REALTY INCOME CORP
Form 10-Q
August 02, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2018, or

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-13374

REALTY INCOME CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	33-0580106
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

11995 El Camino Real, San Diego, California 92130
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (858) 284-5000

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Emerging growth company o

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

Exchange Act. o

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

There were 290,043,300 shares of common stock outstanding as of July 26, 2018.

Table of Contents

REALTY INCOME CORPORATION
Index to Form 10-Q
June 30, 2018

PART I.	FINANCIAL INFORMATION	Page
Item 1:	Financial Statements	
	Consolidated Balance Sheets	2
	Consolidated Statements of Income	3
	Consolidated Statements of Cash Flows	4
	Notes to Consolidated Financial Statements	5
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Forward-Looking Statements	20
	The Company	21
	Recent Developments	24
	Liquidity and Capital Resources	27
	Results of Operations	33
	Funds from Operations Available to Common Stockholders (FFO)	40
	Adjusted Funds from Operations Available to Common Stockholders (AFFO)	41
	Property Portfolio Information	42
	Impact of Inflation	48
	Impact of Recent Accounting Pronouncements	48
	Other Information	48
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	48
Item 4:	Controls and Procedures	49
PART II.	OTHER INFORMATION	
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 6:	Exhibits	50
SIGNATURE		52

Table of Contents

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2018 and December 31, 2017
(dollars in thousands, except per share data)

	2018 (unaudited)	2017
ASSETS		
Real estate, at cost:		
Land	$4,355,454	$4,080,400
Buildings and improvements	11,313,624	10,936,069
Total real estate, at cost	15,669,078	15,016,469
Less accumulated depreciation and amortization	(2,509,065)	(2,346,644)
Net real estate held for investment	13,160,013	12,669,825
Real estate held for sale, net	70,029	6,674
Net real estate	13,230,042	12,676,499
Cash and cash equivalents	30,717	6,898
Accounts receivable, net	126,126	119,533
Acquired lease intangible assets, net	1,228,580	1,194,930
Goodwill	14,902	14,970
Other assets, net	43,707	45,336
Total assets	$14,674,074	$14,058,166
LIABILITIES AND EQUITY		
Distributions payable	$64,399	$60,799
Accounts payable and accrued expenses	122,379	109,523
Acquired lease intangible liabilities, net	311,043	268,796
Other liabilities	123,582	116,869
Line of credit payable	534,000	110,000
Term loans, net	319,531	445,286
Mortgages payable, net	311,708	325,941
Notes payable, net	5,374,963	5,230,244
Total liabilities	7,161,605	6,667,458
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid in capital, par value $0.01 per share, 370,100,000 shares authorized, 290,024,275 shares issued and outstanding as of June 30, 2018 and 284,213,685 shares issued and outstanding as of December 31, 2017	9,925,543	9,624,264
Distributions in excess of net income	(2,449,793)	(2,252,763)
Total stockholders' equity	7,475,750	7,371,501
Noncontrolling interests	36,719	19,207
Total equity	7,512,469	7,390,708
Total liabilities and equity	$14,674,074	$14,058,166

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

-2-

Table of Contents

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended June 30, 2018 and 2017
(dollars in thousands, except per share data) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
REVENUE				
Rental	$313,870	$288,049	$620,418	$573,870
Tenant reimbursements	11,395	11,756	22,695	22,985
Other	3,621	365	4,068	1,340
Total revenue	328,886	300,170	647,181	598,195
EXPENSES				
Depreciation and amortization	133,999	123,089	265,102	244,186
Interest	66,628	63,679	126,043	122,985
General and administrative	17,954	15,781	33,638	29,346
Property (including reimbursable)	16,236	16,486	32,788	35,561
Income taxes	1,208	441	2,431	1,488
Provisions for impairment	3,951	2,274	18,172	7,706
Total expenses	239,976	221,750	478,174	441,272
Gain on sales of real estate	7,787	2,839	11,005	13,371
Net income	96,697	81,259	180,012	170,294
Net income attributable to noncontrolling interests	(317)	(123)	(469)	(288)
Net income attributable to the Company	96,380	81,136	179,543	170,006
Preferred stock dividends	—	—	—	(3,911)
Excess of redemption value over carrying value of preferred shares redeemed	—	—	—	(13,373)
Net income available to common stockholders	$96,380	$81,136	$179,543	$152,722
Amounts available to common stockholders per common share:				
Net income, basic and diluted	$0.34	$0.30	$0.63	$0.57
Weighted average common shares outstanding:				
Basic	284,928,969	272,588,332	284,469,689	268,024,691
Diluted	285,372,256	273,099,487	284,924,336	268,569,855

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

Table of Contents

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2018 and 2017
(dollars in thousands) (unaudited)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$180,012	$170,294
Adjustments to net income:		
Depreciation and amortization	265,102	244,186
Amortization of share-based compensation	8,657	7,215
Non-cash revenue adjustments	(4,029)	(1,564)
Amortization of net premiums on mortgages payable	(813)	(1,240)
Amortization of deferred financing costs	3,469	4,684
Gain on interest rate swaps	(2,799)	(859)
Gain on sales of real estate	(11,005)	(13,371)
Provisions for impairment on real estate	18,172	7,706
Change in assets and liabilities		
Accounts receivable and other assets	2,785	3,168
Accounts payable, accrued expenses and other liabilities	17,718	41,620
Net cash provided by operating activities	477,269	461,839
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(829,818)	(696,116)
Improvements to real estate, including leasing costs	(17,017)	(9,232)
Proceeds from sales of real estate	47,526	44,005
Insurance proceeds received	3,836	—
Collection of loans receivable	5,267	61
Net cash used in investing activities	(790,206)	(661,282)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(373,044)	(335,380)
Cash dividends to preferred stockholders	—	(6,168)
Borrowings on line of credit	1,140,000	772,000
Payments on line of credit	(716,000)	(1,244,000)
Principal payment on term loan	(125,866)	—
Proceeds from notes and bonds payable issued	497,500	711,812
Principal payment on notes payable	(350,000)	—
Principal payments on mortgages payable	(13,447)	(86,515)
Redemption of preferred stock	—	(408,750)
Proceeds from common stock offerings, net	—	704,938
Proceeds from dividend reinvestment and stock purchase plan	4,806	59,649
Proceeds from At-the-Market (ATM) program	297,983	52,442
Distributions to noncontrolling interests	(758)	(887)
Debt issuance costs	(4,436)	(6,663)
Other items, including shares withheld upon vesting	(11,143)	(6,305)
Net cash provided by financing activities	345,595	206,173
Net increase in cash, cash equivalents and restricted cash	32,658	6,730
Cash, cash equivalents and restricted cash, beginning of period	12,142	15,681
Cash, cash equivalents and restricted cash, end of period	$44,800	$22,411

For supplemental disclosures, see note 16.

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

Table of Contents

REALTY INCOME CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(unaudited)

1. Management Statement

The consolidated financial statements of Realty Income Corporation ("Realty Income", the "Company", "we", "our" or "us") were prepared from our books and records without audit and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim periods presented. Readers of this quarterly report should refer to our audited consolidated financial statements for the year ended December 31, 2017, which are included in our 2017 Annual Report on Form 10-K, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

At June 30, 2018 we owned 5,483 properties, located in 49 states and Puerto Rico, containing over 92.0 million leasable square feet.

2. Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements

A. The accompanying consolidated financial statements include the accounts of Realty Income and other subsidiaries for which we make operating and financial decisions (i.e., control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see note 10). We have no unconsolidated investments.

B. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our taxable net income, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for federal income taxes of our taxable REIT subsidiaries. The income taxes recorded on our consolidated statements of income represent amounts paid by Realty Income and its subsidiaries for city and state income and franchise taxes.

C. We assign a portion of goodwill to our applicable property sales, which results in a reduction of the carrying amount of our goodwill. In order to allocate goodwill to the carrying amount of properties that we sell, we utilize a relative fair value approach based on the original methodology for assigning goodwill. As we sell properties, our goodwill will likely continue to gradually decrease over time. Based on our analysis of goodwill during the second quarters of 2018 and 2017, we determined there was no impairment on our existing goodwill.

D. In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers. This ASU, as amended by ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers, and will apply to transactions such as the sale of real estate. This ASU, which is effective for interim and annual periods beginning after December 15, 2017, requires an entity to 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 and also to provide certain additional disclosures. We adopted this standard effective as of January 1, 2018 and utilized the cumulative effect transition method of adoption. The adoption of this guidance did not have a material impact on our financial position or results of operations.

E. In February 2016, FASB issued ASU 2016-02 (Topic 842, Leases), as clarified and amended by ASU 2018-01, which amended Topic 840, Leases. Under this amended topic, the accounting applied by a lessor is largely unchanged from that applied under Topic 840, Leases. The large majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. Although primarily a lessor, we are also a lessee under several ground lease arrangements. Upon adoption, we will recognize lease obligations for ground leases with a

Table of Contents

corresponding right of use asset, and are currently evaluating other impacts this amendment may have on our consolidated financial statements. The amendments included in this topic are effective, for interim and annual periods beginning after December 15, 2018. We plan to adopt this standard when it becomes effective beginning January 1, 2019, and we expect to elect the practical expedients available for implementation under the standard.

