to sell certain of these properties or unwind certain of these businesses over time. We are not precluded from acquiring all or certain interests in the excluded properties or businesses. If we were to attempt any such acquisition, we anticipate that Anthony E. Malkin, our Chairman, Chief Executive Officer and President, will not participate in the negotiation process on our behalf with respect to our potential acquisition of any of these excluded properties or businesses and the approval of a majority of our independent directors will be required to approve any such acquisition.

Services are and were provided by us or our predecessor to affiliates of the sponsors. These affiliates were related parties because beneficial interests were or are held, directly or indirectly, by the sponsors, their affiliates and their family members.

During the three and six months ended June 30, 2014 and 2013, we or our predecessor engaged in various transactions with affiliates of the sponsors and their family members. These transactions are reflected in our and our predecessor's consolidated statements of income as third-party management and other fees and the unpaid balances are reflected in the due from affiliated companies on our consolidated balance sheets.

Supervisory Fee Revenue

We or our predecessor earned supervisory fees from affiliated entities not included in our and our predecessor's consolidated financial statements of \$0.6 million and \$0.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$1.1 million and \$1.9 million for the six months ended June 30, 2014 and 2013, respectively. These fees are included within third-party management and other fees.

We or our predecessor earned supervisory fees from unconsolidated entities included in our predecessor's consolidated financial statements on the equity method of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2013, respectively. There were no such revenues in the three months and six months ended June 30, 2014. These fees are included within third-party management and other fees.

Property Management Fee Revenue

We or our predecessor earned property management fees from affiliated entities not included in our and our predecessor's consolidated financial statements of \$0.1 million and \$0.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.2 million and \$1.3 million for the six months ended June 30, 2014 and 2013, respectively. These fees are included within third-party management and other fees.

We or our predecessor earned property management fees from unconsolidated entities included in our predecessor's consolidated financial statements on the equity method of \$0.03 million and \$0.1 million for the three and six months ended June 30, 2013, respectively. There were no such revenues in the three and six months ended June 30, 2014.

These fees are included within third-party management and other fees.

Profit Share

We or our predecessor received additional payments equal to a specified percentage of distributions in excess of specified amounts, both being defined, from affiliated entities not included in our and our predecessor's consolidated financial statements. Our profits interest totaled \$0.0 million and \$0.4 million for the three and six months ended June 30, 2013, respectively. There were no such revenues in the three and six months ended June 30, 2014. These fees are included within other income and fees.

We or our predecessor received additional payments equal to a specified percentage of distributions in excess of specified amounts, both being defined, from unconsolidated entities included in our predecessor's consolidated financial statements on the equity method. Our predecessor's profits interest totaled \$0.2 million and \$0.3 million for the three and six

months ended June 30, 2013, respectively. There were no such revenues in the three and six months ended June 30, 2014. These fees are included within other income and fees.

Other Fees and Disbursements from Non-Controlled Affiliates

We or our predecessor earned other fees and disbursements from affiliated entities not included in our and our predecessor's consolidated financial statements of \$0.0 million and \$0.2 million for the three and six months ended June 30, 2013, respectively. There were no such revenues in the three and six months ended June 30, 2014. These fees are included within other income and fees.

Our predecessor earned other fees and disbursements from unconsolidated subsidiaries included in its consolidated financial statements on the equity method of \$0.3 million and \$0.7 million for the three and six months ended June 30, 2013, respectively. There were no such revenues in the three and six months ended June 30, 2014. These fees are included within other income and fees.

Included in these other fees are reimbursements from unconsolidated entities included in our predecessor's consolidated financial statements on the equity method for offering costs related to the Offering of \$0.3 million and \$0.7 million for the three and six months ended June 30, 2013, respectively, of which \$0.3 million were included in due from affiliated companies as of June 30, 2013. There were no such revenues in the three and six months ended June 30, 2014.

Family Office Services

In 2014, family office services comprise of temporarily continuing to provide office space, equipment, and administrative support as was done prior to our formation. We are reimbursed at third-party market rates. In 2013, the predecessor provided certain accounting and bookkeeping services. The sponsors reimbursed us in the amount of less than \$0.1 million and \$0.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.1 million and \$0.4 million for the six months ended June 30, 2014 and 2013, respectively.

13. 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 operates 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 different 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 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.

The following tables provides components of segment profit for each segment for the three and six months ended June 30, 2014 and 2013, as reviewed by management (amounts in thousands):

	Three Months Ended June 30, 2014			Totals
	Real Estate	Observatory	Other	
Revenues from external customers	\$ 110,838	\$ 30,389	\$ 12,966	\$ 154,193
Intersegment revenues	16,298	(1) —	901	17,199
Total revenues	127,136	30,389	13,867	171,392
All operating expenses	(63,380)	(25,799)	(13,591)	(102,770)
Interest expense	(14,629)	—	—	(14,629)
Depreciation and amortization expense	(28,556)	(77)	(4)	(28,637)
Segment profit (loss)	\$ 20,571	\$ 4,513	\$ 272	\$ 25,356
Segment assets	\$ 2,221,530	\$ 243,189	\$ 11,906	\$ 2,476,625
Expenditures for segment assets	\$ 37,735	\$ —	\$ —	\$ 37,735

(1) The observatory pays a market-based rent payment comprised of fixed and percentage rent to the Empire State Building.

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	Three Months Ended June 30, 2013		
	Real Estate	Other	Totals
Revenues from external customers	\$53,303	\$6,218	\$59,521
Intersegment revenues	19	2,034	2,053
Total revenues	53,322	8,252	61,574
All operating expenses, excluding noncash items	(20,141	) (8,269	) (28,410
Interest expense	(14,715	) —	(14,715
Depreciation and amortization expense	(13,118	) 7	(13,111
Equity in net income of non-controlled entities	6,079	—	6,079
Segment profit	\$11,427	\$(10	) \$11,417
Segment assets	\$999,902	\$11,356	\$1,011,258
Investment in non-controlled entities	\$82,515	\$—	\$82,515
Expenditures for segment assets	\$19,968	\$—	\$19,968

	Six Months Ended June 30, 2014			
	Real Estate	Observatory	Other	Totals
Revenues from external customers	\$218,865	\$47,690	\$27,944	\$294,499
Intersegment revenues	31,566	(1) —	1,863	33,429
Total revenues	250,431	47,690	29,807	327,928
All operating expenses	(128,942	) (45,845	) (28,706	) (203,493
Interest expense	(28,966	) —	—	(28,966
Depreciation and amortization expense	(58,607	) (138	) (7	) (58,752
Segment profit (loss)	\$33,916	\$1,707	\$1,094	\$36,717
Segment assets	\$2,221,530	\$243,189	\$11,906	\$2,476,625
Expenditures for segment assets	\$54,978	\$—	\$—	\$54,978

(1) The observatory pays a market-based rent payment comprised of fixed and percentage rent to the Empire State Building.

