

REALTY INCOME

The Monthly Dividend Company®

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022, or

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**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
Common Stock, \$0.01 Par Value	O	New York Stock Exchange
1.125% Notes due 2027	O27A	New York Stock Exchange
1.875% Notes due 2027	O27B	New York Stock Exchange
1.625% Notes due 2030	O30	New York Stock Exchange
1.750% Notes due 2033	O33A	New York Stock Exchange
2.500% Notes due 2042	O42	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 627,153,861 shares of common stock outstanding as of October 28, 2022.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share and share count data) (unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Real estate held for investment, at cost:		
Land	\$ 11,852,057	\$ 10,753,750
Buildings and improvements	26,981,664	25,155,178
Total real estate held for investment, at cost	38,833,721	35,908,928
Less accumulated depreciation and amortization	(4,624,243)	(3,949,798)
Real estate held for investment, net	34,209,478	31,959,130
Real estate and lease intangibles held for sale, net	18,309	30,470
Cash and cash equivalents	187,745	258,579
Accounts receivable, net	529,248	426,768
Lease intangible assets, net	5,064,322	5,275,304
Goodwill	3,731,478	3,676,705
Investment in unconsolidated entities	—	140,967
Other assets, net	2,151,895	1,369,579
Total assets	\$ 45,892,475	\$ 43,137,502
LIABILITIES AND EQUITY		
Distributions payable	\$ 156,999	\$ 146,919
Accounts payable and accrued expenses	408,482	351,128
Lease intangible liabilities, net	1,368,525	1,308,221
Other liabilities	752,530	759,197
Line of credit payable and commercial paper	1,920,159	1,551,376
Term loan, net	249,705	249,557
Mortgages payable, net	855,363	1,141,995
Notes payable, net	13,316,455	12,499,709
Total liabilities	19,028,218	18,008,102
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid in capital, par value \$0.01 per share, 1,300,000,000 and 740,200,000 shares authorized, 627,145,827 and 591,261,991 shares issued and outstanding as of September 30, 2022, and December 31, 2021, respectively	32,003,069	29,578,212
Distributions in excess of net income	(5,241,012)	(4,530,571)
Accumulated other comprehensive income (loss)	(24,938)	4,933
Total stockholders' equity	26,737,119	25,052,574
Noncontrolling interests	127,138	76,826
Total equity	26,864,257	25,129,400
Total liabilities and equity	\$ 45,892,475	\$ 43,137,502

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

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in thousands, except per share and share count data) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
REVENUE				
Rental (including reimbursable)	\$ 825,946	\$ 486,337	\$ 2,426,311	\$ 1,385,958
Other	11,323	3,554	28,720	9,485
Total revenue	837,269	489,891	2,455,031	1,395,443
EXPENSES				
Depreciation and amortization	419,016	198,832	1,232,215	564,606
Interest	117,409	76,156	333,933	222,905
Property (including reimbursable)	52,719	29,662	157,241	89,895
General and administrative	34,096	23,813	100,934	66,458
Provisions for impairment	1,650	11,011	16,379	30,977
Merger and integration-related costs	3,746	16,783	12,994	30,081
Total expenses	628,636	356,257	1,853,696	1,004,922
Gain on sales of real estate	42,883	12,094	93,611	35,396
Foreign currency and derivative loss, net	(22,893)	(2,374)	(16,003)	(1,170)
Gain (loss) on extinguishment of debt	240	(3,983)	367	(50,456)
Equity in income and impairment of investment in unconsolidated entities	(662)	—	(6,335)	—
Other income, net	2,249	1,984	6,907	3,518
Income before income taxes	230,450	141,355	679,882	377,809
Income taxes	(10,163)	(6,079)	(35,802)	(21,529)
Net income	220,287	135,276	644,080	356,280
Net income attributable to noncontrolling interests	(720)	(280)	(1,937)	(865)
Net income available to common stockholders	\$ 219,567	\$ 134,996	\$ 642,143	\$ 355,415
Amounts available to common stockholders per common share:				
Net Income, basic and diluted	\$ 0.36	\$ 0.34	\$ 1.06	\$ 0.94
Weighted average common shares outstanding:				
Basic	617,511,609	391,913,478	604,463,977	379,291,782
Diluted	617,957,039	392,050,401	604,835,836	379,409,427
Other comprehensive income:				
Net income available to common stockholders	\$ 219,567	\$ 134,996	\$ 642,143	\$ 355,415
Foreign currency translation adjustment	(89,231)	1,438	(148,929)	1,130
Unrealized gain on derivatives, net	41,914	16,852	119,058	52,428
Comprehensive income available to common stockholders	\$ 172,250	\$ 153,286	\$ 612,272	\$ 408,973

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

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(dollars in thousands) (unaudited)

Three months ended September 30, 2022, and 2021

	Shares of common stock	Common stock and paid in capital	Distributions in excess of net income	Accumulated other comprehensive income (loss)	Total stockholders' equity	Noncontrolling interests	Total equity
Balance, June 30, 2022	617,564,272	\$31,303,383	\$ (4,999,150)	\$ 22,379	\$ 26,326,612	\$ 76,267	\$26,402,879
Net income	—	—	219,567	—	219,567	720	220,287
Other comprehensive loss	—	—	—	(47,317)	(47,317)	—	(47,317)
Distributions paid and payable	—	—	(461,429)	—	(461,429)	(1,070)	(462,499)
Issuance of common partnership units	—	—	—	—	—	51,221	51,221
Share issuances, net of costs	9,582,012	694,708	—	—	694,708	—	694,708
Share-based compensation, net	(457)	4,978	—	—	4,978	—	4,978
Balance, September 30, 2022	627,145,827	\$32,003,069	\$ (5,241,012)	\$ (24,938)	\$ 26,737,119	\$ 127,138	\$26,864,257
Balance, June 30, 2021	380,174,042	\$15,827,231	\$ (3,968,333)	\$ (19,366)	\$ 11,839,532	\$ 34,147	\$11,873,679
Net income	—	—	134,996	—	134,996	280	135,276
Other comprehensive income	—	—	—	18,290	18,290	—	18,290
Distributions paid and payable	—	—	(279,616)	—	(279,616)	(407)	(280,023)
Share issuances, net of costs	24,030,435	1,618,463	—	—	1,618,463	—	1,618,463
Share-based compensation, net	1,599	3,428	—	—	3,428	—	3,428
Balance, September 30, 2021	404,206,076	\$17,449,122	\$ (4,112,953)	\$ (1,076)	\$ 13,335,093	\$ 34,020	\$13,369,113