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets (dollars in thousands)

A. Acquired lease intangible assets, net, consist of the following at:	June 30, 2018	December 31, 2017
Acquired in-place leases	$1,301,834	$ 1,272,897
Accumulated amortization of acquired in-place leases	(495,883)	(444,221)
Acquired above-market leases	562,801	487,933
Accumulated amortization of acquired above-market leases	(140,172)	(121,679)
	$1,228,580	$ 1,194,930

B. Other assets, net, consist of the following at:	June 30, 2018	December 31, 2017
Prepaid expenses	$15,821	$ 12,851
Restricted escrow deposits	7,054	679
Impounds related to mortgages payable	7,029	4,565
Corporate assets, net	5,926	6,074
Receivable for property rebuilds	3,244	3,919
Credit facility origination costs, net	2,911	4,366
Non-refundable escrow deposits for pending acquisitions	—	7,500
Notes receivable issued in connection with property sales	—	5,267
Other items	1,722	115
	$43,707	$ 45,336

C. Distributions payable consist of the following declared distributions at:	June 30, 2018	December 31, 2017
Common stock distributions	$64,241	$ 60,713
Noncontrolling interests distributions	158	86
	$64,399	$ 60,799

D. Accounts payable and accrued expenses consist of the following at:	June 30, 2018	December 31, 2017
Notes payable - interest payable	$75,861	$ 64,058
Property taxes payable	18,200	11,718
Mortgages, term loans, credit line - interest payable and interest rate swaps	3,356	2,360
Accrued costs on properties under development	3,149	2,681
Other items	21,813	28,706
	$122,379	$ 109,523

E. Acquired lease intangible liabilities, net, consist of the following at:	June 30, 2018	December 31, 2017
Acquired below-market leases	$394,253	$ 340,906
Accumulated amortization of acquired below-market leases	(83,210)	(72,110)
	$311,043	$ 268,796

F. Other liabilities consist of the following at:	June 30, 2018	December 31, 2017
Rent received in advance and other deferred revenue	$111,814	$ 105,284
Security deposits	6,287	6,259
Capital lease obligations	5,481	5,326
	$123,582	$ 116,869

Table of Contents

4. Investments in Real Estate

We acquire land, buildings and improvements necessary for the successful operations of commercial tenants.

A. Acquisitions During the First Six Months of 2018 and 2017
During the first six months of 2018, we invested $856.8 million in 358 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.3%. The 358 new properties and properties under development or expansion are located in 32 states, will contain approximately 2.8 million leasable square feet, and are 100% leased with a weighted average lease term of 13.8 years. The tenants occupying the new properties operate in 17 industries and the property types consist of 93.7% retail and 6.3% industrial, based on rental revenue. None of our investments during 2018 caused any one tenant to be 10% or more of our total assets at June 30, 2018.

The $856.8 million invested during the first six months of 2018 was allocated as follows: $314.4 million to land, $476.0 million to buildings and improvements, $90.6 million to intangible assets related to leases, and $24.2 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first six months of 2018 generated total revenues of $10.6 million and net income of $5.3 million during the six months ended June 30, 2018.

In comparison, during the first six months of 2017, we invested $691.9 million in 126 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.3%. The 126 new properties and properties under development or expansion were located in 30 states, contained approximately 3.4 million leasable square feet, and were 100% leased with a weighted average lease term of 14.8 years. The tenants occupying the new properties operated in 20 industries and the property types consisted of 95.1% retail and 4.9% industrial, based on rental revenue.

The $691.9 million invested during the first six months of 2017 was allocated as follows: $170.1 million to land, $395.5 million to buildings and improvements, $130.0 million to intangible assets related to leases, and $3.7 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first six months of 2017 generated total revenues of $7.3 million and net income of $3.4 million during the six months ended June 30, 2017.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the $856.8 million we invested during the first six months of 2018, $64.3 million was invested in 10 properties under development or expansion with an estimated initial weighted average contractual lease

rate of 6.7%. Of the $691.9 million we invested during the first six months of 2017, $9.9 million was invested in 12 properties under development or expansion with an estimated initial weighted average contractual lease rate of 7.9%.

B. Investments in Existing Properties

During the first six months of 2018, we capitalized costs of $5.6 million on existing properties in our portfolio, consisting of $2.5 million for re-leasing costs, $147,000 for recurring capital expenditures and $3.0 million for non-recurring building improvements. In comparison, during the first six months of 2017, we capitalized costs of $6.8 million on existing properties in our portfolio, consisting of $759,000 for re-leasing costs, $365,000 for recurring capital expenditures and $5.7 million for non-recurring building improvements.

Table of Contents

C. Properties with Existing Leases

Of the $856.8 million we invested during the first six months of 2018, approximately $225.8 million was used to acquire 107 properties with existing leases. In comparison, of the $691.9 million we invested during the first six months of 2017, approximately $536.2 million was used to acquire 60 properties with existing leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheets, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheets.

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for the first six months of 2018 and 2017 were $53.1 million and $51.2 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for the first six months of 2018 and 2017 were $7.9 million and $6.5 million, respectively. If a lease was to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense, as appropriate.

The following table presents the estimated impact during the next five years and thereafter related to the amortization of the acquired above-market and below-market lease intangibles and the amortization of the in-place lease intangibles at June 30, 2018 (in thousands):

	Net decrease to rental revenue	Increase to amortization expense
2018	$(7,856)	$ 53,176
2019	(15,108)	97,639
2020	(14,378)	91,887
2021	(13,208)	83,903
2022	(13,074)	71,978
Thereafter	(47,962)	407,368
Totals	$(111,586)	$ 805,951

5. Credit Facility

We have a $2.0 billion unsecured revolving credit facility, or our credit facility, with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a $1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of June 30, 2018 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.85% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At June 30, 2018, credit facility origination costs of $2.9 million are included in other assets, net on our consolidated balance sheet. These costs are being amortized over the remaining term of our credit facility.

At June 30, 2018, we had a borrowing capacity of approximately $1.5 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $534.0 million, as compared to an outstanding balance of $110.0 million at December 31, 2017.

The weighted average interest rate on outstanding borrowings under our credit facility was 2.7% during the first six months of 2018 and 1.8% during the first six months of 2017. At June 30, 2018 and December 31, 2017, the weighted average interest rate on outstanding borrowings under our credit facility was 2.9% and 4.5%, respectively.

Table of Contents

Our credit facility is subject to various leverage and interest coverage ratio limitations, and at June 30, 2018, we were in compliance with the covenants on our credit facility. We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

6. Term Loans

In December 2017, in conjunction with the acquisition of a portfolio of properties, we entered into a $125.9 million promissory note, which was paid in full at maturity in January 2018. Borrowings under this note bore interest at 1.52%.

In June 2015, in conjunction with entering into our credit facility, we entered into a $250.0 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.90%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixed our per annum interest rate on this term loan at 2.62%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a $70.0 million senior unsecured term loan with an initial maturity date of January 2018. Borrowing under this term loan bore interest at the current one-month LIBOR, plus 1.10%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixed our per annum interest rate on this term loan at 2.05%. In January 2018, we entered into a six-month extension of this loan, which included, at our option, two additional six-month extensions. In June 2018, we exercised our first six-month extension of this loan, which now matures in January 2019. Borrowing during the extension periods bears interest at the current one-month LIBOR, plus 0.90%. The interest rate swap terminated upon the initial maturity in January 2018.

Deferred financing costs of $1.2 million incurred in conjunction with the $250.0 million term loan and $368,000 incurred in conjunction with the $70.0 million term loan are being amortized over the remaining terms of each respective term loan. The net balance of these deferred financing costs, which was $469,000 at June 30, 2018, and $580,000 at December 31, 2017, is included within term loans, net on our consolidated balance sheets.

7. Mortgages Payable

During the first six months of 2018, we made $13.4 million in principal payments, including the repayment of one mortgage in full for $11.0 million. During the first six months of 2017, we made $86.5 million in principal payments, including the repayment of five mortgages in full for $82.9 million. No mortgages were assumed during the first six months of 2018 or 2017. The assumed mortgages are secured by the properties on which the debt was placed and are considered non-recourse debt with limited customary exceptions for items such as solvency, bankruptcy, misrepresentation, fraud, misapplication of payments, environmental liabilities, failure to pay taxes, insurance premiums, liens on the property, violations of the single purpose entity requirements, and uninsured losses. We expect to pay off our outstanding mortgages as soon as prepayment penalties make it economically feasible to do so.

Our mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage without the prior consent of the lender. At June 30, 2018, we were in compliance with these covenants.

The balance of our deferred financing costs, which are classified as part of mortgages payable, net, on our consolidated balance sheets, was $209,000 at June 30, 2018 and $236,000 at December 31, 2017. These costs are being amortized over the remaining term of each mortgage.