	Six Months Ended June 30, 2013		
	Real Estate	Other	Totals
Revenues from external customers	\$109,478	\$12,400	\$121,878
Intersegment revenues	37	4,807	4,844
Total revenues	109,515	17,207	126,722
All operating expenses, excluding noncash items	(41,745	) (17,028	) (58,773
Interest expense	(28,911	) —	(28,911
Depreciation and amortization expense	(25,267	) —	(25,267
Equity in net income of non-controlled entities	7,898	—	7,898
Segment profit	\$21,490	\$179	\$21,669
Segment assets	\$999,902	\$11,356	\$1,011,258
Investment in non-controlled entities	\$82,515	\$—	\$82,515
Expenditures for segment assets	\$33,011	\$—	\$33,011

The following table provides a reconciliation of segment data to the consolidated financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	Company	Predecessor	Company	Predecessor
Revenue reconciliation				
Total revenues for reportable segments	\$171,392	\$61,574	327,928	\$126,722
Other revenues	975	48	975	111
Elimination for intersegment revenues	(17,199	) (2,053	) (33,429	) (4,844
Total consolidated revenues	\$155,168	\$59,569	\$295,474	\$121,989
Profit or loss				
Total profit or loss for reportable segments	\$25,356	\$11,417	36,717	\$21,669
Other profit or loss items	975	(6,849	) 975	(13,174
Formation transaction expenses	—	(1,305	) —	(3,000
Private perpetual preferred exchange offering costs	(950	)	(950)
Elimination for capitalized intersegment profit or loss	(100	) (240	) (230	) (605
Unallocated amounts:				
Investment income	—	48	—	111
Net income	25,281	3,071	36,512	\$5,001
Net income attributable to non-controlling interests	(15,447	)	(22,309)
Net income attributable to Empire State Realty Trust, Inc.	\$9,834		\$14,203	

14. Subsequent Events

On July 15, 2014, we completed the acquisition of the ground and operating leases at 112 West 34th Street (and the fee title to 122 West 34th Street) and the ground lease at 1400 Broadway for a total of approximately \$734 million in cash, common stock and Series PR OP units. Reference is made to Note 3.

Subsequent to June 30, 2014, we borrowed an additional \$190.0 million on the secured revolving and term credit facility in connection with the acquisition of the option properties.

Subsequent to June 30, 2014, we extended the maturity date of three loans totaling \$89.8 million from August 1, 2014 to February 1, 2015.

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

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. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. 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 involve numerous risks and uncertainties and you should not rely on them as predictions of future events. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates," "contemplates," "aims," "continues," "would" or "anticipates" or the negative of these words and phrases or similar words or phrases. 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 and changes in the real estate markets in particular, either nationally or in Manhattan or the greater New York metropolitan area;
- resolution of the appeals related to the Original Class Actions and appeals that may be filed related to the "Second Class Actions";
- reduced demand for office or retail space;
- changes in our business strategy;
- 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;
- litigation;
- fluctuations in interest rates and increased operating costs;
- declining real estate valuations and impairment charges;
- availability, terms and deployment of capital;
- our failure to obtain necessary outside financing, including our secured revolving and term credit facility;
- our expected 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 acquisitions, dispositions and development (including our Metro Tower development site), including the cost of construction delays and cost overruns;
- our failure to operate acquired properties and operations successfully;
- our projected operating results;
- our ability to manage our growth effectively;
- estimates relating to our ability to make distributions to our stockholders in the future;
- impact of changes in governmental regulations, tax law and rates and similar matters;
- our failure to qualify as a 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;
- financial market fluctuations;
- availability of and our ability to attract and retain qualified personnel;
- changes in real estate and zoning laws and increases in real property tax rates;
- our ability to comply with the laws, rules and regulations applicable to companies and, in particular, public companies; and
- the factors included in this Quarterly Report on Form 10-Q, including those set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our Annual Report on Form 10-K, including those set forth under the headings "Business" and "Risk Factors".

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, of 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 section entitled "Risk Factors" beginning on page 11 of our Annual Report on Form 10-K which we filed with the Securities and Exchange Commission ("SEC"). You should not place undue reliance on any forward-looking statements, which are based only on information currently available to us.

Overview

Unless the context otherwise requires or indicates, references in this section to "we," "our" and "us" refer to (i) our company and its consolidated subsidiaries (including our operating partnership) after giving effect to our initial public offering of our Class A common stock, or the Offering, and the formation transactions and (ii) our predecessor before giving effect to the Offering and the formation transactions.

With the completion of the Offering and the formation transactions, the historical operations of our predecessor and the properties that have been operated through our predecessor, were combined with our company, our operating partnership and/or their subsidiaries. The following discussion and analysis should be read in conjunction with our consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 and the notes related thereto which are included in our Annual Report on Form 10-K which we filed with the SEC, and our unaudited consolidated financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 included in this Quarterly Report on Form 10-Q.

We are a self-administered and self-managed REIT that owns, manages, operates, acquires, redevelops and repositions office and retail properties in Manhattan and the greater New York metropolitan area. Our primary focus is to own, manage and operate our current portfolio and to acquire and reposition office and retail properties in Manhattan and the greater New York metropolitan area.

We were organized as a Maryland corporation on July 29, 2011. We did not have any assets other than cash and did not have any meaningful operating activity until the consummation of the Offering and the related acquisition of our predecessor and certain non-controlled entities controlled by our predecessor on October 7, 2013 as part of the formation transactions.

Our operations commenced upon completion of the Offering and related formation transactions on October 7, 2013. Our operating partnership holds substantially all of our assets and conducts substantially all of our business. As of June 30, 2014 we owned approximately 38.9% of the aggregate operating partnership units in our operating partnership. We, as the sole general partner of our operating partnership, have responsibility and discretion in the management and control of our operating partnership, and the limited partners of 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 intend to elect 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.

For all periods prior to the completion of the Offering and related formation transactions, this Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the historical financial condition and results of operations of our predecessor, which owned controlling interests in 16 properties and unconsolidated non-controlling interests in the Empire State Building (including the observatory and broadcast operations), 1350 Broadway, 1333 Broadway, and 501 Seventh Avenue, which are accounted for under the equity method of accounting and make up a significant portion of our company subsequent to the completion of the Offering and related formation transactions. Our financial condition as of June 30, 2013 and results of operations for the three and six months ended June 30, 2013 reflect the financial condition and results of operations of our predecessor. Our financial condition as of June 30, 2014 and results of operations for the three and six months ended June 30, 2014 reflect the financial condition and results of operations of our predecessor consolidated with the non-controlling interests in those four properties we acquired at the time of the Offering and related formation transactions.

We operate an integrated business that currently consists of two operating segments: real estate and observatory.

37

Although construction contracting represented approximately 9.4% and 10.2% of our revenues for the six months ended June 30, 2014 and 2013, respectively, its relative contribution to our net income was much less significant than its contribution to our revenues.

As of June 30, 2014, our total portfolio, containing 8.4 million rentable square feet of office and retail space, was 88.6% occupied. Including signed leases not yet commenced, our total portfolio was 89.6% leased at June 30, 2014. Our Manhattan area office properties were 87.7% occupied (or 88.6% giving effect to leases signed but not yet commenced as of that date) and our greater New York metropolitan area office properties were 90.2% occupied (or 92.0% giving effect to leases signed but not yet commenced as of that date). Our office properties as a whole were 88.3% occupied (or 89.4% giving effect to leases signed but not yet commenced as of that date). Our ability to increase occupancy and rental revenue at our office properties depends on the successful completion of our repositioning program as described below and market conditions. The other component of our real estate segment, retail leasing, comprises both standalone retail properties and retail space in our Manhattan office properties. Our retail properties, including retail space in our Manhattan office properties, were 92.5% occupied (or 92.5% giving effect to leases signed but not yet commenced as of that date) as of June 30, 2014.