Nine months ended September 30, 2022 and 2021

	Shares of common stock	Common stock and paid in capital	Distributions in excess of net income	Accumulated other comprehensive income (loss)	Total stockholders' equity	Noncontrolling interests	Total equity
Balance, December 31, 2021	591,261,991	\$29,578,212	\$ (4,530,571)	\$ 4,933	\$ 25,052,574	\$ 76,826	\$25,129,400
Net income	—	—	642,143	—	642,143	1,937	644,080
Other comprehensive income	—	—	—	(29,871)	(29,871)	—	(29,871)
Distributions paid and payable	—	—	(1,352,584)	—	(1,352,584)	(2,846)	(1,355,430)
Issuance of common partnership units	—	—	—	—	—	51,221	51,221
Share issuances, net of costs	35,715,042	2,415,281	—	—	2,415,281	—	2,415,281
Share-based compensation, net	168,794	9,576	—	—	9,576	—	9,576
Balance, September 30, 2022	627,145,827	\$32,003,069	\$ (5,241,012)	\$ (24,938)	\$ 26,737,119	\$ 127,138	\$26,864,257
Balance December 31, 2020	361,303,445	\$14,700,050	\$ (3,659,933)	\$ (54,634)	\$ 10,985,483	\$ 32,247	\$11,017,730
Net income	—	—	355,415	—	355,415	865	356,280
Other comprehensive income	—	—	—	53,558	53,558	—	53,558
Distributions paid and payable	—	—	(808,435)	—	(808,435)	(1,198)	(809,633)
Share issuances, net of costs	42,777,850	2,743,039	—	—	2,743,039	—	2,743,039
Contributions by noncontrolling interests	—	—	—	—	—	2,106	2,106
Share-based compensation, net	124,781	6,033	—	—	6,033	—	6,033
Balance, September 30, 2021	404,206,076	\$17,449,122	\$ (4,112,953)	\$ (1,076)	\$ 13,335,093	\$ 34,020	\$13,369,113

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

REALTY INCOME CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands) (unaudited)

Nine months ended September 30,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 644,080	\$ 356,280
Adjustments to net income:		
Depreciation and amortization	1,232,215	564,606
Amortization of share-based compensation	16,742	12,484
Non-cash revenue adjustments	(37,538)	(12,722)
(Gain) loss on extinguishment of debt	(367)	50,456
Amortization of net premiums on mortgages payable	(10,418)	(1,158)
Amortization of net premiums on notes payable	(47,185)	(37)
Amortization of deferred financing costs	11,116	8,649
Loss on interest rate swaps	2,181	2,179
Foreign currency and derivative loss, net	16,003	1,170
Gain on sales of real estate	(93,611)	(35,396)
Equity in income and impairment of investment in unconsolidated entities	6,335	—
Distributions from unconsolidated entities	1,605	—
Provisions for impairment on real estate	16,379	30,977
Change in assets and liabilities		
Accounts receivable and other assets	207,838	(46,670)
Accounts payable, accrued expenses and other liabilities	(32,009)	39,248
Net cash provided by operating activities	1,933,366	970,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(4,980,159)	(3,709,894)
Improvements to real estate, including leasing costs	(66,047)	(11,159)
Proceeds from sales of real estate	414,688	123,533
Return of investment from unconsolidated entities	1,401	—
Net proceeds from sale of unconsolidated entities	107,621	—
Proceeds from note receivable	5,867	—
Insurance proceeds received	16,046	—
Non-refundable escrow deposits	(28,556)	(5,432)
Net cash used in investing activities	(4,529,139)	(3,602,952)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(1,342,695)	(797,847)
Borrowings on line of credit and commercial paper programs	19,644,724	6,277,918
Payments on line of credit and commercial paper programs	(19,147,386)	(5,853,423)
Proceeds from notes and bonds payable issued	1,405,570	1,033,387
Principal payment on notes payable	—	(950,000)
Principal payments on mortgages payable	(311,083)	(55,983)
Payments upon extinguishment of debt	—	(51,218)
Proceeds from common stock offerings, net	2,404,092	2,734,830
Proceeds from dividend reinvestment and stock purchase plan	8,708	8,208
Distributions to noncontrolling interests	(2,658)	(1,198)
Net receipts on derivative settlements	7,474	2,463
Debt issuance costs	(27,732)	(8,670)
Other items, including shares withheld upon vesting	(4,685)	(6,451)
Net cash provided by financing activities	2,634,329	2,332,016
Effect of exchange rate changes on cash and cash equivalents	(82,012)	(3,711)
Net decrease in cash, cash equivalents and restricted cash	(43,456)	(304,581)
Cash, cash equivalents and restricted cash, beginning of period	332,369	850,679
Cash, cash equivalents and restricted cash, end of period	\$ 288,913	\$ 546,098

For supplemental disclosures, see note 16.

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

REALTY INCOME CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2022
(unaudited)

1. Basis of Presentation

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, 2021, which are included in our 2021 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. The U.S. Dollar (“USD”) is our reporting currency. Unless otherwise indicated, all dollar amounts are expressed in United States USD. Our financial results for the three and nine months ended September 30, 2021 do not reflect our merger with VEREIT, Inc. (VEREIT), which was completed on November 1, 2021.

For our consolidated subsidiaries whose functional currency is not the U.S. dollar, we translate their financial statements into U.S. dollars at the time we consolidate those subsidiaries’ financial statements. Generally, assets and liabilities are translated at the exchange rate in effect at the balance sheet date. The resulting translation adjustments are included in ‘Accumulated other comprehensive income (loss)’, or AOCI, in the consolidated balance sheets. Certain balance sheet items, primarily equity and capital-related accounts, are reflected at the historical exchange rate. Income statement accounts are translated using the average exchange rate for the period.

We and certain of our consolidated subsidiaries have intercompany and third-party debt that is not denominated in our functional currency. When the debt is remeasured to the functional currency of the entity, a gain or loss can result. The resulting adjustment is reflected in ‘Foreign currency and derivative loss, net’ in the consolidated statements of income and comprehensive income.

At September 30, 2022, we owned 11,733 properties, located in all 50 U.S. states, Puerto Rico, the United Kingdom (U.K.), and Spain, consisting of approximately 225.7 million leasable square feet.

2. Summary of Significant Accounting Policies and Procedures and New Accounting Standards

Principles of Consolidation. These consolidated financial statements include the accounts of Realty Income and all other entities in which we have a controlling financial interest. We evaluate whether we have a controlling financial interest in an entity in accordance with Accounting Standards Codification (“ASC”) 810, *Consolidation*.

Voting interest entities are entities considered to have sufficient equity at risk and which the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. We consolidate voting interest entities in which we have a controlling financial interest, which we typically have through holding of a majority of the entity’s voting equity interests.

Variable interest entities (“VIEs”) are entities that lack sufficient equity at risk or where the equity holders either do not have the obligation to absorb losses, do not have the right to receive residual returns, do not have the right to make decisions about the entity’s activities, or some combination of the above. A controlling financial interest in a VIE is present when an entity has a variable interest, or a combination of variable interests, that provides the entity with (i) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. An entity that meets both conditions above is deemed the primary beneficiary and consolidates the VIE. We reassess our initial evaluation of whether an entity is a VIE when certain reconsideration events occur. We reassess our determination of whether we are the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

The portion of a consolidated entity not owned by us is recorded as a noncontrolling interest. Noncontrolling interests are reflected on our consolidated balance sheets as a component of equity. Noncontrolling interest that was created or assumed as part of a business combination or asset acquisition was recognized at fair value as of the date of the transaction (see note 11, *Noncontrolling Interests*).