Table of Contents

The following is a summary of all our mortgages payable as of June 30, 2018 and December 31, 2017, respectively (dollars in thousands):

As Of	Number of Properties [1]	Weighted Average Stated Interest Rate [2]	Weighted Average Effective Interest Rate [3]	Weighted Average Remaining Years Until Maturity	Remaining Principal Balance	Unamortized Premium and Deferred Financing Costs Balance, net	Mortgage Payable Balance
6/30/2018	61	5.1 %	4.5 %	3.6	$ 306,836	$ 4,872	$ 311,708
12/31/2017	62	5.0 %	4.4 %	4.0	$ 320,283	$ 5,658	$ 325,941

[1] At June 30, 2018, there were 27 mortgages on 61 properties. At December 31, 2017, there were 28 mortgages on 62 properties. The mortgages require monthly payments with principal payments due at maturity. The mortgages are at fixed interest rates, except for three mortgages on three properties totaling $29.6 million and $29.9 million at June 30, 2018 and December 31, 2017, respectively. After factoring in arrangements which limit our exposure to interest rate risk and effectively fix our per annum interest rates, our mortgage debt subject to variable rates totals $22.2 million at June 30, 2018 and $22.4 million at December 31, 2017.
[2] Stated interest rates ranged from 3.8% to 6.9% at June 30, 2018, while stated interest rates ranged from 3.4% to 6.9% at December 31, 2017.
[3] Effective interest rates ranged from 2.0% to 6.0% at June 30, 2018, while effective interest rates ranged from 2.6% to 5.5% at December 31, 2017.

The following table summarizes the maturity of mortgages payable, excluding net premiums of $5.1 million and deferred financing costs of $209,000, as of June 30, 2018 (dollars in millions):

Year of Maturity	Principal
2018	$ 8.5
2019	20.7
2020	82.4
2021	66.9
2022	109.7
Thereafter	18.6
Totals	$ 306.8

8. Notes Payable

A. General

Our senior unsecured notes and bonds consist of the following, sorted by maturity date (dollars in millions):

	June 30, 2018	December 31, 2017
2.000% notes, issued in October 2012 and due in January 2018	$—	$ 350
5.750% notes, issued in June 2010 and due in January 2021	250	250
3.250% notes, $450 issued in October 2012 and $500 issued in December 2017, both due in October 2022	950	950
4.650% notes, issued in July 2013 and due in August 2023	750	750
3.875% notes, issued in June 2014 and due in July 2024	350	350
3.875% notes, issued in April 2018 and due in April 2025	500	—
4.125% notes, $250 issued in September 2014 and $400 issued in March 2017, both due in October 2026	650	650

3.000% notes, issued in October 2016 and due in January 2027	600	600
3.650% notes, issued in December 2017 and due in January 2028	550	550
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250	250
4.650% notes, $300 issued in March 2017 and $250 issued in December 2017, both due in March 2047	550	550
Total principal amount	5,400	5,250
Unamortized net original issuance premiums and deferred financing costs	(25)	(20)
	$5,375	$ 5,230

-10-

Table of Contents

The following table summarizes the maturity of our notes and bonds payable as of June 30, 2018, excluding net unamortized original issuance premiums and deferred financing costs (dollars in millions):

Year of Maturity	Principal
2021	$ 250
2022	950
Thereafter	4,200
Totals	$ 5,400

As of June 30, 2018, the weighted average interest rate on our notes and bonds payable was 4.0% and the weighted average remaining years until maturity was 9.2 years.

B. Note Repayment

In January 2018, we repaid our $350.0 million of outstanding 2.000% notes, plus accrued and unpaid interest upon maturity.

C. Note Issuances

In April 2018, we issued $500.0 million of 3.875% senior unsecured notes due 2025, or the 2025 Notes. The public offering price for the 2025 Notes was 99.50% of the principal amount, for an effective yield to maturity of 3.957%. The net proceeds of approximately $493.1 million from this offering were used to repay borrowings outstanding under our credit facility, to fund investment opportunities, and for other general corporate purposes.

In March 2017, we issued $300 million of 4.650% senior unsecured notes due 2047, or the 2047 Notes, and $400 million of 4.125% senior unsecured notes due 2026, or the 2026 Notes. The public offering price for the 2047 Notes was 99.97% of the principal amount for an effective yield to maturity of 4.65%. The public offering price for the 2026 Notes was 102.98% of the principal amount for an effective yield to maturity of 3.75%. The 2026 Notes constituted a further issuance of, and formed a single series with, the $250 million aggregate principal amount of senior notes due 2026, issued in September 2014. The net proceeds of approximately $705.2 million from the offerings were used to repay borrowings outstanding under our credit facility to fund investment opportunities, and for other general corporate purposes.

9. Equity

A. Issuance of Common Stock

In March 2017, we issued 11,850,000 shares of common stock. After underwriting discounts and other offering costs of $29.8 million, the net proceeds of $704.9 million were used to repay borrowings under our credit facility.

B. Redemption of Preferred Stock

In April 2017, we redeemed all of the 16,350,000 shares of our 6.625% Monthly Income Class F Preferred Stock, or the Class F preferred stock, for $25 per share, plus accrued dividends. We issued an irrevocable notice of redemption with respect to the Class F preferred stock in March 2017, and, as a result, we incurred a non-cash charge of $13.4 million for the first six months of 2017, representing the Class F preferred stock original issuance costs that we paid in 2012.

C. Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSPP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSPP also allows our current common stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSPP authorizes up to 26,000,000 common shares to be issued. During the first six months of 2018, we issued 93,061 shares and raised approximately $4.8 million under the

DRSPP. During the first six months of 2017, we issued 1,013,412 shares and raised approximately $59.6 million under the DRSPP. From the inception of our DRSPP through June 30, 2018, we have issued 14,156,603 shares and raised approximately $666.6 million.

Table of Contents

Our DRSPP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. We did not issue shares under the waiver approval process during the first six months of 2018. During the first six months of 2017, we issued 927,695 shares and raised $54.7 million under the waiver approval process. These shares are included in the total activity for the first six months of 2017 noted in the preceding paragraph.

D. At-the-Market (ATM) Programs

In September 2015, we established an “at-the-market” equity distribution program, or our ATM program, pursuant to which we can offer and sell up to 12,000,000 shares of common stock to, or through, a consortium of banks acting as our sales agents by means of ordinary brokers’ transactions on the NYSE at prevailing market prices or at negotiated prices. In October 2017, following the issuance and sale of the remaining shares under our prior ATM program, we established a new “at-the-market” equity distribution plan, or our new ATM program, and, together with our prior ATM program, our ATM programs, pursuant to which we are permitted to offer and sell up to 17,000,000 additional shares of common stock. During the first six months of 2018, we issued 5,575,273 shares and raised approximately $298.0 million under the ATM program. During the first six months of 2017, we issued 935,746 shares and raised approximately $52.4 million under the ATM program. From the inception of our ATM programs through June 30, 2018, we have issued 19,982,802 shares authorized by our ATM programs and raised approximately $1.1 billion.

10. Noncontrolling Interests

In January 2013, we completed our acquisition of ARCT. Equity issued as consideration for this transaction included common and preferred partnership units issued by Tau Operating Partnership, L.P., or Tau Operating Partnership, the consolidated subsidiary which owns properties acquired through the ARCT acquisition. We and our subsidiaries hold a 99.4% interest in Tau Operating Partnership, and consolidate the entity.

In June 2013, we completed the acquisition of a portfolio of properties by issuing common partnership units in Realty Income, L.P. as consideration for the acquisition. Additionally, in March and April 2018, we completed the acquisition of an additional portfolio of properties, by paying both cash and by issuing additional common partnership units in Realty Income, L.P as consideration for the acquisitions. At June 30, 2018, the remaining units from these issuances represent a 1.6% ownership in Realty Income, L.P. We hold the remaining 98.4% interests in this entity and consolidate the entity.

Neither of the common partnership units have voting rights. Both common partnership units are entitled to monthly distributions equal to the amount paid to common stockholders of Realty Income, and are redeemable in cash or Realty Income common stock, at our option, and at a conversion ratio of one to one, subject to certain exceptions. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common stock, at the option of the issuer, were evaluated to determine whether temporary or permanent equity classification on the balance sheet was appropriate. We determined that the units meet the requirements to qualify for presentation as permanent equity.

In 2016, we completed the acquisition of two properties by acquiring a controlling interest in two separate entities. We are the managing member of each of these entities, and possess the ability to control the business and manage the affairs of these entities. At June 30, 2018, we and our subsidiaries held 95.0% and 74.0% interests, respectively, and fully consolidated these entities in our consolidated financial statements.

Table of Contents

The following table represents the change in the carrying value of all noncontrolling interests through June 30, 2018 (dollars in thousands):

	Tau Operating Partnership units[1]	Realty Income, L.P. units[2]	Other Noncontrolling Interests	Total
Carrying value at December 31, 2017	$ 13,322	$ 2,160	$ 3,725	$ 19,207
Reallocation of equity	572	(43)	(37)	492
Redemptions	—	(1,468)	—	(1,468)
Shares issued in conjunction with acquisition	—	18,848		18,848
Distributions	(417)	(336)	(76)	(829)
Allocation of net income	173	257	39	469
Carrying value at June 30, 2018	$ 13,650	$ 19,418	$ 3,651	$ 36,719

[1] 317,022 Tau Operating Partnership units were issued on January 22, 2013 and remained outstanding as of June 30, 2018 and December 31, 2017.
[2] 534,546 Realty Income, L.P. units were issued on June 27, 2013, 242,007 units were issued on March 30, 2018 and 131,790 units were issued on April 30, 2018. 401,979 and 88,182 remained outstanding as of June 30, 2018 and December 31, 2017, respectively.