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. During the six months ended June 30, 2014 and 2013, respectively, the Empire State Building generated approximately \$81.7 million and \$62.9 million of rental revenue, excluding observatory operations. During the six months ended June 30, 2014 and 2013, the observatory operations of the Empire State Building generated approximately \$47.7 million and \$44.0 million, respectively, of revenue. Our observatory operations are a separate accounting segment following the Offering and related formation transactions. Our observatory operations are subject to regular patterns of tourist activity in Manhattan. During the past ten years of our annual observatory revenue, approximately 16.0% to 18.0% 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:

	Six Months Ended June 30,			
	2014	2013		
Office leases	40.6	% 33.8		%
Retail leases	3.6	% 4.5		%
Tenant reimbursements & other income	11.1	% 11.0		%
Observatory operations	36.8	% 41.2		%
Broadcasting licenses	7.9	% 9.5		%
Total	100.0	% 100.0		%

From 2002 through 2006, we gradually gained full control of the day-to-day management of our Manhattan office properties (with the estate of Leona M. Helmsley previously holding certain approval rights at some of these properties as a result of its interest in the entities owning the properties). Since then, we have been undertaking a comprehensive redevelopment and repositioning strategy of our Manhattan office properties that has included the physical improvement through upgrades and modernization of, and tenant upgrades in, such properties. Since we assumed full control of the day-to-day management of our Manhattan office properties beginning with One Grand Central Place in 2002, and through June 30, 2014, we have invested a total of approximately \$462.0 million (excluding tenant improvement costs and leasing commissions) in our Manhattan office properties pursuant to this program. Of the \$462.0 million invested pursuant to this program, \$260.0 million was invested at the Empire State Building. We currently estimate that between \$80.0 million and \$120.0 million of capital is needed beyond June 30, 2014 to complete substantially the redevelopment and repositioning program at our Manhattan office properties. We expect the redevelopment program at the Empire State Building to continue until the end of 2016 due to the size and scope of our remaining work and our desire to minimize tenant disruptions at the property. These estimates are based on our current budgets (which do not include tenant improvement and leasing commission costs) and are subject to change.

We intend to fund these capital improvements through a combination of operating cash flow and borrowings. These improvements, within our redevelopment and repositioning program, 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. These improvements are designed to improve the overall value and attractiveness of our properties and have contributed

38

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. 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.

As of June 30, 2014, we have approximately \$200.9 million of debt maturing in 2014 and approximately \$98.5 million maturing in 2015, and we have total debt outstanding of approximately \$1.2 billion, with a weighted average interest rate of 4.47% and a weighted average maturity of 2.6 years and 67.2% of which is fixed-rate indebtedness. 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, though we are subject to certain restrictions and financial covenants under our existing credit facility. Given our current liquidity, including availability under our secured revolving credit facility, and the low leverage financing of our 2014 and 2015 balloon maturities, we believe we will be able to refinance those maturities.

Subsequent to June 30, 2014, we extended the maturity date of three loans totaling \$89.8 million from August 1, 2014 to February 1, 2015.

Our Predecessor

See Note 1 to the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for an overview of our predecessor and the non-controlled entities.

Factors That May Influence Future Results of Operations

Leasing

Leasing activity has remained strong. On a combined basis, we, our predecessor and the non-controlled entities, signed 1.1 million, 1.1 million, and 1.5 million rentable square feet of new leases, expansions and lease renewals, for the years ended December 31, 2013, 2012, and 2011, respectively. During the six months ended June 30, 2014, we signed approximately 403,000 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, 2014, there were approximately 0.9 million rentable square feet of space in our portfolio available to lease (excluding leases signed but not yet commenced) representing 10.4% of the net rentable square footage of the properties in our portfolio. In addition, leases representing 3.4% and 8.5% of net rentable square footage of the properties in our portfolio will expire in the second half of 2014 and in 2015, respectively. These leases are expected to represent approximately 3.8% and 9.2%, 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 in following the redevelopment and repositioning of our properties.

Observatory Operations

39

The Empire State Building Observatory revenue for the second quarter 2014 grew 11.4% to \$30.4 million, from \$27.3 million in the second quarter of 2013, due to higher admission pricing and the shift of the Easter holiday week from first quarter 2013 to second quarter 2014. The Observatory hosted approximately 1,222,000 visitors in the second quarter 2014, representing a 3.8% increase from the same period of 2013. The increase in attendance was attributable to the shift of the Easter holiday week from the first quarter 2013 to the second quarter 2014.

For the six months ended June 30, 2014, the Empire State Building Observatory hosted 1,886,000 visitors, which was unchanged from the same period in 2013. Observatory revenue was \$47.7 million for the six months ended June 30, 2014, an 8.4% increase from \$44.0 million for the six months ended June 30, 2013.

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 Rockefeller Center observatory and the planned observatory at One World Trade Center; and (v) weather trends.

Critical Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with GAAP and with the rules and regulations of the SEC represent our assets and liabilities and operating results. The consolidated financial statements include our accounts and our wholly-owned subsidiaries as well as our operating partnership and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. For purposes of comparison, certain items shown in the 2013 consolidated financial statements have been reclassified to conform to the presentation used for 2014.

Our predecessor's consolidated financial statements include all the accounts and operations of our predecessor. The real estate entities included in the accompanying consolidated financial statements have been consolidated on the basis that, for the periods presented, such entities were under common control, common management and common ownership of the sponsors. Equity interests in the entities that were not controlled by the sponsors are shown as investments in non-controlled entities. We acquired these interests as a result of the formation transactions and we currently own and control 100% of the interests in these entities.

Our predecessor consolidated variable interest entities, or VIEs, in which it was considered a primary beneficiary. The primary beneficiary 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. We had no VIEs as of June 30, 2014.

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, the entity's tax return before filing, and 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. Such agreements could also contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the investment and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan.

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 consolidated balance sheets and in the consolidated statements of operations by requiring earnings and other comprehensive income to be attributed to controlling and non-controlling interests. As the financial statements of our predecessor have been prepared on a consolidated basis, there is no non-controlling interest for our predecessor for the periods presented.

Accounting Estimates

The preparation of the 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 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.

Revenue Recognition

Rental Revenue

Rental revenue includes base rents that each tenant pays in accordance with the terms of its respective lease and is reported on a straight-line basis over the non-cancellable term of the lease which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space or controls the physical use of the leased space and the leased space is substantially ready for its intended use. In addition, many of our leases contain fixed percentage increases over the base rent to cover escalations. We account for all of our leases as operating leases. Deferred rent receivables, including free rental periods and leasing arrangements allowing for increased base rent payments are accounted for in a manner that provides an even amount of fixed lease revenues over the respective non-cancellable lease terms. Differences between rental income recognized and amounts due under the respective lease agreements are recognized as an increase or decrease to deferred rents receivable.

The timing of rental revenue recognition is impacted by the ownership of tenant improvements and allowances. When we are the owner of the tenant improvements, revenue recognition commences after both the improvements are completed and the tenant takes possession or control of the space. In contrast, if we determine that the tenant allowances we are funding are lease incentives, then we commence revenue recognition when possession or control of the space is turned over to the tenant. Tenant improvement ownership is determined based on various factors including, but not limited to, whether the lease stipulates how and on what a tenant improvement allowance may be spent, whether the tenant or landlord retains legal title to the improvements at the end of the lease term, whether the tenant improvements are unique to the tenant or general-purpose in nature, and whether the tenant improvements are expected to have any residual value at the end of the lease.

In addition to base rent, our tenants also generally will pay their pro rata share of increases in real estate taxes and operating expenses for the building over a base year. In some leases, in lieu of paying additional rent based upon increases in building operating expenses, the tenant will pay additional rent based upon increases in the wage rate paid to porters over the porters' wage rate in effect during a base year or increases in the Consumer Price Index over the index value in effect during a base year.

We will recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases, including, for below-market leases, fixed option renewal periods, if any.

Lease cancellation fees are recognized when the fees are determinable, tenant vacancy has occurred, collectability is reasonably assured, we have no continuing obligation to provide services to such former tenants and the payment is not subject to any conditions that must be met or waived. Such fees are included in other income and fees in our consolidated statements of operations.

Observatory Revenue

Revenue from the sale of Observatory tickets are recognized upon admission or ticket expirations. Deferred income related to unused and unexpired tickets as of June 30, 2014 was \$5.1 million.

Construction Revenue

Revenues from construction contracts are recognized under the percentage-of completion method. Under this method, progress towards completion is recognized according to the ratio of incurred costs to estimated total costs. This method is used because management considers the "cost-to-cost" method the most appropriate in the circumstances.