Income Taxes. 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 in the US, we generally will not be required to pay U.S. income taxes on such income. However, we are liable for taxes in the United Kingdom and Spain. Accordingly, a provision has been made for U.K. and Spain income taxes, as well as U.S. income taxes on our taxable REIT subsidiaries, but no provision was made for U.S. income taxes for our U.S. REIT parent.

Lease Revenue Recognition and Accounts Receivable. The COVID-19 pandemic and the measures taken to limit its spread have negatively impacted the economy across many industries, including the industries in which some of our clients operate. We continue to assess the probability of collecting substantially all of the lease payments to which we are entitled under the original lease contract as required under Topic 842, *Leases*. We assess the collectability of our future lease payments based on an analysis of creditworthiness, economic trends (including trends arising from the COVID-19 pandemic) and other facts and circumstances related to the applicable clients. If we conclude the collection of substantially all lease payments under a lease is less than probable, rental revenue recognized for that lease is limited to cash received going forward, existing operating lease receivables, including those related to straight-line rental revenue, must be written off as an adjustment to rental revenue, and no further operating lease receivables are recorded for that lease until such future determination is made that substantially all lease payments under that lease are now considered probable. If we subsequently conclude that the collection of substantially all lease payments under a lease is probable, a reversal of lease receivables previously written off is recognized.

The majority of concessions granted to our clients as a result of the COVID-19 pandemic have been rent deferrals with the original lease term unchanged. In accordance with the guidance provided by the Financial Accounting Standards Board (FASB) staff, we have elected to account for these leases as if the right of deferral existed in the lease contract and therefore continue to recognize lease revenue in accordance with the lease contract in effect. In limited circumstances, the undiscounted cash flows resulting from deferrals granted increased significantly from original lease terms, which required us to account for these as lease modifications and resulted in an insignificant impact to consolidated rental revenue. Similarly, rent abatements granted, which are also accounted for as lease modifications, have impacted our rental revenue by an insignificant amount.

As of September 30, 2022, other than the information related to the reserves recorded to date, we do not have any further client specific information that would change our assessment that collection of substantially all of the future lease payments under our existing leases is probable. However, since the conversations regarding rent collections for our clients affected by the COVID-19 pandemic are ongoing and we do not currently know the types of future concessions, if any, that will ultimately be granted, there may be impacts in future periods that could change this assessment as the situation continues to evolve and as more information becomes available.

Investment in Unconsolidated Entities. During the three months ended September 30, 2022, all seven properties owned by our industrial partnerships and accounted for under the equity method were sold. For further details, see note 5. *Investments in Real Estate*.

We accounted for our investment in unconsolidated entity arrangements using the equity method of accounting as we had the ability to exercise significant influence, but not control, over operating and financing policies of these investments. We had determined that none of the unconsolidated entities would be considered VIEs under the applicable accounting guidance. Our equity method investments were acquired in our merger with VEREIT. As a result, the investments were recorded at fair value and subsequently would be adjusted for our share of equity in the entities' earnings and distributions received. The step-up in fair value was allocated to the individual investment assets and liabilities and is being amortized over the estimated useful life of the respective underlying tangible real estate assets, the lease term of the intangible real estate assets, and the remaining term of the assumed debt. The carrying value of our investment was included in 'Investment in unconsolidated entities' in the accompanying consolidated balance sheets. We recorded our proportionate share of net income from the unconsolidated entities in 'Equity in income and impairment of investment in unconsolidated entities' in the consolidated statements of income and comprehensive income.

Segment Reporting. During the second quarter of 2022, a re-evaluation of our business and management structure led to a change in identification of operating and reportable segments. As we have grown in size and scale over recent years, including through the acquisition of VEREIT in November 2021, management has shifted its focus from managing primarily through identification of concentrations of risk from exposure to client industries or

geographies, to now focused on seeking investments with attractive yields and risk adjusted returns regardless of client industry or geography. As a result, we reorganized our business activities into one operating and reportable segment. ASC Topic 280, *Segment Reporting*, establishes standards for the manner in which enterprises report information about operating segments. We are engaged in a single business activity, which is the leasing of property to clients, generally on a net basis (whereby clients are responsible for property taxes, insurance and maintenance costs). That business activity spans various geographic boundaries and includes property types and clients engaged in various industries, but ultimately all business activity involves similar economic characteristics of owning and leasing commercial properties under long-term, net lease agreements. Therefore, we aggregate these business activities for reporting purposes and operate in one operating and reportable segment. This segmental presentation is consistent with the information provided to our chief operating decision maker to make decisions about allocating resources and assessing our performance.

Newly Issued Accounting Standards In March 2020, the FASB issued ASU 2020-04 establishing Topic 848, *Reference Rate Reform*. ASU 2020-04 contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The guidance is optional and is effective between March 12, 2020, and December 31, 2022. The guidance may be elected over time as reference rate reform activities occur. As of September 30, 2022, all of our debt and derivative instruments have been converted from LIBOR to SOFR. The interest rate swap on our term loan, which was converted to a SOFR benchmark from LIBOR during June 2022, continues to be accounted for as a cash flow hedge. The adoption of this guidance had no impact on our consolidated financial statements.

3. Merger with VEREIT, Inc.

Merger with VEREIT

On November 1, 2021, we completed our merger with VEREIT, Inc. For further details, see note 3. *Merger with VEREIT, Inc. and Orion Office REIT Inc. Divestiture*, to our consolidated financial statements in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021.

Our merger with VEREIT has been accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, with Realty Income as the accounting acquirer, which requires, among other things, that the assets acquired, and liabilities assumed be recognized at their acquisition date fair value. The fair value of the consideration transferred on the date of the acquisition is as follows (in thousands, except share and per share data):

Shares of VEREIT common stock and VEREIT Operating Partnership, L.P. ("OP") common units exchanged ⁽¹⁾	229,304,035
Exchange Ratio	0.705
	<u>161,659,345</u>
Less: Fractional shares settled in cash	(1,545)
Shares of Realty Income common stock and Realty Income L.P. units issued	161,657,800
Adjusted opening price of Realty common stock on November 1, 2021 ⁽²⁾	\$ 71.236
Fair value of Realty common stock issued to former holders of VEREIT common stock and VEREIT OP common units	\$ 11,515,855
Fair value of VEREIT's equity-based compensation awards attributable to pre-combination services ⁽³⁾	44,020
Total non-cash consideration	11,559,875
Cash paid for fractional shares	110
VEREIT indebtedness paid off in connection with the merger ⁽⁴⁾	500,414
Consideration transferred	<u>\$ 12,060,399</u>

⁽¹⁾ Includes 229,152,001 shares of VEREIT common stock and 152,034 VEREIT OP common units outstanding as of November 1, 2021. Under the Merger Agreement, these shares and units were converted to Realty Income common stock, or in certain instances, Realty Income L.P. units, at an Exchange Ratio of 0.705 per share of VEREIT common stock or VEREIT OP common unit, as applicable.