Tau Operating Partnership, Realty Income, L.P. and the two entities acquired in 2016 are considered variable interest entities, or VIEs, in which we are deemed the primary beneficiary based on our controlling financial interests. Below is a summary of selected financial data of consolidated VIEs, for which we are the primary beneficiary included in the consolidated balance sheets at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Net real estate	$ 2,961,127	$ 2,936,397
Total assets	3,348,144	3,342,443
Total debt	198,332	210,384
Total liabilities	330,757	313,295

11. Fair Value of Financial Instruments

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The disclosure for assets and liabilities measured at fair value requires allocation to a three-level valuation hierarchy. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

We believe that the carrying values reflected in our consolidated balance sheets reasonably approximate the fair values for cash and cash equivalents, accounts receivable, escrow deposits, loans receivable, line of credit payable, term loans and all other liabilities, due to their short-term nature or interest rates and terms that are consistent with market, except for our notes receivable issued in connection with property sales, mortgages payable and our senior notes and bonds payable, which are disclosed as follows (dollars in millions):

Table of Contents

At June 30, 2018	Carrying value	Estimated fair value
Mortgages payable assumed in connection with acquisitions [(1)]	$ 306.8	$ 314.4
Notes and bonds payable [(2)]	5,400.0	5,391.9

At December 31, 2017	Carrying value	Estimated fair value
Notes receivable issued in connection with property sales	$ 5.3	$ 5.3
Mortgages payable assumed in connection with acquisitions [(1)]	320.3	334.2
Notes and bonds payable [(2)]	5,250.0	5,475.3

(1) Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums is $5.1 million at June 30, 2018, and $5.9 million at December 31, 2017. Also excludes deferred financing costs of $209,000 at June 30, 2018 and $236,000 at December 31, 2017.
(2) Excludes non-cash original issuance premiums and discounts recorded on notes payable. The unamortized balance of the net original issuance premiums is $11.1 million at June 30, 2018, and $14.3 million at December 31, 2017. Also excludes deferred financing costs of $36.2 million at June 30, 2018 and $34.1 million at December 31, 2017.

The estimated fair values of our notes receivable issued in connection with property sales and our mortgages payable have been calculated by discounting the future cash flows using an interest rate based upon the relevant forward interest rate curve, plus an applicable credit-adjusted spread. Because this methodology includes unobservable inputs that reflect our own internal assumptions and calculations, the measurement of estimated fair values related to our notes receivable and mortgages payable is categorized as level three on the three-level valuation hierarchy.

The estimated fair values of our senior notes and bonds payable are based upon indicative market prices and recent trading activity of our senior notes and bonds payable. Because this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values, related to our notes and bonds payable, is categorized as level two on the three-level valuation hierarchy.

We record interest rate swaps on the consolidated balance sheet at fair value. At June 30, 2018, interest rate swaps in a liability position valued at $214,000 were included in accounts payable and accrued expenses and interest rate swaps in an asset position valued at $4.3 million were included in other assets, net on the consolidated balance sheet. The fair value of our interest rate swaps are based on valuation techniques including discounted cash flow analysis on the expected cash flows of each swap, using both observable and unobservable market-based inputs, including interest rate curves. Because this methodology uses observable and unobservable inputs, and the unobservable inputs are not significant to the fair value measurement, the measurement of interest rate swaps is categorized as level two on the three-level valuation hierarchy.

12. Gain on Sales of Real Estate

During the second quarter of 2018, we sold 26 properties for $33.7 million, which resulted in a gain of $7.8 million. During the second quarter of 2017, we sold 15 properties for $12.8 million, which resulted in a gain of $2.8 million.

During the first six months of 2018, we sold 40 properties for $47.5 million, which resulted in a gain of $11.0 million. During the first six months of 2017, we sold 29 properties for $44.0 million, which resulted in a gain of $13.4 million.

13. Impairments

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A provision is made for impairment if estimated future operating cash flows (undiscounted and without interest charges) plus estimated disposition proceeds (undiscounted) are less than the current book value of the property. Key factors that we utilize in this analysis include projected rental rates, estimated holding periods, historical sales and releases, capital expenditures and property sales capitalization rates. If a property is classified as held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell, and depreciation of the property ceases.

Table of Contents

During the second quarter of 2018, we recorded total provisions for impairment of $4.0 million on eight properties classified as held for sale, one property classified as held for investment, and nine sold properties. For the first six months of 2018, we recorded total provisions for impairment of $18.2 million on nine properties classified as held for sale, two property classified as held for investment, and 14 sold properties.

In comparison, for the second quarter of 2017, we recorded total provisions for impairment of $2.3 million on one property classified as held for investment and nine sold properties. For the first six months of 2017, we recorded total provisions for impairment of $7.7 million on four properties classified as held for investment and 14 sold properties.

14. Distributions Paid and Payable

A. Common Stock

We pay monthly distributions to our common stockholders. The following is a summary of monthly distributions paid per common share for the first six months of 2018 and 2017:

Month	2018	2017
January	$0.2125	$0.2025
February	0.2190	0.2105
March	0.2190	0.2105
April	0.2195	0.2110
May	0.2195	0.2110
June	0.2195	0.2110
Total	$1.3090	$1.2565

At June 30, 2018, a distribution of $0.22 per common share was payable and was paid in July 2018.

B. Class F Preferred Stock

In April 2017, we redeemed all 16,350,000 shares of our Class F preferred stock. During the first six months of 2017, we paid three monthly dividends to holders of our Class F preferred stock totaling $0.414063 per share, or $3.9 million. In April 2017, we paid a final monthly dividend of $0.101215 per share, or $1.7 million, which was recorded as interest expense, since these dividends accrued subsequent to the March 2017 notice of redemption.

15. Net Income per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income available to common stockholders, plus income attributable to dilutive shares and convertible common units, for the period by the weighted average number of common shares that would have been outstanding assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period.

Table of Contents

The following is a reconciliation of the denominator of the basic net income per common share computation to the denominator of the diluted net income per common share computation.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Weighted average shares used for the basic net income per share computation	284,928,969	272,588,332	284,469,689	268,024,691
Incremental shares from share-based compensation	126,265	194,133	137,625	228,142
Weighted average partnership common units convertible to common shares that were dilutive	317,022	317,022	317,022	317,022
Weighted average shares used for diluted net income per share computation	285,372,256	273,099,487	284,924,336	268,569,855
Unvested shares from share-based compensation that were anti-dilutive	237,861	44,191	164,111	32,016
Weighted average partnership common units convertible to common shares that were anti-dilutive	359,980	88,182	207,948	88,182

16. Supplemental Disclosures of Cash Flow Information

Cash paid for interest was $111.9 million in the first six months of 2018 and $107.3 million in the first six months of 2017.

Interest capitalized to properties under development was $130,000 in the first six months of 2018 and $272,000 in the first six months of 2017.

Cash paid for income taxes was $2.9 million in the first six months of 2018 and $3.3 million in the first six months of 2017.

The following non-cash activities are included in the accompanying consolidated financial statements:

A. During the first six months of 2018, we issued 373,797 common partnership units of Realty Income, L.P. as partial consideration for an acquisition of properties, totaling $18.8 million.

B. During the first six months of 2018, we completed the acquisition of a property using $7.5 million in funds that were held in a non-refundable escrow account. These funds were included in other assets, net, at December 31, 2017.

C. During the first six months of 2017, we removed the net book value of two damaged buildings from our consolidated balance sheet, and recorded net receivables of $10.7 million. During 2017, we received the insurance proceeds for these properties.

Per the requirements of ASU 2016-18 (Topic 230, Statement of Cash Flows), the following table provides a reconciliation of cash and cash equivalents reported within the consolidated balance sheets to the total of the cash, cash equivalents and restricted cash reported within the consolidated statements of cash flows:

	June 30, 2018	June 30, 2017
Cash and cash equivalents shown in the consolidated balance sheets	$30,717	$10,945
Restricted escrow deposits [(1)]	7,054	8,550
Impounds related to mortgages payable [(1)]	7,029	2,916
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$44,800	$22,411

[1] Included within other assets, net on the consolidated balance sheets (see note 3). These amounts consist of cash we are legally entitled to that is not immediately available to us. As a result, they were considered restricted as of the dates presented.

Table of Contents

17. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our tenants into 48 activity segments. All of the properties are incorporated into one of the applicable segments. Because almost all of our leases require the tenant to pay operating expenses, rental revenue is the only component of segment profit and loss we measure.