Contract costs include all direct material, direct labor and other direct costs and an allocation of certain overhead related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Gains on Sale of Real Estate

We record a gain on sale of real estate when title is conveyed to the buyer and we have no substantial economic involvement with the property. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and accounts for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Gains from sales of depreciated properties are included in discontinued operations and the net proceeds from the sale of these properties are classified in the investing activities section of the statements of cash flows. During the periods presented, we did not sell any properties.

Third-Party Management, Leasing and Other Fees

We earn revenue arising from contractual agreements with affiliated entities. This revenue is recognized as the related services are performed under the respective agreements in place.

Real Estate Properties and Related Intangible Assets

Land and buildings and improvements are recorded at cost less accumulated depreciation and amortization. The recorded cost includes cost of acquisitions, development and construction and tenant allowances and improvements. Expenditures for ordinary repairs and maintenance are charged to operations as incurred. Significant replacements and betterments which improve or extend the life of the asset are capitalized. Tenant improvements which improve or extend the life of the asset are capitalized. If a tenant vacates its space prior to the contractual termination of its lease, the unamortized balance of any tenant improvements are written off if they are replaced or have no future value. For developed properties, direct and indirect costs that clearly relate to projects under development are capitalized. Costs include construction costs, professional services such as architectural and legal costs, travel expenses, capitalized interest and direct payroll and other acquisition costs. We begin capitalization when the project is probable.

Capitalization of interest ceases when the property is ready for its intended use, which is generally near the date that a certificate of occupancy is obtained.

Depreciation and amortization are computed using the straight-line method for financial reporting purposes. Buildings and improvements are depreciated over the shorter of 39 years, the useful life, or the remaining term of any leasehold interest. Tenant improvement costs, which are included in building and improvements in the consolidated balance sheets, are depreciated over the shorter of (i) the related remaining lease term or (ii) the life of the improvement. Corporate equipment, which is included in "Other assets," is depreciated over three to seven years.

Acquisitions of properties are accounted for utilizing the acquisition method and accordingly the purchase cost is allocated to tangible and intangible assets and liabilities based on their fair values. The fair value of tangible assets acquired is determined by valuing the property as if it were vacant, applying methods similar to those used by independent appraisers of income-producing property. The resulting value is then allocated to land, buildings and improvements, and tenant improvements based on our determination of the fair value of these assets. The assumptions used in the allocation of fair values to assets acquired are based on our best estimates at the time of evaluation.

Fair value is assigned to above-market and below-market leases based on the difference between (a) the contractual amounts to be paid by the tenant based on the existing lease and (b) our estimate of current market lease rates for the corresponding in-place leases, over the remaining terms of the in-place leases. Capitalized above-market lease amounts are amortized as a decrease to rental revenue over the remaining terms of the respective leases. Capitalized below-market lease amounts are amortized as an increase to rental revenue over the remaining terms of the respective leases. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off.

The aggregate value of other acquired intangible assets consists of acquired ground leases and acquired in-place leases and tenant relationships. The fair value allocated to acquired in-place leases consists of a variety of components including, but not necessarily limited to: (a) the value associated with avoiding the cost of originating the acquired

in-place leases (i.e. the

42

market cost to execute a lease, including leasing commissions and legal fees, if any); (b) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period (i.e. real estate taxes, insurance and other operating expenses); (c) the value associated with lost rental revenue from existing leases during the assumed lease-up period; and (d) the value associated with any other inducements to secure a tenant lease.

Regarding certain of our 2013 property acquisitions, the fair value asset and liability allocations are preliminary and may be adjusted as final information becomes available.

We assess the potential for impairment of our long-lived assets, including real estate properties, annually or whenever events occur or a change in circumstances indicate that the recorded value might not be fully recoverable. We determine whether impairment in value has occurred by comparing the estimated future undiscounted cash flows expected from the use and eventual disposition of the asset to its carrying value. If the undiscounted cash flows do not exceed the carrying value, the real estate is adjusted to fair value and an impairment loss is recognized. Assets held for sale are recorded at the lower of cost or fair value less costs to sell. We do not believe that the value of any of our properties and intangible assets were impaired during the six months ended June 30, 2014.

All operations and gains and losses associated with sales of real estate property or assets classified as held for sale are reclassified and presented as discontinued operations.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term liquid investments with original maturities of three months or less when purchased. The majority of our cash and cash equivalents are held at major commercial banks which may at times exceed the Federal Deposit Insurance Corporation limit. To date, we have not experienced any losses on our invested cash.

Deferred Lease Costs

Deferred lease costs consist of fees and direct costs incurred to initiate and renew leases, are amortized on a straight-line basis over the related lease term and the expense is included in depreciation and amortization in our consolidated statements of operations. Upon the early termination of a lease, unamortized deferred leasing costs are charged to expense.

Deferred Financing Costs

Fees and costs incurred to obtain long-term financing have been deferred and are being amortized as a component of interest expense in our consolidated statements of income over the life of the respective mortgage on the straight-line method which approximates the effective interest method. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Costs incurred in seeking debt, which do not close, are expensed in the period in which it is determined that the financing will not close.

Equity Method Investments

We account for our investments under the equity method of accounting where we do not have control but have the ability to exercise significant influence. Under this method, our investments are recorded at cost, and the investment accounts are adjusted for our share of the entities' income or loss and for distributions and contributions. Equity income or loss is allocated based on the portion of the ownership interest that is controlled by us. The agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of the entity's income or loss generally follows the entity's distribution priorities, which may change upon the achievement of certain investment return thresholds.

To the extent that we contributed assets to an entity, our investment in the entity is recorded at cost basis in the assets that were contributed to the entity. Upon contributing assets to an entity, we make a judgment as to whether the economic substance of the transaction is a sale. If so, gain or loss is recognized on the portion of the asset to which the other partners in the entity obtain an interest.

To the extent that the carrying amount of these investments on our consolidated balance sheets is different than the basis reflected at the entity level, the basis difference would be amortized over the life of the related asset and included in our share of equity in net income of the entity.

On a periodic basis, we assess whether there are any indicators that the carrying value of our investments in entities may be impaired on an other than temporary basis. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment on an other than temporary basis. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying value of the investment over the fair value of the investment.

We recognize incentive income in the form of overage fees from certain uncombined entities (which include non-controlled and other properties not included in the predecessor) as income to the extent it has been earned and not subject to a clawback feature.

If our share of distributions and net losses exceeds our investments for certain of the equity method investments and if we remain liable for future obligations of the entity or may otherwise be committed to provide future additional financial support, the investment balances would be presented in the consolidated balance sheets as liabilities. The effects of material intercompany transactions with these equity method investments are eliminated. None of the entity debt is recourse to us.

The revenues and expenses of our non-controlled entities, including those generated by our observatory operations and our broadcasting operations, are not included in the historical operating results of our predecessor. These revenues and expenses are included in the non-controlled entities' financial statements and we recognize our share of net income, including those generated by our observatory operations and our broadcasting operations, through our share of equity in earnings. Upon completion of the Offering and the formation transactions, the operations of our non-controlled entities, including our observatory operations and our broadcasting operations, were combined with our company, our operating partnership and/or our subsidiaries.

As of June 30, 2014 and December 31, 2013, we had no equity method investments.

Goodwill

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount, including goodwill, exceeds the reporting unit's fair value and the implied fair value of goodwill is less than the carrying amount of that goodwill. Non-amortizing intangible assets, such as trade names and trademarks, are subject to an annual impairment test based on fair value and amortizing intangible assets are tested whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Fair Value

Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the FASB guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

We use the following methods and assumptions in estimating fair value disclosures for financial instruments.

For cash and cash equivalents, restricted cash, tenant and other receivables, prepaid expenses and other assets, accrued interest payable, due to or from affiliate companies, deferred revenue, tenant security deposits, accounts payable and accrued expenses in our consolidated balance sheets approximate their fair value due to the short term maturity of these instruments.

The fair value of our mortgage notes payable and term loan and credit 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 methodologies used for valuing financial instruments have been categorized into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical instruments.