⁽²⁾ The fair value of Realty Income common stock issued to former holders of VEREIT common stock and VEREIT OP common units is based on the per share opening price of Realty Income common stock of \$71.00 on November 1, 2021, adjusted for the monthly dividend of \$0.236 per share that former holders of VEREIT common stock and VEREIT OP common units were eligible to receive when such dividend was paid on November 15, 2021.

⁽³⁾ Represents the fair value of fully vested deferred stock unit awards of VEREIT common stock ("VEREIT DSU Awards") which were converted into Realty Income common stock upon our merger with VEREIT, as well as the estimated fair value of the Realty Income replacement employee and executive stock options and restricted stock units that were granted at the closing date of our merger with VEREIT and which were attributable to pre-combination services.

⁽⁴⁾ Represents the outstanding balance of the VEREIT revolving credit facility repaid by Realty Income in connection with the closing of the merger. The amount shown in the table above was based upon the balance outstanding immediately prior to November 1, 2021.

A. *Purchase Price Allocation*

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

ASSETS	
Land	\$ 3,021,906
Buildings	8,677,467
Total real estate held for investment	11,699,373
Cash and cash equivalents	128,411
Accounts receivable	53,355
Lease intangible assets ⁽¹⁾	3,204,773
Goodwill	3,717,620
Investment in unconsolidated entities	175,379
Other assets	308,910
Total assets acquired	\$ 19,287,821
LIABILITIES	
Accounts payable and accrued expenses	\$ 139,836
Lease intangible liabilities ⁽²⁾	949,349
Other liabilities	320,893
Mortgages payable	869,027
Notes payable	4,946,965
Total liabilities assumed	\$ 7,226,070
Net assets acquired, at fair value	\$ 12,061,751
Noncontrolling interests	\$ 1,352
Total purchase price	\$ 12,060,399

⁽¹⁾ The weighted average amortization period for acquired lease intangible assets is 9.3 years.

⁽²⁾ The weighted average amortization period for acquired lease intangible liabilities is 25.5 years.

The initial assessment of fair value provided in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021 was preliminary and was based on information that was available to management at the time the consolidated financial statements were prepared. Measurement period adjustments were recorded during 2022 in the period in which they were determined, as if they had been completed at the acquisition date. As of September 30, 2022, measurement period adjustments, as reflected in the table above, resulted in a net increase of \$54.8 million to goodwill from the initial valuation.

Approximately \$3.72 billion was allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed. The recognized goodwill was attributable to expected synergies and benefits arising from the merger transaction, including anticipated financing and overhead cost savings, potential economies of scale benefits in both customer and vendor relationships and the employee workforce onboarded from VEREIT following the closing of the merger. None of the goodwill recognized is deductible for tax purposes.

B. *Merger and Integration-Related Costs*

In conjunction with our merger with VEREIT, we incurred approximately \$3.7 million and \$13.0 million of transaction costs during the three and nine months ended September 30, 2022, respectively, compared to approximately \$16.8 million and \$30.1 million of merger-related transaction costs during the three and nine months ended September 30, 2021, respectively. Merger and integration-related costs consist of advisory fees, attorney fees,

accountant fees, SEC filing fees and additional incremental and non-recurring costs necessary to convert data and systems, retain employees and otherwise enable us to operate the acquired business or assets efficiently.

C. Unaudited Pro Forma Financial Information

Our consolidated results of operations for the three and nine months ended September 30, 2022, include \$252.6 million and \$766.3 million of revenues, respectively, and \$15.6 million and \$41.7 million of net income associated with the results of operations of VEREIT OP, respectively.

The following unaudited pro forma information presents a summary of our combined results of operations for the three and nine months ended September 30, 2021, as if our merger with VEREIT had occurred on January 1, 2020 (in millions, except per share data). There are no pro forma adjustments for the three and nine months ended September 30, 2022, as the merger was completed November 1, 2021. Amounts for the three and nine months ended September 30, 2022 are presented for comparative purposes. The following pro forma financial information is not necessarily indicative of the results of operations had the acquisition been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses. In accordance with ASC 805, *Business Combinations*, the following information excludes the impact of the spin-off of office assets to Orion Office REIT Inc.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Total revenues	\$ 837.3	\$ 792.3	\$ 2,455.0	\$ 2,300.1
Net income	\$ 220.3	\$ 172.3	\$ 644.1	\$ 548.2
Basic and diluted earnings per share	\$ 0.36	\$ 0.31	\$ 1.06	\$ 1.01

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

A. Accounts Receivable, net, consist of the following at:	September 30, 2022	December 31, 2021
Straight-line rent receivables, net	\$ 325,190	\$ 231,943
Client receivables, net	204,058	194,825
	<u>\$ 529,248</u>	<u>\$ 426,768</u>

B. Lease intangible assets, net, consist of the following at:	September 30, 2022	December 31, 2021
In-place leases	\$ 5,054,166	\$ 4,791,846
Accumulated amortization of in-place leases	(1,249,683)	(804,050)
Above-market leases	1,663,492	1,591,382
Accumulated amortization of above-market leases	(403,653)	(303,874)
	<u>\$ 5,064,322</u>	<u>\$ 5,275,304</u>

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C. Other assets, net, consist of the following at:	September 30, 2022	December 31, 2021
Financing receivables	\$ 708,755	\$ 323,921
Right of use asset - operating leases, net	592,800	631,515
Right of use asset - financing leases	441,473	218,332
Derivative assets and receivables – at fair value	174,697	29,593
Restricted escrow deposits	90,639	68,541
Prepaid expenses	32,961	18,062
Non-refundable escrow deposits	28,556	28,560
Credit facility origination costs, net	18,430	4,352
Corporate assets, net	12,428	10,915
Impounds related to mortgages payable	10,529	5,249
Investment in sales type lease	5,926	7,492
Note receivable	—	4,455
Other items	34,701	18,592
	<u>\$ 2,151,895</u>	<u>\$ 1,369,579</u>
D. Accounts payable and accrued expenses consist of the following at:	September 30, 2022	December 31, 2021
Notes payable - interest payable	\$ 117,448	\$ 108,227
Derivative liabilities and payables – at fair value	69,445	70,617
Property taxes payable	54,425	36,173
Accrued property expenses	39,057	27,344
Accrued costs on properties under development	28,961	19,665
Value-added tax payable	22,189	11,297
Accrued income taxes	14,995	19,152
Mortgages, term loans, and credit line - interest payable	4,410	3,874
Merger and integration-related costs	1,072	10,699
Other items	56,480	44,080
	<u>\$ 408,482</u>	<u>\$ 351,128</u>
E. Lease intangible liabilities, net, consist of the following at:	September 30, 2022	December 31, 2021
Below-market leases	\$ 1,583,531	\$ 1,460,701
Accumulated amortization of below-market leases	(215,006)	(152,480)
	<u>\$ 1,368,525</u>	<u>\$ 1,308,221</u>
F. Other liabilities consist of the following at:	September 30, 2022	December 31, 2021
Lease liability - operating leases, net	\$ 432,163	\$ 461,748
Rent received in advance and other deferred revenue	258,032	242,122
Lease liability - financing leases	49,594	43,987
Security deposits	12,741	11,340
	<u>\$ 752,530</u>	<u>\$ 759,197</u>