The following tables set forth certain information regarding the properties owned by us, classified according to the business of the respective tenants (dollars in thousands):

Table of Contents

Assets, as of:	June 30, 2018	December 31, 2017
Segment net real estate:		
Apparel	$161,920	$164,919
Automotive service	209,964	213,156
Automotive tire services	243,271	247,557
Beverages	287,032	289,170
Child care	60,058	61,527
Convenience stores	1,397,354	997,170
Dollar stores	1,101,066	1,105,097
Drug stores	1,511,955	1,518,443
Financial services	428,731	384,867
General merchandise	318,584	313,181
Grocery stores	773,501	793,286
Health and fitness	886,585	896,430
Home improvement	428,730	407,002
Motor vehicle dealerships	201,073	204,651
Restaurants-casual dining	475,028	494,977
Restaurants-quick service	803,886	681,763
Theaters	561,477	566,585
Transportation services	766,883	776,068
Wholesale club	420,048	426,551
Other non-reportable segments	2,192,896	2,134,099
Total segment net real estate	13,230,042	12,676,499
Intangible assets:		
Apparel	34,641	36,600
Automotive service	62,664	64,388
Automotive tire services	9,520	10,383
Beverages	1,894	2,022
Convenience stores	95,392	45,445
Dollar stores	47,357	47,905
Drug stores	171,741	173,893
Financial services	22,563	24,867
General merchandise	45,893	50,184
Grocery stores	144,239	140,780
Health and fitness	74,992	76,276
Home improvement	61,666	61,045
Motor vehicle dealerships	29,937	31,720
Restaurants-casual dining	19,100	20,079
Restaurants-quick service	62,303	51,711
Theaters	25,555	26,448
Transportation services	80,111	87,162
Wholesale club	28,040	29,596
Other non-reportable segments	210,972	214,426
Goodwill:		
Automotive service	437	437
Automotive tire services	862	862
Child care	4,899	4,924
Convenience stores	2,002	2,004

Restaurants-casual dining	2,047	2,062
Restaurants-quick service	1,057	1,064
Other non-reportable segments	3,598	3,617
Other corporate assets	200,550	171,767
Total assets	$14,674,074	$14,058,166

Table of Contents

Revenue	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Segment rental revenue:				
Apparel	$4,210	$4,928	$8,541	$9,895
Automotive service	7,021	6,298	14,030	11,841
Automotive tire services	7,708	7,616	15,147	14,775
Beverages	7,836	7,758	15,673	15,516
Child care	5,216	4,845	10,916	10,332
Convenience stores	34,008	26,965	61,869	55,268
Dollar stores	23,237	22,757	46,487	45,508
Drug stores	32,436	31,614	64,775	63,245
Financial services	6,890	7,159	13,891	14,318
General merchandise	7,290	5,395	14,159	10,756
Grocery stores	15,673	13,597	31,338	23,759
Health and fitness	23,614	21,789	47,057	43,394
Home improvement	9,339	7,090	18,583	14,010
Motor vehicle dealerships	5,712	5,755	12,948	12,491
Restaurants-casual dining	11,029	10,716	21,989	21,606
Restaurants-quick service	17,083	14,517	33,362	28,853
Theaters	17,565	13,114	35,335	26,458
Transportation services	15,762	15,633	31,548	31,021
Wholesale club	9,341	9,413	18,873	18,827
Other non-reportable segments	52,900	51,090	103,897	101,997
Total rental revenue	313,870	288,049	620,418	573,870
Tenant reimbursements	11,395	11,756	22,695	22,985
Other revenue	3,621	365	4,068	1,340
Total revenue	$328,886	$300,170	$647,181	$598,195

18. Common Stock Incentive Plan

In 2012, our Board of Directors adopted and stockholders approved the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, to enable us to motivate, attract and retain the services of directors and employees considered essential to our long-term success. The 2012 Plan offers our directors and employees an opportunity to own our stock or rights that will reflect our growth, development and financial success. Under the terms of the 2012 plan, the aggregate number of shares of our common stock subject to options, restricted stock, stock appreciation rights, restricted stock units and other awards, will be no more than 3,985,734 shares. The 2012 Plan has a term of ten years from the date it was adopted by our Board of Directors.

The amount of share-based compensation costs recognized in general and administrative expense on our consolidated statements of income was $5.0 million during the second quarter of 2018, $4.5 million during the second quarter of 2017, $8.7 million during the first six months of 2018 and $7.2 million during the first six months of 2017.

A. Restricted Stock

During the first six months of 2018, we granted 137,000 shares of common stock under the 2012 Plan. This included an annual grant of 28,000 shares of common stock to the independent members of our Board of Directors in May 2018, 20,000 of which shares vested immediately, 4,000 shares of which vest in equal parts over a three-year service period, and 4,000 shares of which vest in equal parts over a two-year service period. With the exception of shares granted to our independent directors, shares granted to employees typically vest in equal parts over a four-year or

five-year service period.

As of June 30, 2018, the remaining unamortized share-based compensation expense related to restricted stock totaled $18.8 million, which is being amortized on a straight-line basis over the service period of each applicable award. The amount of share-based compensation is based on the fair value of the stock at the grant date. We

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Table of Contents

define the grant date as the date the recipient and Realty Income have a mutual understanding of the key terms and conditions of the award, and the recipient of the grant begins to benefit from, or be adversely affected by, subsequent changes in the price of the shares.

B. Performance Shares and Restricted Stock Units

During the first six months of 2018, we granted 190,449 performance shares, as well as dividend equivalent rights, to our executive officers. The performance shares are earned based on our TSR performance relative to select industry indices and peer groups as well as achievement of certain operating metrics, and vest 50% on the first and second January 1 after the end of the three year performance period, subject to continued service.

During the first six months of 2018, we also granted 8,383 restricted stock units, all of which vest over a four-year service period. These restricted stock units have the same economic rights as shares of restricted stock.

As of June 30, 2018, the remaining share-based compensation expense related to the performance shares and restricted stock units totaled $15.8 million. The fair value of the performance shares were estimated on the date of grant using a Monte Carlo Simulation model. The performance shares are being recognized on a tranche-by-tranche basis over the service period. The amount of share-based compensation for the restricted stock units is based on the fair value of our common stock at the grant date. The restricted stock units are being recognized on a straight-line basis over the service period.

19. Commitments and Contingencies

In the ordinary course of business, we are party to various legal actions which we believe are routine in nature and incidental to the operation of our business. We believe that the outcome of the proceedings will not have a material adverse effect upon our consolidated financial position or results of operations.

At June 30, 2018, we had commitments of $15.9 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements. In addition, as of June 30, 2018, we had committed $14.3 million under construction contracts, which is expected to be paid in the next twelve months.

20. Subsequent Events

In July 2018, we declared a dividend of $0.22 per share to our common stockholders, which will be paid in August 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the documents incorporated by reference, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. When used in this quarterly report, the words “estimated”, “anticipated”, “expect”, “believe”, “intend” and similar expressions are intended to identify forward-looking statements. Forward-looking statements include discussions of strategy, plans, or intentions of management. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our anticipated growth strategies;

- Our intention to acquire additional properties and the timing of these acquisitions;
- Our intention to sell properties and the timing of these property sales;
- Our intention to re-lease vacant properties;
- Anticipated trends in our business, including trends in the market for long-term, net leases of freestanding, single-tenant properties; and
- Future expenditures for development projects.

Table of Contents

Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. In particular, some of the factors that could cause actual results to differ materially are:

- Our continued qualification as a real estate investment trust;
- General business and economic conditions;
- Competition;
- Fluctuating interest rates;
- Access to debt and equity capital markets;
- Continued volatility and uncertainty in the credit markets and broader financial markets;
- Other risks inherent in the real estate business including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments, and potential damages from natural disasters;
- Impairments in the value of our real estate assets;
- Changes in the tax laws of the United States of America;
- The outcome of any legal proceedings to which we are a party or which may occur in the future; and
- Acts of terrorism and war.

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2017.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that this quarterly report was filed with the Securities and Exchange Commission, or SEC. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this quarterly report or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this quarterly report might not occur.

THE COMPANY

Realty Income, The Monthly Dividend Company®, is an S&P 500 company dedicated to providing stockholders with dependable monthly dividends that increase over time. The company is structured as a real estate investment trust, or REIT, requiring it annually to distribute at least 90% of its taxable income (excluding net capital gains) in the form of dividends to its stockholders. The monthly dividends are supported by the cash flow generated from real estate owned under long-term, net lease agreements with regional and national commercial tenants.

Realty Income was founded in 1969, and listed on the New York Stock Exchange (NYSE: O) in 1994. Over the past 49 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements. The company is a member of the S&P High Yield Dividend Aristocrats® index for having increased its dividend every year for more than 20 consecutive years.

At June 30, 2018, we owned a diversified portfolio:

- Of 5,483 properties;
- With an occupancy rate of 98.7%, or 5,414 properties leased and 69 properties available for lease;
- Leased to 257 different commercial tenants doing business in 48 separate industries;
- Located in 49 states and Puerto Rico;
- With over 92.0 million square feet of leasable space; and
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With an average leasable space per property of approximately 16,780 square feet; approximately 11,680 square feet per retail property and 228,150 square feet per industrial property.

Of the 5,483 properties in the portfolio, 5,455, or 99.5%, are single-tenant properties, and the remaining are multi-tenant properties. At June 30, 2018, of the 5,455 single-tenant properties, 5,386 were leased with a weighted average remaining lease term (excluding rights to extend a lease at the option of the tenant) of approximately 9.3 years.

Table of Contents

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of primarily single-tenant commercial properties under long-term, net lease agreements produces consistent and predictable income. A net lease typically requires the tenant to be responsible for monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term, net lease agreements generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Diversification is also a key component of our investment philosophy. We believe that diversification of the portfolio by tenant, industry, geography, and, to a certain extent, property type leads to more consistent and predictable income for our stockholders by reducing vulnerability that can come with any single concentration. Our investment activities have led to a diversified property portfolio that, as of June 30, 2018, consisted of 5,483 properties located in 49 states and Puerto Rico, leased to 257 different commercial tenants doing business in 48 industries. Each of the 48 industries represented in our property portfolio individually accounted for no more than 10.8% of our rental revenue for the quarter ended June 30, 2018.