Level 2 - Valuations based principally on other observable market parameters, including:

- Quoted prices in active markets for similar instruments;
- Quoted prices in less active or inactive markets for identical or similar instruments;
- Other observable inputs (such as risk free interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates); and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs, including:

- Valuations based on third-party indications (broker quotes or counterparty quotes) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 3 valuations; and
- Valuations based on internal models with significant unobservable inputs.

These levels form a hierarchy. We follow this hierarchy for our financial instruments measured or disclosed at fair value on a recurring and nonrecurring basis and other required fair value disclosures. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Income Taxes

We intend to elect to be taxed as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 2013. REITs are subject to a number of organizational and operational requirements, including a requirement that 90% of ordinary "REIT taxable income" (as determined without regard to the dividends paid deduction or net capital gains) be distributed. As a REIT, we will generally not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed REIT taxable income. For all periods subsequent to the effective date of our REIT election, we have met the organizational and operational requirements and distributions have exceeded net taxable income. Accordingly, no provision has been made for federal and state income taxes.

We have elected to treat ESRT Observatory TRS, L.L.C., our subsidiary which holds our observatory operations, and ESRT Holdings TRS, L.L.C., our subsidiary that holds our third party management, construction, cafeteria, health club and cleaning operations, as taxable REIT subsidiaries. Taxable REIT subsidiaries may participate in non-real estate activities and/or perform non-customary services for tenants and their operations are generally subject to regular corporate income taxes. Our taxable REIT subsidiaries account for their income taxes in accordance with GAAP, which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. The calculation of the taxable REIT subsidiaries' tax provisions may require interpreting tax laws and regulations and could result in the use of judgments or estimates which could cause its recorded tax liability to differ from the actual amount due. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The taxable REIT subsidiaries periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, or federal statutory tax audits or estimates and judgments used.

We apply provisions for measuring and recognizing tax benefits associated with uncertain tax positions. Penalties and interest, if incurred, would be recorded as a component of marketing, general and administrative expenses. As of June 30, 2014 and 2013, we do not have a liability for uncertain tax positions. As of June 30, 2014, the tax years ended December 31, 2010 through December 31, 2013 remain open for an audit by the Internal Revenue Service and state authorities. We have not received a notice of audit from the Internal Revenue Service and state authorities for any of the open tax years.

During the periods presented, the entities included in our predecessor's consolidated financial statements are treated as partnerships or S corporations for U.S. federal and state income tax purposes and, accordingly, are not subject to entity-level tax. Rather, each entity's taxable income or loss is allocated to its owners. Therefore, no provision or liability for U.S. federal or state income taxes has been included in the accompanying consolidated financial statements.

Two of the limited liability companies in our predecessor had non-real estate income subject to NYCUBT. As of June 30, 2013, both entities generated taxable income. No provision or liability for U.S. federal, state, or local income taxes has been included in our predecessor's consolidated financial statements as taxable income as referred to above is fully

offset by a NYCUBT net operating loss carry forward from previous years.

45

Share-Based Compensation

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. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of our stock, expected dividend yield, expected term, and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds. We believe that the assumptions and estimates utilized are appropriate based on the information available to management at the time of grant.

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 operates 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 different 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 construction operation in "Other" and includes all activities related to providing construction services to tenants and to other entities within and outside our company.

Results of Operations

Overview

The discussion below relates to the financial condition and results of operations for the three and six months ended June 30, 2014 and 2013.

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

The following table summarizes the historical results of operations for the three months ended June 30, 2014 and 2013:

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	Three Months Ended June 30,				
	2014	2013	Change		%
Revenues:					
Rental revenue ⁽¹⁾	\$92,210	\$43,639	\$48,571	111.3	%
Tenant expense reimbursement	14,304	7,045	7,259	103.0	%
Observatory revenue	30,389	—	30,389	100.0	%
Construction revenue	12,963	6,218	6,745	108.5	%
Third-party management and other fees	753	1,526	(773)	(50.7))%
Other revenues and fees	4,549	1,141	3,408	298.7	%
Total revenues	155,168	59,569	95,599	160.5	%
Operating expenses:					
Property operating expenses	35,596	12,152	23,444	192.9	%
Marketing, general and administrative expenses	12,189	6,849	5,340	78.0	%
Observatory expenses	7,120	—	7,120	100.0	%
Construction expenses	12,795	6,529	6,266	96.0	%
Real estate taxes	18,186	7,916	10,270	129.7	%
Formation transaction expenses	—	1,305	(1,305)	(100.0))%
Depreciation and amortization	28,637	13,111	15,526	118.4	%
Total operating expenses	114,523	47,862	66,661	139.3	%
Operating income	40,645	11,707	28,938	247.2	%
Other income (expense):					
Equity in net income of non-controlled entities	—	6,079	(6,079)	(100.0))%
Interest expense	(14,629)	(14,715)	86	(0.6))%
Acquisition expenses	(735)	—	(735)	—	%
Net income	\$25,281	\$3,071	\$22,210	723.2	%

(1) Includes \$4,095 of leasehold rent for the three months ended June 30, 2013.

Rental Revenue

The increase in rental income was primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased rental revenue by \$45.4 million.

Tenant Expense Reimbursement

The increase in tenant expense reimbursement is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased tenant expense reimbursement by \$8.2 million, partially offset by reductions in tenant expense reimbursement at other properties.

Observatory Revenue

Observatory revenue increased by \$30.4 million and is attributable to the acquisition of the observatory operations from the non-controlled entity Empire State Building Company, L.L.C., upon the completion of the Offering and related formation transactions on October 7, 2013, and the operations of the observatory are now included in our consolidated results.

Construction Revenue

The increase in construction revenue is attributable to a larger volume of significant construction projects during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in the number of projects is primarily due to the timing of the short duration projects.

Third-Party Management and Other Fees

The decrease in third party management and other fees revenue is primarily due to acquisition of the non-controlled entities and the subsequent elimination of fees due to consolidation.

Other Revenues and Fees

The increase in other revenues and fees is primarily due to \$0.7 million of lease cancellation income, \$0.6 million property tax refund and a \$1.0 million lawsuit settlement that the observatory recognized in the three months ended June 30, 2014, compared to none in the prior period.

Property Operating Expenses

The increase in property operating expenses is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased property operating expenses by \$21.2 million.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses increased due to an income tax expense of \$2.7 million due to income in our TRS, private perpetual preferred exchange offering costs of \$1.0 million, equity compensation expense of \$0.8 million and higher insurance expenses of \$0.4 million.

Observatory Expenses

Observatory expenses increased by \$7.1 million and is attributable to the acquisition of the observatory operations from the non-controlled entity Empire State Building Company, L.L.C., upon the completion of the Offering and related formation transactions on October 7, 2013, and the operations of the observatory are now included in our consolidated results.

Construction Expenses

The increase in construction expenses correlates with the higher volume of construction projects as described above in Construction revenue.

Real Estate Taxes

The increase in real estate taxes is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased real estate taxes by \$10.2 million.

Formation Transaction Expenses

Formation transaction expenses decreased by \$1.3 million due to the completion of the formation transactions in 2013.

Depreciation and Amortization

The increase in depreciation and amortization is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased depreciation and amortization by \$15.6 million.