5. Investments in Real Estate

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

A. Acquisitions During the Nine Months Ended September 30, 2022, and 2021

Below is a summary of our acquisitions for the nine months ended September 30, 2022:

	Number of Properties	Leasable Square Feet (in thousands)	Investment (\$ in millions)	Weighted Average Lease Term (Years)	Initial Weighted Average Cash Lease Yield ⁽¹⁾
Nine months ended September 30, 2022 ⁽²⁾					
Acquisitions - U.S.	561	9,396	\$ 2,623.6	15.1	5.9 %
Acquisitions - Europe	78	8,904	2,058.6	8.9	5.8 %
Total acquisitions	639	18,300	\$ 4,682.2	12.5	5.9 %
Properties under development ⁽³⁾	127	3,201	416.4	15.6	5.6 %
Total ⁽⁴⁾	766	21,501	\$ 5,098.6	12.7	5.8 %

⁽¹⁾ The initial weighted average cash lease yield for a property is generally computed as estimated contractual first year cash net operating income, which, in the case of a net leased property, is equal to the aggregate cash base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a client 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. Contractual net operating income used in the calculation of initial weighted average cash yield includes approximately \$8.0 million received as settlement credits as reimbursement of free rent periods for the nine months ended September 30, 2022.

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 initial weighted average cash lease yield is computed as follows: estimated cash 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.

⁽²⁾ None of our investments during the nine months ended September 30, 2022, caused any one client to be 10% or more of our total assets at September 30, 2022.

⁽³⁾ Includes five U.K. development properties that represent an investment of £36.6 million Sterling during the nine months ended September 30, 2022, converted at the applicable exchange rate on the funding date.

⁽⁴⁾ Our clients occupying the new properties are 90.6% retail, 9.3% industrial and 0.1% other property types, based on rental revenue. Approximately 30% of the rental revenue generated from acquisitions during the nine months ended September 30, 2022, is from investment grade rated clients, their subsidiaries or affiliated companies.

The acquisitions during the nine months ended September 30, 2022, which had no associated contingent consideration, were allocated as follows (in millions):

Nine months ended September 30, 2022	Acquisitions - U.S.	Acquisitions - U.K.	Acquisitions - Spain
	(USD)	(£ Sterling)	(€ Euro)
Land ⁽¹⁾	\$ 729.4	£ 595.7	€ 63.2
Buildings and improvements	1,572.1	556.8	80.5
Lease intangible assets ⁽²⁾	305.5	210.0	12.4
Other assets ⁽³⁾	386.6	203.2	8.7
Lease intangible liabilities ⁽⁴⁾	(72.3)	(54.3)	(1.1)
Other liabilities ⁽⁵⁾	(21.8)	(2.4)	—
	\$ 2,899.5	£ 1,509.0	€ 163.7

⁽¹⁾ U.K. land includes £43.5 million of right of use assets under long-term ground leases.

⁽²⁾ The weighted average amortization period for acquired lease intangible assets is 10.9 years.

⁽³⁾ U.S. other assets consists of \$353.8 million of financing receivables with above-market terms and \$32.8 million of right-of-use assets accounted for as finance leases. U.K. other assets consists of £15.9 million of financing receivables with above-market terms, £184.9 million of right-of-use assets accounted for as finance leases and £2.4 million of right-of-use assets accounted for as operating leases. Spain other assets consists entirely of financing receivables with above-market terms.

⁽⁴⁾ The weighted average amortization period for acquired lease intangible liabilities is 13.8 years.

⁽⁵⁾ U.S. other liabilities consists of \$15.3 million of deferred rent on certain below-market leases, \$8.6 million of lease liabilities under financing leases, offset by \$2.1 million of mortgage discounts. U.K. other liabilities consists entirely of lease liabilities under operating leases.

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The properties acquired during the nine months ended September 30, 2022, which were all accounted for as asset acquisitions, generated total revenues of \$94.5 million and net income of \$35.3 million during the nine months ended September 30, 2022.

Below is a summary of our acquisitions for the nine months ended September 30, 2021:

	Number of Properties	Leasable Square Feet (in thousands)	Investment (\$ in millions)	Weighted Average Lease Term (Years)	Initial Weighted Average Cash Lease Yield ⁽¹⁾
Nine months ended September 30, 2021 ⁽²⁾					
Acquisitions - U.S.	415	9,227	\$ 2,073.1	13.8	5.5 %
Acquisitions - Europe	71	5,217	1,520.8	10.5	5.5 %
Total acquisitions	486	14,444	\$ 3,593.9	12.4	5.5 %
Properties under development - U.S. ⁽³⁾	50	2,127	182.0	15.8	5.9 %
Total ⁽⁴⁾	536	16,571	\$ 3,775.9	12.6	5.5 %

⁽¹⁾ Contractual net operating income used in the calculation of initial weighted average cash yield includes approximately \$3.2 million received as settlement credits as reimbursement of free rent periods for the nine months ended September 30, 2021.

⁽²⁾ None of our investments during the nine months ended September 30, 2021, caused any one client to be 10% or more of our total assets at September 30, 2021.

⁽³⁾ Includes one U.K. development property that represents an investment of £4.7 million Sterling during the nine months ended September 30, 2021, converted at the applicable exchange rate on the funding date.

⁽⁴⁾ Our clients occupying the new properties are 80.2% retail and 19.8% industrial, based on rental revenue. Approximately 43% of the rental revenue generated from acquisitions during the nine months ended September 30, 2021, was from investment grade rated clients, their subsidiaries or affiliated companies.

The acquisitions during the nine months ended September 30, 2021, which had no associated contingent consideration, were allocated as follows (in millions):

Nine months ended September 30, 2021	Acquisitions - U.S.		Acquisitions - U.K.		Acquisitions - Spain	
	(USD)		(£ Sterling)		(€ Euro)	
Land ⁽¹⁾	\$	596.8	£	292.3	€	36.7
Buildings and improvements		991.0		529.6		36.3
Lease intangible assets ⁽²⁾		349.8		179.7		23.2
Other assets ⁽³⁾		372.6		25.9		—
Lease intangible liabilities ⁽⁴⁾		(46.7)		(6.4)		—
Other liabilities ⁽⁵⁾		(122.3)		(0.3)		—
	£	2,141.2	£	1,020.8	£	96.2

⁽¹⁾ U.K land includes £1.3 million of right of use assets under long-term ground leases.

⁽²⁾ The weighted average amortization period for acquired lease intangible assets is 13.1 years.

⁽³⁾ U.S. other assets consists of \$68.2 million of financing receivables with above-market terms, \$39.1 million of right-of-use assets accounted for as finance leases, \$5.8 million in investments in sales-type leases, and \$259.5 million of right of use assets under ground leases. U.K. other assets consists of £4.3 million of financing receivables with above-market terms and £21.7 million of right-of-use assets accounted for as finance leases.

⁽⁴⁾ The weighted average amortization period for acquired lease intangible liabilities is 18.6 years.