Investment Strategy

Our investment strategy is to acquire real estate leased to regional and national tenants. When identifying new properties for investment, we generally focus on acquiring high-quality real estate that tenants consider important to the successful operation of their business. We generally seek to acquire real estate that has the following characteristics:

- Properties that are freestanding, commercially-zoned with a single tenant;
- Properties that are in significant markets or strategic locations critical to generating revenue for regional and national tenants (i.e. they need the property in which they operate in order to conduct their business);
- Properties that we deem to be profitable for the tenants and/or can generally be characterized as important to the successful operations of the company's business;
- Properties that are located within attractive demographic areas relative to the business of our tenants, generally fungible, and have good visibility and easy access to major thoroughfares;
- Properties with real estate valuations that approximate replacement costs;
- Properties with rental or lease payments that approximate market rents; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term, net lease agreements, offering both current income and the potential for future rent increases.

We seek to invest in industries in which several, well-organized, regional and national tenants are capturing market share through the selection of prime real estate locations supported by superior service, quality control, economies of scale, consumer branding, and advertising. In addition, we frequently acquire large portfolios of single-tenant properties net leased to different tenants operating in a variety of industries. We have an internal team dedicated to sourcing such opportunities, often using our relationships with various tenants, owners/developers, brokers, and advisers to uncover and secure transactions. We also undertake thorough research and analysis to identify what we consider to be appropriate property locations, tenants, and industries for investment. This research expertise is instrumental to uncovering net lease opportunities in markets where we believe we can add value.

In selecting potential investments, we look for tenants with the following attributes:

- Tenants with reliable and sustainable cash flow;
- Tenants with revenue and cash flow from multiple sources;

- Tenants that are willing to sign a long-term lease (10 or more years); and
- Tenants that are large owners and users of real estate.

From a retail perspective, our investment strategy is to target tenants that have a service, non-discretionary, and/or low-price-point component to their business. We believe these characteristics better position tenants to operate in a variety of economic conditions and to compete more effectively with internet retailers. As a result of the execution of this strategy, over 92% of our annualized retail rental revenue at June 30, 2018 is derived from tenants with a service, non-discretionary, and/or low price point component to their business. From a non-retail perspective, we target industrial properties leased to Fortune 1000, primarily investment grade rated companies. We believe these characteristics enhance the stability of the rental revenue generated from these properties.

Table of Contents

After applying this investment strategy, we pursue those transactions where we can achieve an attractive investment spread over our cost of capital and favorable risk-adjusted returns.

Underwriting Strategy
In order to be considered for acquisition, properties must meet stringent underwriting requirements. We have established a four-part analysis that examines each potential investment based on:

- The aforementioned overall real estate characteristics, including demographics, replacement cost and comparative rental rates;
- Industry, tenant (including credit profile), and market conditions;
- Store profitability for retail locations if profitability data is available; and
- The importance of the real estate location to the operations of the tenants' business.

We believe the principal financial obligations for most of our tenants typically include their bank and other debt, payment obligations to suppliers, and real estate lease obligations. Because we typically own the land and building in which a tenant conducts its business or which are critical to the tenant's ability to generate revenue, we believe the risk of default on a tenant's lease obligation is less than the tenant's unsecured general obligations. It has been our experience that tenants must retain their profitable and critical locations in order to survive. Therefore, in the event of reorganization, they are less likely to reject a lease of a profitable or critical location because this would terminate their right to use the property.

Thus, as the property owner, we believe that we will fare better than unsecured creditors of the same tenant in the event of reorganization. If a property is rejected by the tenant during reorganization, we own the property and can either lease it to a new tenant or sell the property. In addition, we believe that the risk of default on real estate leases can be further mitigated by monitoring the performance of the tenants' individual locations and considering whether to proactively sell locations that meet our criteria for disposition.

Prior to entering into any transaction, our research department conducts a review of a tenant's credit quality. The information reviewed may include reports and filings, including any public credit ratings, financial statements, debt and equity analyst reports, and reviews of corporate credit spreads, stock prices, market capitalization, and other financial metrics. We conduct additional due diligence, including additional financial reviews of the tenant and a more comprehensive review of the business segment and industry in which the tenant operates. We continue to monitor our tenants' credit quality on an ongoing basis by reviewing the available information previously discussed, and providing summaries of these findings to management. Approximately 51% of our annualized rental revenue comes from properties leased to investment grade rated companies or their subsidiaries. June 30, 2018, our top 20 tenants represent approximately 54% of our annualized revenue and 12 of these tenants have investment grade credit ratings or are subsidiaries of investment grade companies.

Portfolio and Asset Management Strategy
In addition to pursuing new properties for investment, we seek to increase earnings and distributions to stockholders through active portfolio and asset management.

Generally, our portfolio and asset management efforts seek to achieve:

- Rent increases at the expiration of existing leases, when market conditions permit;
- Optimum exposure to certain tenants, industries, and markets through re-leasing vacant properties and selectively selling properties;
- Maximum asset-level returns on properties that are re-leased or sold;

- Additional value creation from the existing portfolio by enhancing individual properties, pursuing alternative uses, and deriving ancillary revenue; and
- Investment opportunities in new asset classes for the portfolio.

Table of Contents

We continually monitor our portfolio for any changes that could affect the performance of our tenants, our tenants' industries, and the real estate locations in which we have invested. We also regularly analyze our portfolio with a view towards optimizing its returns and enhancing its overall credit quality. Our active portfolio and asset management strategy pursues asset sales when we believe the reinvestment of the sale proceeds will:

- Generate higher returns;
- Enhance the credit quality of our real estate portfolio;
- Extend our average remaining lease term; and/or
- Strategically decrease tenant, industry, or geographic concentration.

At June 30, 2018, we classified 74 properties with a carrying amount of $70.0 million as held for sale on our balance sheet. For the remainder of 2018, we intend to continue our active disposition efforts to further enhance our real estate portfolio and anticipate approximately $200 million in property sales. We plan to invest these proceeds into new property acquisitions, if there are attractive opportunities available. However, we cannot guarantee that we will sell properties during the remainder of 2018 at our estimated values or be able to invest the property sale proceeds in new properties.

The active management of the portfolio is an essential component of our long-term strategy of maintaining high occupancy. Since 1970, our occupancy rate at the end of each year has never been below 96%. However, we cannot assure you that our future occupancy levels will continue to equal or exceed 96%.

Impact of Real Estate and Credit Markets
In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, the U.S. credit markets have experienced significant price volatility, dislocations, and liquidity disruptions, which may impact our access to and cost of capital. We continually monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly.

RECENT DEVELOPMENTS

Increases in Monthly Dividends to Common Stockholders
We have continued our 49-year policy of paying monthly dividends. In addition, we increased the dividend four times during 2018. As of July 2018, we have paid 83 consecutive quarterly dividend increases and increased the dividend 97 times since our listing on the NYSE in 1994.

2018 Dividend increases	Month Declared	Month Paid	Dividend per share	Increase per share
1st increase	Dec 2017	Jan 2018	$ 0.2125	$ 0.0005
2nd increase	Jan 2018	Feb 2018	$ 0.2190	$ 0.0065
3rd increase	Mar 2018	Apr 2018	$ 0.2195	$ 0.0005
4th increase	Jun 2018	Jul 2018	$ 0.2200	$ 0.0005

The dividends paid per share during the first six months of 2018 totaled approximately $1.309, as compared to approximately $1.257 during the first six months of 2017, an increase of $0.052, or 4.1%.

The monthly dividend of $0.22 per share represents a current annualized dividend of $2.64 per share, and an annualized dividend yield of approximately 4.9% based on the last reported sale price of our common stock on the NYSE of $53.79 on June 30, 2018. Although we expect to continue our policy of paying monthly dividends, we

cannot guarantee that we will maintain our current level of dividends, that we will continue our pattern of increasing dividends per share, or what our actual dividend yield will be in any future period.

Acquisitions During the Second Quarter of 2018

During the second quarter of 2018, we invested $347.0 million in 190 new properties and properties under development or expansion, with an initial weighted average contractual lease rate of 6.5%. The 190 new properties and properties under development or expansion are located in 24 states, will contain approximately 1.9 million leasable square feet and are 100% leased with a weighted average lease term of 13.6 years. The tenants occupying the new properties operate in 15 industries and the property types are 85% retail and 15% industrial, based on rental revenue.

Table of Contents

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs.

Of the $347.0 million we invested during the second quarter of 2018, $60.6 million was invested in ten properties under development or expansion with an estimated initial weighted average contractual lease rate of 6.7%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

Acquisitions During the First Six Months of 2018

During the first six months of 2018, we invested $856.8 million in 358 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.3%. The 358 new properties and properties under development or expansion are located in 32 states, will contain approximately 2.8 million leasable square feet, and are 100% leased with a weighted average lease term of 13.8 years. The tenants occupying the new properties operate in 17 industries and the property types are 93.7% retail and 6.3% industrial, based on rental revenue. None of our investments during 2018 caused any one tenant to be 10% or more of our total assets at June 30, 2018.