Interest Expense

Interest expense decreased due to lower weighted average interest rates in 2014 compared to 2013, offset by higher outstanding principal balances.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

The following table summarizes the historical results of operations for the six months ended June 30, 2014 and 2013:

	Six months ended June 30,		Change	%	
	2014	2013			
Revenues:					
Rental revenue ⁽¹⁾	\$182,414	\$88,905	\$93,509	105.2	%
Tenant expense reimbursement	29,457	13,634	15,823	116.1	%
Observatory revenue	47,690	—	47,690	100.0	%
Construction revenue	27,926	12,400	15,526	125.2	%
Third-party management and other fees	1,364	4,183	(2,819)	(67.4))%
Other revenues and fees	6,623	2,867	3,756	131.0	%
Total revenues	295,474	121,989	173,485	142.2	%
Operating expenses:					
Property operating expenses	71,907	25,958	45,949	177.0	%
Marketing, general and administrative expenses	20,864	13,174	7,690	58.4	%
Observatory expenses	14,101	—	14,101	100.0	%
Construction expenses	27,078	12,789	14,289	111.7	%
Real estate taxes	36,559	15,787	20,772	131.6	%
Formation transaction expenses	—	3,000	(3,000)	(100.0))%
Depreciation and amortization	58,752	25,267	33,485	132.5	%
Total operating expenses	229,261	95,975	133,286	138.9	%
Operating income	66,213	26,014	40,199	154.5	%
Other income (expense):					
Equity in net income of non-controlled entities	—	7,898	(7,898)	(100.0))%
Interest expense	(28,966)	(28,911)	(55)	0.2	%
Acquisition expenses	(735)	—	(735)	—	%
Net income	\$36,512	\$5,001	\$31,511	630.1	%

(1) Includes \$10,151 of leasehold rent for the six months ended June 30, 2013.

Rental Revenue

The increase in rental income was primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased rental revenue by \$87.9 million.

Tenant Expense Reimbursement

The increase in tenant expense reimbursement is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased tenant expense reimbursement by \$16.6 million.

Observatory Revenue

Observatory revenue increased by \$47.7 million and is attributable to the acquisition of the observatory operations from the non-controlled entity Empire State Building Company, L.L.C., upon the completion of the Offering and related formation transactions on October 7, 2013, and the operations of the observatory are now included in our consolidated results.

Construction Revenue

The increase in construction revenue is attributable to a larger volume of significant construction projects during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in the number of projects is primarily due to the timing of the short duration projects.

Third-Party Management and Other Fees

The decrease in third party management and other fees revenue is primarily due to acquisition of the non-controlled entities and the subsequent elimination of fees due to consolidation.

Other Revenues and Fees

The increase in other revenues and fees is primarily due to \$1.1 million of lease cancellation income, \$0.6 million property tax refund and a \$1.0 million lawsuit settlement that the observatory recognized in the six months ended June 30, 2014, compared to none in the prior period.

Property Operating Expenses

The increase in property operating expenses is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased property operating expenses by \$42.1 million.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses increased due to higher payroll expenses of \$2.6 million, equity compensation expense of \$1.9 million, private perpetual preferred exchange offering costs of \$1.0 million, higher insurance expenses of \$0.8 million and higher marketing expenses of \$0.6 million.

Observatory Expenses

Observatory expenses increased by \$14.1 million and is attributable to the acquisition of the observatory operations from the non-controlled entity Empire State Building Company, L.L.C., upon the completion of the Offering and related formation transactions on October 7, 2013, and the operations of the observatory are now included in our consolidated results.

Construction Expenses

The increase in construction expenses correlates with the higher volume of construction projects as described above in Construction revenue.

Real Estate Taxes

The increase in real estate taxes is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased real estate taxes by \$20.3 million.

Formation Transaction Expenses

Formation transaction expenses decreased by \$3.0 million due to the completion of the formation transactions in 2013.

Depreciation and Amortization

The increase in depreciation and amortization is primarily attributable to the acquisition of the four non-controlled properties upon the completion of the Offering and related formation transactions on October 7, 2013, which increased depreciation and amortization by \$30.5 million.

Interest Expense

Interest expense increased due to higher outstanding balances in 2014 compared to 2013, offset by lower weighted average interest rates.

Liquidity and Capital Resources

At June 30, 2014, we had approximately \$41.8 million available in cash and cash equivalents and there was \$445.0 million available under our secured revolving credit facility.

As of June 30, 2014, availability under the secured revolving and term credit facility is reduced by \$27.3 million until certain capital expenditures at the Empire State Building are made by us from proceeds from the secured revolving and term credit facility or cash on hand.

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 stockholders and other general business needs. Based on the historical experience of our management and our business strategy, in the foreseeable future we anticipate we will generate positive cash flows from operations. In order to qualify as a REIT, we are required under the Code 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 financings and unused borrowing capacity under our secured revolving and term 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 loans and secured revolving and term 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 secured revolving and term 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, 2014, we had approximately \$1.2 billion of total consolidated indebtedness outstanding, with a weighted average interest rate of 4.47% and a weighted average maturity of 2.6 years. We have approximately \$200.9 million of debt maturing in 2014 and approximately \$98.5 million maturing in 2015. Given our current liquidity, including availability under our secured revolving credit facility, and the low leverage financing of our 2014 and 2015 balloon maturities, we believe we will be able to refinance those maturities.

Secured Revolving and Term Credit Facility

Our secured revolving and term credit facility has a maximum aggregate original principal amount of up to \$800.0 million. Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) acted as joint lead arranger and joint bookrunner, Bank of America, N.A. (“Bank of America”), an affiliate of Merrill Lynch, acts as administrative agent and Goldman Sachs Bank USA, an affiliate of Goldman Sachs & Co., acts as syndication agent, joint lead arranger and joint bookrunner, with respect to the revolving credit and term loan facilities, which are collectively referred to herein as the secured revolving and term credit facility. The secured revolving and term credit facility is comprised of a term loan A and a term loan B, which are referred to herein as the term loan, and a revolving credit facility, which is referred to herein as the revolving credit facility, in the maximum original principal amount of the difference between \$800.0 million and the original balance under the term loan. The secured revolving and term credit facility contains an accordion feature that will allow us to increase the maximum aggregate principal amount to \$1.25 billion under specified circumstances. We expect to use the secured revolving and term credit facility to, among other things, fund capital expenditures and tenant improvements and leasing commissions, potential acquisitions, development and redevelopment of real estate properties, general corporate matters and working capital. As of June 30, 2014, the outstanding balance on the secured revolving and term credit facility was \$355.0 million. Subsequent to June 30, 2014, we borrowed an additional \$190.0 million on the secured revolving and term credit facility in connection with the acquisition of the option properties.

Certain of our subsidiaries are guarantors of the secured revolving and term credit facility and pledged specified equity interests in our subsidiaries as collateral for our obligations under the secured revolving and term credit facility.

We refer to us, our operating partnership and our subsidiaries who will be guarantors collectively as the loan parties. Availability. The amount available to us under the secured revolving and term credit facility is based on adjusted net operating income from all of the borrowing base properties, and subject to parameters that reference a minimum debt service coverage ratio and an assumed amortization term and interest rate.

Interest. Amounts outstanding under the term loan bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread ranging from 1.00% to 2.00% depending upon our leverage ratio and credit rating which, at

June 30, 2014, was 1.35%; or (y) a base rate, plus a spread ranging from 0.00% to 1.00% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 0.35%. Amounts outstanding under the revolving credit facility bear interest at a floating rate equal to, at our election, (x) a Eurodollar rate, plus a spread ranging from 0.925% to 1.70% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 1.20%; or (y) a base rate, plus a spread ranging from 0.00% to 0.70% depending upon our leverage ratio and credit rating which, at June 30, 2014, was 0.20%. In addition, the revolving credit facility permits us to borrow at competitive bid rates determined in accordance with the procedures described in the revolving credit facility.

Fees. We paid certain customary fees and expense reimbursements.

Maturity. The term loan has a term of five years and matures in October 2018 and the revolving credit facility has an initial term of four years and matures in October 2017. We have the option to extend the initial term of the revolving credit facility for an additional one-year period, subject to certain conditions, including the payment of an extension fee equal to 0.20% of the then-outstanding commitments under the revolving credit facility.