⁽⁵⁾ U.S. other liabilities consists of \$21.6 million of deferred rent on certain below-market leases and \$100.7 million of lease liabilities under ground leases. U.K other liabilities consists entirely of a mortgage premium.

The properties acquired during the nine months ended September 30, 2021, which were all accounted for as asset acquisitions, generated total revenues of \$67.4 million and net income of \$12.9 million during the nine months ended September 30, 2021.

B. Investments in Existing Properties

During the nine months ended September 30, 2022, we capitalized costs of \$70.6 million on existing properties in our portfolio, consisting of \$3.9 million for re-leasing costs, \$3.0 million for recurring capital expenditures, and \$63.7 million for non-recurring building improvements. In comparison, during the nine months ended September 30, 2021, we capitalized costs of \$11.1 million on existing properties in our portfolio, consisting of \$2.0 million for re-leasing costs, \$416,000 for recurring capital expenditures, and \$8.7 million for non-recurring building improvements.

C. Properties with Existing Leases

Of the \$5.1 billion we invested during the nine months ended September 30, 2022, approximately \$416.4 million related to development. Of the \$4.68 billion invested outside of development, \$2.98 billion was used to acquire 341 properties with existing leases. In comparison, of the \$3.78 billion we invested during the nine months ended September 30, 2021, \$182.0 million related to development. Of the \$3.59 billion invested outside of development, \$3.17 billion was used to acquire 339 properties with existing leases. The value of the in-place and above-market leases is recorded to 'Lease intangible assets, net' on our consolidated balance sheets, and the value of the below-market leases is recorded to 'Lease intangible assets, 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 nine months ended September 30, 2022, and 2021 were \$476.8 million and \$123.7 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 in the consolidated statements of income and comprehensive income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for the nine months ended September 30, 2022, and 2021 were \$78.7 million and \$34.0 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 above-market and below-market lease intangibles and the amortization of the in-place lease intangibles at September 30, 2022 (dollars in thousands):

	Net increase (decrease) to rental revenue	Increase to amortization expense
2022	\$ (14,280)	\$ 153,081
2023	(56,378)	556,569
2024	(50,221)	495,063
2025	(43,921)	425,927
2026	(35,870)	379,544
Thereafter	309,356	1,794,299
Totals	\$ 108,686	\$ 3,804,483

D. Gain on Sales of Real Estate

The following table summarizes our properties sold during the periods indicated below, excluding our proportionate share of net proceeds from the disposition of properties by our unconsolidated industrial partnerships (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Number of properties	34	27	138	96
Net sales proceeds	\$ 142.2	\$ 31.9	\$ 414.4	\$ 123.5
Gain on sales of real estate	\$ 42.6	\$ 12.1	\$ 93.4	\$ 35.4

E. *Investment in Unconsolidated Entities*

The following is a summary of our investments in unconsolidated entities as of September 30, 2022 (in thousands):

Investment ⁽²⁾	Ownership % ⁽¹⁾	Number of Properties	Carrying Amount of Investment as of		Equity in income and impairment of investment in unconsolidated entities for the nine months ended ⁽²⁾	
			September 30, 2022	December 31, 2021	September 30, 2022	September 30, 2021
Industrial Partnerships	20 %	—	\$ —	\$ 140,967	\$ (6,335)	\$ —

⁽¹⁾ Our ownership interest reflects legal ownership interest. Legal ownership may, at times, not equal our economic interest in the listed properties because of various provisions in certain entity agreements regarding capital contributions, distributions of cash flow based on capital account balances, allocations of profits and losses and payments of preferred returns. As a result, our actual economic interest (as distinct from its legal ownership interest) in certain of the properties could fluctuate from time to time and may not wholly align with legal ownership interests.

⁽²⁾ All seven assets held by our Industrial Partnerships were sold during the three months ended September 30, 2022. As the portion of the net proceeds applied to our investment basis that we expect to receive at closing was less than our \$121.4 million carrying amount of investment in unconsolidated entities, we recognized an other than temporary impairment of \$7.8 million during the six months ended June 30, 2022. We recorded an additional impairment of \$0.7 million during the three months ended September 30, 2022. The other than temporary impairments are included in 'Equity in income and impairment of investment in unconsolidated entities' in the consolidated statements of income and comprehensive income for the periods presented.

The aggregate debt outstanding for unconsolidated entities was \$431.8 million as of December 31, 2021, all of which was non-recourse to us with limited customary exceptions which varied from loan to loan. There was no aggregate debt outstanding as of September 30, 2022, as all seven properties owned by our industrial partnerships were sold during the three months ended September 30, 2022, and the debt underlying each of the seven properties was either defeased or prepaid in connection with the sales.

Each of us and our unconsolidated entity partners were subject to the provisions of the applicable entity agreements for our unconsolidated partnerships, which included provisions for when additional contributions might be required to fund certain cash shortfalls.

6. Revolving Credit Facility and Commercial Paper Programs

A. *Credit Facility*

In April 2022, we entered a new \$4.25 billion unsecured credit facility to amend and restate our previous \$3.0 billion unsecured revolving credit facility, which was due to expire in March 2023. The new multicurrency credit facility matures in June 2026, includes two six-month extensions that can be exercised at our option and allows us to borrow in up to 14 currencies, including U.S dollars. Similar to our previous revolving credit facility, the new revolving credit facility also has a \$1.0 billion expansion option, which is subject to obtaining lender commitments. Under the new revolving credit, our current investment grade credit ratings provide for financing on U.S. Dollar borrowings at the Secured Overnight Financing Rate ("SOFR"), plus 0.725% with a SOFR adjustment charge of 0.10% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.95% over SOFR and British Pound Sterling at the Sterling Overnight Indexed Average ("SONIA"), plus 0.725% with a SONIA adjustment charge of 0.0326% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.8826% over SONIA.

At September 30, 2022, credit facility origination costs of \$18.4 million are included in other assets, net, as compared to \$4.4 million at December 31, 2021, on our consolidated balance sheets. These costs are being amortized over the remaining term of our revolving credit facility.

At September 30, 2022, we had a borrowing capacity of \$3.05 billion available on our revolving credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$1.2 billion, as compared to an outstanding balance at December 31, 2021, of \$650.0 million.

The weighted average interest rate on outstanding borrowings under our revolving credit facility was 1.7% during the nine months ended September 30, 2022, and 0.8% during the nine months ended September 30, 2021. At September 30, 2022, our weighted average interest rate on borrowings outstanding under our revolving credit facility was 1.6%. Our revolving credit facility is subject to various leverage and interest coverage ratio limitations, and at September 30, 2022, we were in compliance with the covenants under our revolving credit facility.

B. *Commercial Paper Programs*

During July 2022, our U.S. Dollar-denominated unsecured commercial paper program was amended to increase the maximum aggregate amount of outstanding notes from \$1.0 billion to \$1.5 billion. Also during July 2022, we established a new Euro-denominated unsecured commercial paper program, which permits us to issue additional

unsecured commercial notes up to a maximum aggregate amount of \$1.5 billion (or foreign currency equivalent), which may be issued in U.S. Dollars or various other foreign currencies, including but not limited to, Euros, Sterling, Swiss Francs, Yen, Canadian Dollars, and Australian Dollars, in each case, pursuant to customary terms in the European commercial paper note market.