Of the $856.8 million we invested during the first six months of 2018, $64.3 million was invested in ten properties under development or expansion with an estimated initial weighted average contractual lease rate of 6.7%. We may continue to pursue development or expansion opportunities under similar arrangements in the future.

Portfolio Discussion

Leasing Results

At June 30, 2018, we had 69 properties available for lease out of 5,483 properties in our portfolio, which represents a 98.7% occupancy rate based on the number of properties in our portfolio. Since December 31, 2017, when we reported 83 properties available for lease out of 5,172 and a 98.4% occupancy rate, we:

- Had 115 lease expirations;
- Re-leased 102 properties; and
- Sold 27 vacant properties.

Of the 102 properties re-leased during the first six months of 2018, 92 properties were re-leased to existing tenants, three were re-leased to new tenants without vacancy, and seven were re-leased to new tenants after a period of vacancy. The annual rent on these 102 leases was $27.25 million, as compared to the previous rent on these same properties of $26.02 million, which represents a rent recapture rate of 104.7% on the properties re-leased during the first six months of 2018.

As part of our re-leasing costs, we pay leasing commissions to unrelated, third party real estate brokers consistent with the commercial real estate industry standard, and sometimes provide tenant rent concessions. We do not consider the

collective impact of the leasing commissions or tenant rent concessions to be material to our financial position or results of operations.

At June 30, 2018, our average annualized rental revenue was approximately $13.86 per square foot on the 5,414 leased properties in our portfolio. At June 30, 2018, we classified 74 properties with a carrying amount of $70.0 million as held for sale on our balance sheet. The expected sale of these properties does not represent a strategic shift that will have a major effect on our operations and financial results and is consistent with our existing disposition strategy to further enhance our real estate portfolio and maximize portfolio returns.

Table of Contents

Investments in Existing Properties

In the second quarter of 2018, we capitalized costs of $2.4 million on existing properties in our portfolio, consisting of $1.5 million for re-leasing costs, $135,000 for recurring capital expenditures, and $723,000 for non-recurring building improvements. In the second quarter of 2017, we capitalized costs of $3.5 million on existing properties in our portfolio, consisting of $349,000 for re-leasing costs, $24,000 for recurring capital expenditures and $3.1 million for non-recurring building improvements.

In the first six months of 2018, we capitalized costs of $5.6 million on existing properties in our portfolio, consisting of $2.5 million for re-leasing costs, $147,000 for recurring capital expenditures, and $3.0 million for non-recurring building improvements. In the first six months of 2017, we capitalized costs of $6.8 million on existing properties in our portfolio, consisting of $759,000 for re-leasing costs, $365,000 for recurring capital expenditures, and $5.7 million for non-recurring building improvements.

The majority of our building improvements relate to roof repairs, HVAC improvements, and parking lot resurfacing and replacements. The amounts of our capital expenditures can vary significantly, depending on the rental market, tenant credit worthiness, the lease term and the willingness of tenants to pay higher rents over the terms of the leases.

We define recurring capital expenditures as mandatory and recurring landlord capital expenditure obligations that have a limited useful life. We define non-recurring capital expenditures as property improvements in which we invest additional capital that extend the useful life of the properties.

Note Issuance

In April 2018, we issued $500.0 million of 3.875% senior unsecured notes due 2025, or the 2025 Notes. The public offering price for the 2025 Notes was 99.50% of the principal amount, for an effective yield to maturity of 3.957%. The net proceeds of approximately $493.1 million from this offering were used to repay borrowings outstanding under our credit facility, to fund investment opportunities, and for other general corporate purposes.

Capital Raising

During the quarter ended June 30, 2018, we raised $300.4 million from the sale of common stock at a weighted average price of $53.44 per share. During the six months ended June 30, 2018, we raised $302.8 million from the sale of common stock at a weighted average price of $53.42 per share.

Net Income Available to Common Stockholders

Net income available to common stockholders was $96.4 million in the second quarter of 2018, compared to $81.1 million in the second quarter of 2017, an increase of $15.3 million. On a diluted per common share basis, net income available to common stockholders was $0.34 in the second quarter of 2018, compared to $0.30 in the second quarter of 2017, an increase of $0.04, or 13.3%.

Net income available to common stockholders was $179.5 million in the first six months of 2018, as compared to $152.7 million in the first six months of 2017, an increase of $26.8 million. On a diluted per common share basis, net income available to common stockholders was $0.63 in the first six months of 2018, as compared to $0.57 in the first six months of 2017, an increase of $0.06, or 10.5%.

Net income and funds from operations available to common stockholders for the six months ended June 30, 2017 were impacted by a $13.4 million non-cash redemption charge on the Class F preferred stock that were redeemed in April 2017, which represented $0.05 per share of Class F preferred stock. This charge was based on the excess of redemption value over the carrying value of the Class F preferred stock that represents the original issuance cost that was paid in 2012.

The calculation to determine net income available to common stockholders includes impairments, gains from the sale of properties and/or fair value adjustments on our interest rate swaps. These items vary from period to period based on the timing of property sales and the interest rate environment, and can significantly impact net income available to common stockholders.

Gains from the sale of properties during the second quarter of 2018 were $7.8 million, as compared to gains from the sale of properties of $2.8 million during the second quarter of 2017. Gains from the sale of properties during the first six months of 2018 were $11.0 million, as compared to gains from the sale of properties of $13.4 million during the first six months of 2017.

Table of Contents

Funds from Operations Available to Common Stockholders (FFO)
In the second quarter of 2018, FFO increased by $22.8 million, or 11.2%, to $226.1 million, compared to $203.3 million in the second quarter of 2017. On a diluted per common share basis, FFO was $0.79 in the second quarter of 2018, compared to $0.75 in the second quarter of 2017, an increase of $0.04, or 5.3%.

In the first six months of 2018, FFO increased by $60.5 million, or 15.5%, to $451.0 million, compared to $390.5 million in the first six months of 2017. On a diluted per common share basis, FFO was $1.58 in the first six months of 2018, compared to $1.46 in the first six months of 2017, an increase of $0.12, or 8.2%.

Adjusted Funds from Operations Available to Common Stockholders (AFFO)
In the second quarter of 2018, AFFO increased by $18.6 million, or 8.9%, to $227.0 million, compared to $208.4 million in the second quarter of 2017. On a diluted per common share basis, AFFO was $0.80 in the second quarter of 2018, compared to $0.76 in the second quarter of 2017, an increase of $0.04, or 5.3%.

In the first six months of 2018, AFFO increased by $41.8 million, or 10.2%, to $451.5 million, compared to $409.7 million in the first six months of 2017. On a diluted per common share basis, AFFO was $1.59 in the first six months of 2018, compared to $1.53 in the first six months of 2017, an increase of $0.06, or 3.9%.

See our discussion of FFO and AFFO (which are not financial measures under generally accepted accounting principles, or GAAP), later in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in this quarterly report, which includes a reconciliation of net income available to common stockholders to FFO and AFFO.

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy
Historically, we have met our long-term capital needs by issuing common stock, preferred stock and long-term unsecured notes and bonds. Over the long term, we believe that common stock should be the majority of our capital structure; however, we may issue additional preferred stock or debt securities. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were initially financed by our credit facility or debt securities. However, we cannot assure you that we will have access to the capital markets at all times and at terms that are acceptable to us.

Our primary cash obligations, for the current year and subsequent years, are included in the “Table of Obligations,” which is presented later in this section. We expect to fund our operating expenses and other short-term liquidity requirements, including property acquisitions and development costs, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common and preferred stockholders, primarily through cash provided by operating activities, borrowing on our credit facility and periodically through public securities offerings.

Conservative Capital Structure
We believe that our stockholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet and solid interest and fixed charge coverage ratios. At June 30, 2018, our total outstanding borrowings of senior unsecured notes and bonds, term loans, mortgages payable and credit facility borrowings were $6.56 billion, or approximately 29.6% of our total market capitalization of $22.2 billion.

Table of Contents

We define our total market capitalization at June 30, 2018 as the sum of:

- Shares of our common stock outstanding of 290,024,275, plus total common units outstanding of 719,001, multiplied by the last reported sales price of our common stock on the NYSE of $53.79 per share on June 30, 2018, or $15.6 billion;
- Outstanding borrowings of $534.0 million on our credit facility;
- Outstanding mortgages payable of $306.8 million, excluding net mortgage premiums of $5.1 million and deferred financing costs of $209,000;
- Outstanding borrowings of $320.0 million on our term loans, excluding deferred financing costs of $469,000; and
- Outstanding senior unsecured notes and bonds of $5.4 billion, excluding net unamortized original issuance premiums of $11.1 million and deferred financing costs of $36.2 million.