Financial Covenants. The secured revolving and term 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 (excluding the secured revolving and term credit facility) will not exceed 40% of total asset value, (iii) tangible net worth will not be less than the sum of 80% of tangible net worth at the closing of the secured revolving and term credit facility plus 75% of net equity proceeds received by us after the closing date (other than proceeds received by us in connection with any dividend reinvestment program), (iv) adjusted EBITDA (as defined in the secured revolving and term credit facility) to consolidated fixed charges will not be less than 1.50x, (v) consolidated variable rate debt will not exceed 25% of total asset value and (vi) consolidated secured recourse indebtedness (excluding the secured revolving and term credit facility) will not exceed 10% of total asset value. Subject to certain customary exceptions and excluding dividends and distributions payable solely in our common stock, we are restricted from paying dividends or other distributions in excess of the greater of (x) 95% of funds from operations (as defined in the secured revolving and term credit facility) and (y) the amount of dividends and other distributions we are required to pay in order to maintain our qualification as a REIT and (other than during an event of default) to avoid the payment of federal or state income or excise tax; provided, that if certain events of default exist, we may be precluded from paying any dividends or other distributions. As of June 30, 2014, we were in compliance with the covenants:

Financial covenant	Required	June 30, 2014	In Compliance
Maximum total leverage	< 60%	29.7	% Yes
Maximum secured debt	< 40%	21.1	% Yes
Minimum fixed charge coverage	> 1.5x	3.0x	Yes
Maximum variable rate indebtedness	< 25%	9.7	% Yes
Maximum secured recourse indebtedness	< 10%	—	% Yes
Minimum tangible net worth	\$689,800	\$822,855	Yes

Other Covenants. In addition, the secured revolving and term credit facility contains customary covenants, including limitations on liens, investment, debt, fundamental changes, transactions with affiliates and requires us to provide certain customary financial reports.

Events of Default. The secured revolving and term 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 REIT qualification, and occurrence of a change of control (as defined in the secured revolving and term credit facility).

Mortgage debt

As of June 30, 2014, we had mortgage debt outstanding of \$873.9 million. There were no borrowings or repayments during the six months ended June 30, 2014, except for monthly principal amortization payments. Subsequent to June 30, 2014, we extended the maturity date of three loans totaling \$89.8 million from August 1, 2014 to February 1, 2015.

Leverage Policies

52

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 initially 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 table summarizes our tenant improvement costs, leasing commission costs and our capital expenditures for our 18 properties as if they were consolidated for each of the periods presented (dollars in thousands, except per square foot amounts):

Office Properties⁽¹⁾

	Six Months Ended June 30,	
	2014	2013
Total New Leases, Expansions, and Renewals		
Number of leases signed ⁽²⁾	116	117
Total square feet	400,644	417,155
Leasing commission costs ⁽³⁾	\$6,022	\$5,033
Tenant improvement costs ⁽³⁾	19,853	20,282
Total leasing commissions and tenant improvement costs ⁽³⁾	\$25,875	\$25,315
Leasing commission costs per square foot ⁽³⁾	\$15.03	\$12.06
Tenant improvement costs per square foot ⁽³⁾	49.55	48.62
Total leasing commissions and tenant improvement costs per square foot ⁽³⁾	\$64.58	\$60.68

Retail Properties⁽⁴⁾

	Six Months Ended June 30,	
	2014	2013
Total New Leases, Expansions, and Renewals		
Number of leases signed ⁽²⁾	3	6
Total Square Feet	1,934	66,483
Leasing commission costs ⁽³⁾	\$13	\$4,764
Tenant improvement costs ⁽³⁾	—	1,874
Total leasing commissions and tenant improvement costs ⁽³⁾	\$13	\$6,638
Leasing commission costs per square foot ⁽³⁾	\$6.59	\$71.66
Tenant improvement costs per square foot ⁽³⁾	—	28.20
Total leasing commissions and tenant improvement costs per square foot ⁽³⁾	\$6.59	\$99.86

(1) Excludes an aggregate of 415,339 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 415,339 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,	
	2014	2013
Total Portfolio		
Capital expenditures ⁽¹⁾	\$23,498	\$24,647

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, 2014, we expect to incur additional costs relating to obligations under signed new leases of approximately \$60.8 million during the 12 months ending June 30, 2015. This consists of approximately \$60.5 million for tenant improvements and other improvements related to new leases and approximately \$0.3 million on leasing commissions expected to be incurred in the 12 months ending June 30, 2015. We intend to fund the tenant improvements and leasing commission costs through a combination of operating cash flow and borrowings under the secured revolving and term credit facility.

Capital expenditures are considered part of both our short-term and long-term liquidity requirements. We currently estimate that between \$80.0 million and \$120.0 million of capital is needed beyond June 30, 2014 to complete substantially the redevelopment program at our Manhattan office properties, which we expect to occur by the end of 2016 due to the size and scope of our remaining work and our desire to minimize tenant disruptions. However, these estimates are based on current budgets and are subject to change. 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 secured revolving and term credit facility.

Contractual Obligations

The following table summarizes the amounts due in connection with our contractual obligations described below for the years ending December 31, 2014 (assuming all contractual obligations as of June 30, 2014 were outstanding as of January 1, 2014) through 2018 and thereafter (amounts in thousands).

	Year Ended December 31						Total
	2014	2015	2016	2017	2018	Thereafter	
Mortgages and other debt ⁽¹⁾							
Interest expense	\$51,770	\$39,152	\$33,296	\$23,287	\$4,927	\$—	\$152,432
Amortization	15,178	10,036	7,918	5,393	306	—	38,831
Principal repayment	193,591	88,445	91,572	410,761	403,437	—	1,187,806
Ground lease	108	108	108	108	108	2,655	3,195
Tenant improvement and leasing commission costs	56,751	4,075	—	—	—	—	60,826
Total	\$317,398	\$141,816	\$132,894	\$439,549	\$408,778	\$2,655	\$1,443,090

(1) Assumes no extension options are exercised.

Off-Balance Sheet Arrangements

As of June 30, 2014, 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.

Cash Flows

Comparison of Six Months Ended June 30, 2014 to the Six Months Ended June 30, 2013

Net cash. Cash and cash equivalents were \$41.8 million and \$80.5 million, respectively, as of June 30, 2014 and 2013.

Operating activities. Net cash provided by operating activities increased by \$1.7 million to \$46.1 million for the six months ended June 30, 2014 compared to \$44.4 million for the six months ended June 30, 2013.

Investing activities. Net cash used in investing activities increased by \$11.9 million to \$45.3 million for the six months ended June 30, 2014 compared to \$33.4 million for the six months ended June 30, 2013.

Financing activities. Net cash (used in) provided by financing activities decreased by \$37.8 million to (\$19.8) million for the six months ended June 30, 2014 compared to \$18.0 million for the six months ended June 30, 2013. The decrease is primarily due to \$63.9 million in net borrowings in the six months ended June 30, 2013 in connection with the renovation program at the Empire State Building.

Net Operating Income

Our financial reports include a discussion of property net operating income, or NOI. NOI is a non-GAAP financial measure of performance. NOI is used by investors and 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 formation transaction expenses, 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, interest income and other 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 entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following table presents a reconciliation of our company and predecessor 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,	
	2014	2013	2014	2013
	The Company	The Predecessor	The Company	The Predecessor
	(unaudited)			
Net income	\$25,281	\$3,071	\$36,512	\$5,001
Add:				
Marketing, general and administrative expenses	12,189	6,849	20,864	13,174
Total depreciation and amortization ⁽¹⁾	28,637	15,023	58,752	28,961
Interest expense ⁽²⁾	14,629	15,697	28,966	30,879
Construction expenses	12,795	6,529	27,078	12,789
Acquisition expenses	735	—	735	—
Formation transaction expenses ⁽³⁾	—	1,305	—	3,000
Less:				
Construction revenue	(12,963)	(6,218)	(27,926)	(12,400)
Third-party management and other fees	(753)	(1,526)	(1,364)	(4,183)
Gain on settlement of lawsuit related to the Observatory	(975)	—	(975)	—
Net operating income	\$79,575	\$40,730	\$142,642	\$77,221
Other Net Operating Income Data				
Straight-line rental revenue	\$10,979	\$1,062	\$23,559	\$1,907
Net increase in rental revenue from the amortization of above- and below-market lease assets and liabilities	\$2,028	\$—	\$3,912	\$—
Amortization of acquired below-market ground lease	\$426	\$—	\$852	\$—
Ground rent earned from non-controlled entities	\$—	\$4,095	\$—	\$10,151
Management fees from non-controlled entities	\$—	\$659	\$—	\$1,479

(1) Includes adjustment for proportionate share of depreciation and amortization expense relating to non-controlled entities of \$1,912 and \$3,694 for the three and six months ended June 30, 2013, respectively.