The commercial paper ranks on a parity in right of payment with all of our other unsecured senior indebtedness outstanding from time to time, including borrowings under our revolving credit facility, our term loan and our outstanding senior unsecured notes. Proceeds from commercial paper borrowings are used for general corporate purposes.

As of September 30, 2022, the balance of borrowings outstanding under our commercial paper programs was \$723.8 million, including €511.0 million of Euro-denominated borrowings, as compared to \$901.4 million outstanding commercial paper borrowings, consisting entirely of U.S. Dollar-denominated borrowings at December 31, 2021. The weighted average interest rate on outstanding borrowings under our commercial paper programs was 1.3% for the nine months ended September 30, 2022, and 0.2% for the nine months ended September 30, 2021. As of September 30, 2022, our weighted average interest rate on outstanding borrowings under our commercial paper programs was 1.5%. We use our \$4.25 billion revolving credit facility as a liquidity backstop for the repayment of the notes issued under the commercial paper programs. The commercial paper borrowings outstanding at September 30, 2022 have matured and will mature between October 2022 and January 2023.

7. Term Loan

In October 2018, in conjunction with entering into our current revolving credit facility, we entered into a \$250.0 million senior unsecured term loan, which matures in March 2024. Prior to April 2022, borrowing under this term loan bore interest at the current one-month LIBOR, plus 0.85%. In connection with entering into our new unsecured credit facility in April 2022, the previous LIBOR benchmark rate was replaced with daily SOFR, based on a five day lookback period, and, due to our current credit ratings, is not subject to a credit spread adjustment. In conjunction with this term loan, we also entered into an interest rate swap, which was based off the daily SOFR through June 30, 2022. As of September 30, 2022, effective interest rate on this term loan, after giving effect to the interest rate swap, was 3.83%.

At September 30, 2022, deferred financing costs of \$295,000 are included net of the term loan principal balance, as compared to \$443,000 at December 31, 2021, on our consolidated balance sheets. These costs are being amortized over the remaining term of the term loan.

8. Mortgages Payable

During the nine months ended September 30, 2022, we made \$311.1 million in principal payments, including the full repayment of 12 mortgages for \$308.0 million. During the nine months ended September 30, 2021, we made \$56.0 million in principal payments, including the full repayment of six mortgages for \$53.3 million. We assumed eight mortgages on 17 properties totaling \$45.1 million during the nine months ended September 30, 2022, as compared to the assumption of one Sterling-denominated mortgage on one property totaling £31.0 million for the nine months ended September 30, 2021. Assumed mortgages are secured by the properties on which the debt was placed and are considered non-recourse debt with limited customary exceptions which vary from loan to loan.

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 September 30, 2022, 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 \$926,000 at September 30, 2022, and \$790,000 at December 31, 2021. These costs are being amortized over the remaining term of each mortgage.

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The following table summarizes our mortgages payable as of September 30, 2022, and December 31, 2021, 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
9/30/2022	136	4.8 %	3.3 %	1.6	\$ 840,682	\$ 14,681	\$ 855,363
12/31/2021	267	4.8 %	3.5 %	1.8	\$ 1,114,129	\$ 27,866	\$ 1,141,995

⁽¹⁾ At September 30, 2022, there were 18 mortgages on 136 properties. At December 31, 2021, there were 22 mortgages on 267 properties. With the exception of one Sterling-denominated mortgage which is paid quarterly, the mortgages require monthly payments with principal payments due at maturity. At September 30, 2022 and December 31, 2021, all mortgages were at fixed interest rates.

⁽²⁾ Stated interest rates ranged from 3.0% to 6.9% at each of September 30, 2022 and December 31, 2021.

⁽³⁾ Effective interest rates ranged from 2.6% to 6.6% and 2.6% to 6.0% at September 30, 2022 and December 31, 2021, respectively.

The following table summarizes the maturity of mortgages payable, excluding net premiums of \$15.6 million and deferred financing costs of \$926,000 as of September 30, 2022 (dollars in millions):

Year of Maturity	Principal
2022	\$ 1.1
2023	22.0
2024	740.5
2025	39.2
2026	12.0
Thereafter	25.9
Totals	\$ 840.7

9. Notes Payable

A. General

Our senior unsecured notes and bonds are U.S. dollar denominated and Sterling denominated. Foreign denominated notes are converted at the applicable exchange rate on the balance sheet date. The following are sorted by maturity date (in millions):

	Principal Amount (Currency Denomination)	Carrying Value (USD) as of	
		September 30, 2022	December 31, 2021
4.600% notes, \$500 issued February 2014, of which \$485 was exchanged in November 2021, both due in February 2024 ⁽¹⁾	\$ 500	\$ 500	\$ 500
3.875% notes, issued in June 2014 and due in July 2024	\$ 350	350	350
3.875% notes, issued in April 2018 and due in April 2025	\$ 500	500	500
4.625% notes, \$550 issued October 2018, of which \$544 was exchanged in November 2021, both due in November 2025 ⁽¹⁾	\$ 550	550	550
0.750% notes, issued December 2020 and due in March 2026	\$ 325	325	325
4.875% notes, \$600 issued June 2016, of which \$596 was exchanged in November 2021, both due in June 2026 ⁽¹⁾	\$ 600	600	600
4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026	\$ 650	650	650
1.875% notes, issued in January 2022 and due in January 2027	£ 250	279	—
3.000% notes, issued in October 2016 and due in January 2027	\$ 600	600	600
1.125% notes, issued in July 2021 and due in July 2027	£ 400	446	541
3.950% notes, \$600 issued August 2017, of which \$594 was exchanged in November 2021, both due in August 2027 ⁽¹⁾	\$ 600	600	600
3.650% notes, issued in December 2017 and due in January 2028	\$ 550	550	550
3.400% notes, \$600 issued June 2020, of which \$598 was exchanged in November 2021, both due in January 2028 ⁽¹⁾	\$ 600	600	600
2.200% notes, \$500 issued November 2020, of which \$497 was exchanged in November 2021, both due in June 2028 ⁽¹⁾	\$ 500	500	500
3.250% notes, issued in June 2019 and due in June 2029	\$ 500	500	500
3.100% notes, \$600 issued December 2019, of which \$596 was exchanged in November 2021, both due in December 2029 ⁽¹⁾⁽²⁾	\$ 599	599	599
3.160% notes, issued in June 2022 and due in June 2030	£ 140	156	—
1.625% notes, issued in October 2020 and due December 2030	£ 400	446	541
3.250% notes, \$600 issued in May 2020 and \$350 issued in July 2020, both due in January 2031	\$ 950	950	950
3.180% notes, issued in June 2022 and due in June 2032	£ 345	384	—
2.850% notes, \$700 issued November 2020, of which \$699 was exchanged in November 2021, both due in December 2032 ⁽¹⁾	\$ 700	700	700
1.800% notes, issued in December 2020 and due in March 2033	\$ 400	400	400
1.750% notes, issued in July 2021 and due in July 2033	£ 350	390	474
2.730% notes, issued in May 2019 and due in May 2034	£ 315	350	427
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035	\$ 250	250	250
3.390% notes, issued in June 2022 and due in June 2037	£ 115	128	—
2.500% notes, issued in January 2022 and due in January 2042	£ 250	279	—
4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047	\$ 550	550	550
Total principal amount		\$ 13,132	\$ 12,257
Unamortized net premiums and deferred financing costs		184	243
		\$ 13,316	\$ 12,500

⁽¹⁾ Carrying Value (USD) includes the portion of the VEREIT OP notes that remained outstanding, totaling \$39.1 million in the aggregate at each of September 30, 2022, and December 31, 2021, that were not exchanged in the exchange offers commenced by us with respect to the outstanding bonds of VEREIT OP in connection with the consummation of the merger with VEREIT (the "Exchange Offers").