Universal Shelf Registration

In December 2015, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in December 2018. In accordance with SEC rules, the amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit. The securities covered by this registration statement include (1) common stock, (2) preferred stock, (3) debt securities, (4) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock, or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

At-the-Market (ATM) Programs

In September 2015, we established an “at-the-market” equity distribution program, or our ATM program, pursuant to which we can offer and sell up to 12,000,000 shares of common stock to, or through, a consortium of banks acting as our sales agents by means of ordinary brokers’ transactions on the NYSE at prevailing market prices or at negotiated prices. In October 2017, following the issuance and sale of the remaining shares under our prior ATM program, we established a new “at-the-market” equity distribution plan, or our new ATM program, and, together with our prior ATM program, our ATM programs, pursuant to which we are permitted to offer and sell up to 17,000,000 additional shares of common stock. During the first six months of 2018, we issued 5,575,273 shares and raised approximately $298.0 million under the ATM program. From the inception of our ATM programs through June 30, 2018, we have issued 19,982,802 shares authorized by our ATM programs and raised approximately $1.1 billion.

Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSPP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSPP also allows our current common stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSPP authorizes up to 26,000,000 common shares to be issued. Our DRSPP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. During the first six months of 2018, we issued 93,061 shares and raised approximately $4.8 million under our DRSPP. We did not issue shares under the waiver approval process during the first six months of 2018. From the inception of our DRSPP through June 30, 2018, we have issued 14,156,603 shares and raised approximately $666.6 million.

$2.0 Billion Revolving Credit Facility

We have a $2.0 billion unsecured revolving credit facility, or our credit facility, with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a $1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of June 30, 2018 provide for

financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.85% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At June 30, 2018, we had a borrowing capacity of approximately $1.5 billion available on our credit facility and an outstanding balance of $534.0 million. The weighted average interest rate on borrowings under our credit facility

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during the first six months of 2018 was 2.7% per annum. We must comply with various financial and other covenants in our credit facility. At June 30, 2018, we were in compliance with these covenants. We expect to use our credit facility to acquire additional properties and for other general corporate purposes. Any additional borrowings will increase our exposure to interest rate risk.

We generally use our credit facility for the short-term financing of new property acquisitions. Thereafter, we generally seek to refinance those borrowings with the net proceeds of long-term or permanent financing, which may include the issuance of common stock, preferred stock or debt securities. We cannot assure you, however, that we will be able to obtain any such refinancing, or that market conditions prevailing at the time of the refinancing will enable us to issue equity or debt securities at acceptable terms. We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

Term Loans

In December 2017, in conjunction with the acquisition of a portfolio of properties, we entered into a $125.9 million promissory note, which was paid in full at maturity in January 2018. Borrowings under this note bore interest at 1.52%.

In June 2015, in conjunction with entering into our credit facility, we entered into a $250.0 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.90%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixed our per annum interest rate on this term loan at 2.62%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a $70.0 million senior unsecured term loan with an initial maturity date of January 2018. Borrowing under this term loan bore interest at the current one-month LIBOR, plus 1.10%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixed our per annum interest rate on this term loan at 2.05%. In January 2018, we entered into a six-month extension of this loan, which included, at our option, two additional six-month extensions. In June 2018, we exercised our first six-month extension of this loan, which now matures in January 2019. Borrowing during the extension periods bears interest at the current one-month LIBOR, plus 0.90%. The interest rate swap terminated upon the initial maturity in January 2018.

Mortgage Debt

As of June 30, 2018, we had $306.8 million of mortgages payable, all of which were assumed in connection with our property acquisitions. Additionally, at June 30, 2018, we had net premiums totaling $5.1 million on these mortgages and deferred financing costs of $209,000. We expect to pay off the outstanding mortgages payable as soon as prepayment penalties have declined to a level that would make it economically feasible to do so. During the first six months of 2018, we made $13.4 million in principal payments, including the repayment of one mortgage in full for $11.0 million.

Table of Contents

Notes Outstanding

Our senior unsecured note and bond obligations consist of the following as of June 30, 2018, sorted by maturity date (dollars in millions):

5.750% notes, issued in June 2010 and due in January 2021	$250
3.250% notes, $450 issued in October 2012 and $500 issued in December 2017, both due in October 2022	950
4.650% notes, issued in July 2013 and due in August 2023	750
3.875% notes, issued in June 2014 and due in July 2024	350
3.875% notes, issued in April 2018 and due in April 2025	500
4.125% notes, $250 issued in September 2014 and $400 issued in March 2017, both due in October 2026	650
3.000% notes, issued in October 2016 and due in January 2027	600
3.650% notes, issued in December 2017 and due in January 2028	550
5.875% bonds, $100 issued in March 2005 and $150 issued in June 2011, both due in March 2035	250
4.650% notes, $300 issued in March 2017 and $250 issued in December 2017, both due in March 2047	550
Total principal amount	$5,400
Unamortized net original issuance premiums and deferred financing costs	(25)
	$5,375

In April 2018, we issued $500.0 million of 3.875% senior unsecured notes due 2025, or the 2025 Notes. The public offering price for the 2025 Notes was 99.50% of the principal amount, for an effective yield to maturity of 3.957%. The net proceeds of approximately $493.1 million from this offering were used to repay borrowings outstanding under our credit facility, to fund investment opportunities, and for other general corporate purposes.

All of our outstanding notes and bonds have fixed interest rates and contain various covenants, with which we remained in compliance as of June 30, 2018. Additionally, interest on all of our senior note and bond obligations is paid semiannually.

The following is a summary of the key financial covenants for our senior unsecured notes, as defined and calculated per the terms of our senior notes and bonds. These calculations, which are not based on U.S. GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our senior notes and bonds as well as to disclose our current compliance with such covenants, and are not measures of our liquidity or performance. The actual amounts as of June 30, 2018 are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	< 60% of adjusted assets	41.4 %
Limitation on incurrence of secured debt	< 40% of adjusted assets	2.0 %
Debt service coverage (trailing 12 months)[1]	> 1.5x	4.6x
Maintenance of total unencumbered assets	> 150% of unsecured debt	244.0 %

[1] Our debt service coverage ratio is calculated on a pro forma basis for the preceding four-quarter period on the assumptions that: (i) the incurrence of any Debt (as defined in the covenants) incurred by us since the first day of such four-quarter period and the application of the proceeds therefrom (including to refinance other Debt since the first day of such four-quarter period), (ii) the repayment or retirement of any of our Debt since the first day of such four-quarter period, and (iii) any acquisition or disposition by us of any asset or group since the first day of such four quarters had in each case occurred on July 1, 2017, and subject to certain additional adjustments. Such pro forma ratio has been prepared on the basis required by that debt service covenant, reflects various estimates and assumptions and is subject to other uncertainties, and therefore does not purport to reflect what our actual debt service coverage ratio would have been had transactions referred to in clauses (i), (ii) and (iii) of the preceding

sentence occurred as of July 1, 2017, nor does it purport to reflect our debt service coverage ratio for any future period. Our fixed charge coverage ratio is calculated in exactly the same manner as our debt service coverage ratio, except that preferred stock dividends are also added to the denominator; since we redeemed our Class F preferred dividends in April 2017, our fixed charge coverage ratio is equivalent to our debt service coverage ratio. The following is our calculation of debt service and fixed charge coverage at June 30, 2018 (in thousands, for trailing twelve months):

Table of Contents

Net income attributable to the Company	$328,335
Plus: interest expense	242,291
Plus: provision for taxes	6,989
Plus: depreciation and amortization	519,704
Plus: provisions for impairment	25,216
Plus: pro forma adjustments	57,887
Plus: charges for early extinguishment of debt	42,426
Less: gain on sales of real estate	(38,533)
Income available for debt service, as defined	$1,184,315
Total pro forma debt service charge	$259,244
Debt service and fixed charge coverage ratio	4.6

Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At June 30, 2018, we had cash and cash equivalents totaling $30.7 million.

We believe that our cash and cash equivalents on hand, cash provided from operating activities, and borrowing capacity is sufficient to meet our liquidity needs for the next twelve months. We intend, however, to use permanent or long-term capital to fund property acquisitions and to repay future borrowings under our credit facility.

Credit Agency Ratings

The borrowing interest rates under our credit facility are based upon our ratings assigned by credit rating agencies. As of June 30, 2018, we were assigned the following investment grade corporate credit ratings on our senior unsecured notes and bonds: Moody's Investors Service has assigned a rating of A3 with a "stable" outlook, Standard & Poor's Ratings Group has assigned a rating of BBB+ with a "positive" outlook, and Fitch Ratings has assigned a rating of BBB+ with a "stable" outlook.

Based on our ratings as of June 30, 2018, the facility interest rate as of June 30, 2018 was LIBOR, plus 0.85% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.975% over LIBOR. Our credit facility provides that the interest rate can range between: (i) LIBOR, plus 1.55% if our credit rating is lower than BBB-/Baa3 or unrated and (ii) LIBOR, plus 0.85% if our credit rating is A-/A3 or higher. In addition, our credit facility provides for a facility commitment fee based on our credit ratings, which range from: (i) 0.30% for a rating lower than BBB-/Baa3 or unrated, and (ii) 0.125% for a credit rating of A-/A3 or higher.

We also issue senior debt securities from time to time and our credit ratings can impact the interest rates charged in those transactions. If our credit ratings or ratings outlook change, our cost to obtain debt financing could increase or decrease. The credit ratings assigned to us could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that our ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a rating is not a recommendation to buy, sell or hold our debt securities, preferred stock or common stock.

Table of Contents

Table of Obligations

The following table summarizes the maturity of each of our obligations as of June 30, 2018 (dollars in millions):