(2) Includes adjustment for proportionate share of interest expense related to non-controlled entities of \$982 and \$1,968 for the three and six months ended June 30, 2013, respectively.

(3) Includes external offering costs incurred that are not directly attributable to the consent solicitation of investors in the existing entities and this offering.

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 debt restructurings and 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 its 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.

Core Funds From Operations ("Core FFO")

Core FFO adds back to traditionally defined FFO the following items associated with the Offering and related formation transactions: gain on consolidation of non-controlled entities, acquisition expenses, severance expenses, retirement equity compensation expenses, private perpetual preferred exchange offering expenses, acquisition expenses, and gain on settlement of lawsuit related to the observatory, net of income taxes. We present Core FFO because we consider it an important supplemental measure of its operating performance in that it excludes items associated with the Offering and related formation transactions. There can be no assurance that Core FFO presented by us 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.

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

	Three Months Ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	Company	Predecessor	Company	Predecessor
	(unaudited)		(unaudited)	
Net income	\$25,281	\$3,071	\$36,512	\$5,001
Real estate depreciation and amortization ⁽¹⁾	28,556	14,952	58,608	28,812
Funds from operations	53,837	18,023	95,120	33,813
Gain on settlement of lawsuit related to the Observatory, net of income taxes	(540	) —	(540) —
Private perpetual preferred exchange offering expenses	950	—	950	—
Acquisition expenses	735	—	735	—
Core funds from operations	\$54,982	\$18,023	\$96,265	\$33,813
Weighted average shares and Operating Partnership				
Units				
Basic	245,899		245,839	
Diluted	245,941		245,881	
FFO per share				
Basic	\$0.22		\$0.39	
Diluted	\$0.22		\$0.39	

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Core FFO per share

Basic	\$0.22	\$0.39
Diluted	\$0.22	\$0.39

57

(1) Includes adjustment for proportionate share of real estate depreciation and amortization expense relating to non-controlled entities of \$1,872 and \$3,614 for the three and six months ended June 30, 2013, respectively.

Distributions to Equity Holders

Distributions and dividends have been made to equity holders for the six months ended June 30, 2014 are as follows (amounts in thousands):

Period ended June 30, 2014	\$41,823
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Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Seasonality

We do not consider our business to be subject to material seasonal fluctuations, except that our observatory business is subject to tourism trends and weather, and therefore does experience some seasonality. During the past ten years of our annual observatory revenue, approximately 16.0% to 18.0% 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.

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 floating rate indebtedness. As of June 30, 2014, our floating rate mortgage debt represented 7.6% of our total enterprise value. This floating rate debt included \$355.0 million of borrowings under the secured revolving and term credit facility.

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 through property-specific floating rate mortgages. 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.

As of June 30, 2014, we had total outstanding floating rate mortgage debt obligations of \$402.6 million. Based on our variable balances, interest expense would have increased by approximately \$4.0 million for the period ended June 30, 2014, if short-term interest rates had been 1% higher. As of June 30, 2014, the weighted average interest rate on the \$826.2 million of fixed-rate indebtedness outstanding was 5.78% per annum, each with maturities at various dates through April 5, 2018.

As of June 30, 2014, the fair value of our outstanding debt was approximately \$1.2 billion, which was approximately \$10.1 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, 2014, 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

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 10 to the Notes to Condensed Consolidated Financial Statements for a description of legal proceedings.

ITEM 1A. RISK FACTORS

With the completion of the acquisition of the ground and operating leases at 112 West 34th Street from 112 West 34th Street Associates L.L.C. and 112 West 34th Street Company L.L.C. (the "112 Property") on July 15, 2014, and the ground lease at 1400 Broadway from 1400 Broadway Associates L.L.C. (the "1400 Property"), we have updated a few of the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the year ended December 31, 2013 (the "Annual Report"). Except for these updated risks, there have been no material changes in our assessment of our risk factors from those set forth in our Annual Report.

Our breach of or the expiration of our ground leases could materially and adversely affect our results of operations.

Our interest in three of our commercial office properties, 1350 Broadway, 112 West 34th Street and 1400 Broadway are long-term leaseholds of the land and the improvements, rather than a fee interest in the land and the improvements. If we are found to be in breach of these ground leases, we could lose the right to use the properties. In addition, unless we purchase the underlying fee interest in these properties or extend the terms of our leases for these properties before expiration on terms significantly comparable to our current leases, we will lose our right to operate these properties and our leasehold interests in these properties upon expiration of the leases or we will continue to operate them at much lower profitability, which would significantly adversely affect our results of operations. In addition, if we are

perceived to have breached the terms of these leases, the fee owner may initiate proceedings to terminate the leases. The long-term leases, including unilateral extension rights available to us expire on July 31, 2050 for 1350 Broadway, June 10, 2077 for 112 West 34th Street, and December 31, 2063 for 1400 Broadway.

Pursuant to the ground leases, we, as tenant under the ground leases, perform the functions traditionally performed by owners, as landlords, with respect to our subtenants. In addition to collecting rent from our subtenants, we also maintain the

properties and pay expenses relating to the properties. We do not have a right, pursuant to the terms of our leases or otherwise, to acquire the fee interests in these properties.

We will not recognize any increase in the value of the land or improvements subject to our ground leases, and we may only receive a portion of compensation paid in any eminent domain proceeding with respect to these properties, which could materially and adversely affect us.

We have no economic interest in the land or improvements at the expiration of our ground leases at 1350 Broadway, 112 West 34th Street and 1400 Broadway, and therefore we will not share in any increase in value of the land or improvements beyond the term of our ground leases, notwithstanding our capital outlay to purchase our interest in the properties. Furthermore, if the state or federal government seizes the properties subject to the ground leases under its eminent domain power, we may only be entitled to a portion of any compensation awarded for the seizure. In addition, if the value of the properties has increased, it may be more expensive for us to renew our ground lease.

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 5, 2014 By: /s/ Anthony E. Malkin
Chief Executive Officer and President

Date: August 5, 2014 By: /s/ David A. Karp
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit Index

Exhibit No.	Description
10.1*	First Amendment to Credit Agreement (Secured Revolving and Term Credit Facility) dated October 7, 2013 among Empire State Realty OP, L.P., ESRT Empire State Building, L.L.C., Empire State Realty Trust, Inc., the subsidiaries of Empire State Realty OP, L.P. from time to time party thereto, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Bank USA and the other lenders party thereto.
10.2	Second Amendment to Credit Agreement (Secured Revolving and Term Credit Facility) dated October 7, 2013 among Empire State Realty OP, L.P., ESRT Empire State Building, L.L.C., Empire State Realty Trust, Inc., the subsidiaries of Empire State Realty OP, L.P. from time to time party thereto, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Bank USA and the other lenders party thereto, incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on May 22, 2014
10.3	Registration Rights Agreement among Empire State Realty Trust, Inc. and the persons named therein, dated July 15, 2014, incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed with the SEC on July 21, 2014.
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.