⁽²⁾ These notes were originally issued by VEREIT OP in December of 2019 for the principal amount of \$600 million. The amount of Realty Income debt issued through the Exchange Offers was \$599 million, resulting from cancellations due to late tenders that forfeited the early participation premium of \$30 per \$1,000 principal amount and cash paid in lieu of fractional shares.

The following table summarizes the maturity of our notes and bonds payable as of September 30, 2022, excluding net unamortized premiums of \$241.3 million and deferred financing costs of \$56.6 million (dollars in millions):

Year of Maturity	Principal
2024	\$ 850
2025	1,050
2026	1,575
Thereafter	9,657
Totals	\$ 13,132

As of September 30, 2022, the weighted average interest rate on our notes and bonds payable was 3.3% and the weighted average remaining years until maturity was 7.3 years.

Interest incurred on all of the notes and bonds was \$107.9 million and \$65.8 million for the three months ended September 30, 2022 and September 30, 2021, respectively, and \$314.0 million and \$191.7 million for the nine months ended September 30, 2022 and September 30, 2021, respectively.

Our outstanding notes and bonds are unsecured; accordingly, we have not pledged any assets as collateral for these or any other obligations. Interest on our £400 million of 1.625% senior unsecured notes issued in October 2020, our £400 million of 1.125% senior unsecured notes issued in July 2021, our £350 million of 1.750% senior unsecured notes also issued in July 2021, our £250 million of 1.875% senior unsecured notes issued in January 2022, and £250 million of 2.500% senior unsecured notes also issued in January 2022 is paid annually. Interest on our remaining senior unsecured note and bond obligations is paid semiannually.

All of these notes and bonds contain various covenants, including: (i) a limitation on incurrence of any debt which would cause our debt to total adjusted assets ratio to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause our secured debt to total adjusted assets ratio to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of total unencumbered assets not less than 150% of our outstanding unsecured debt. At September 30, 2022, we were in compliance with these covenants.

B. Note Repayment

In January 2021, we redeemed all \$950.0 million in principal amount of our outstanding 3.250% notes due October 2022, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$46.5 million loss on extinguishment of debt in the consolidated statements of income and comprehensive income for the nine months ended September 30, 2021. There were no comparable repayments for the nine months ended September 30, 2022.

C. Note Issuances

During the nine months ended September 30, 2022 and 2021, we issued the following notes and bonds (in millions):

2022 Issuances	Date of Issuance	Maturity Date	Principal amount used	Price of par value	Effective yield to maturity
1.875% Notes	January 2022	January 2027	£ 250	99.487 %	1.974 %
2.500% Notes	January 2022	January 2042	£ 250	98.445 %	2.584 %
3.160% Notes	June 2022	June 2030	£ 140	100.000 %	3.160 %
3.180% Notes	June 2022	June 2032	£ 345	100.000 %	3.180 %
3.390% Notes	June 2022	June 2037	£ 115	100.000 %	3.390 %

2021 Issuances	Date of Issuance	Maturity Date	Principal amount used	Price of par value	Effective yield to maturity
1.125% Notes	July 2021	July 2027	£ 400	99.305 %	1.242 %
1.750% Notes	July 2021	July 2033	£ 350	99.842 %	1.757 %

The proceeds from each of these offerings were used to repay borrowings outstanding under our credit facility, to fund investment opportunities, and for other general corporate purposes.

In October 2022, we issued \$750.0 million of 5.625% senior unsecured notes due October 2032. See Note 19, *Subsequent Events*.

10. Issuances of Common Stock

A. Issuances of Common Stock in Underwritten Public Offerings

In July 2021, we issued 9,200,000 shares of common stock in an underwritten public offering, including 1,200,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After deducting underwriting discounts of \$2.9 million, the net proceeds of \$594.1 million were primarily used to repay borrowings under our \$1.0 billion commercial paper programs, to fund potential investment opportunities and for other general corporate purposes.

In January 2021, we issued 12,075,000 shares of common stock in an underwritten public offering, including 1,575,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After deducting underwriting discounts of \$19.3 million, the net proceeds of \$669.6 million were used to fund property acquisitions, for general corporate purposes and working capital.

There were no comparative offerings during the nine months ended September 30, 2022.

B. At-the-Market (ATM) Program

In June 2022, we replaced our prior "at-the-market" program, or our prior ATM program, which authorized us to offer and sell up to 69,088,433 shares of common stock, with a new "at-the-market" equity distribution program, or our ATM program, pursuant to which we may offer and sell up to 120,000,000 shares of common stock (1) by us to, or through, a consortium of banks acting as our sales agents or (2) by a consortium of banks acting as forward sellers on behalf of any forward purchasers contemplated thereunder, in each case by means of ordinary brokers' transactions on the New York Stock Exchange ("NYSE: O") at prevailing market prices or at negotiated prices. After deducting 19,995,547 shares sold pursuant to forward sale confirmations that remained open at September 30, 2022, we had 90,471,600 additional shares remaining for future issuance under our ATM program. We anticipate maintaining the availability of our ATM program in the future, including the replenishment of authorized shares issuable thereunder.

The following table outlines common stock issuances pursuant to our ATM programs (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Shares of common stock issued under the ATM program ⁽¹⁾	9,532,853	14,788,822	35,506,034	21,378,420
Gross proceeds	\$ 696.6	\$ 1,032.3	\$ 2,424.1	\$ 1,487.1
Sales agents' commissions	(4.1)	(10.1)	(15.0)	(14.7)
Other offering expenses	(1.1)	(0.6)	(5.0)	(0.9)
Net proceeds	\$ 691.4	\$ 1,021.6	\$ 2,404.1	\$ 1,471.5

⁽¹⁾ During the three and nine months ended September 30, 2022, 9,532,853 and 25,432,825 shares were sold and settled pursuant to forward sale confirmations, respectively. In addition, as of September 30, 2022, 19,995,547 shares of common stock subject to forward sale confirmations have been executed at a weighted average initial price of \$66.70 per share but not settled. Upon settlement, subject to certain exceptions, we may elect, in our sole discretion, to cash settle or net share settle all or any portion of our obligations under any forward sale agreement, in which cases we may not receive any proceeds (in the case of cash settlement) or will not receive any proceeds (in the case of net share settlement), and we may owe cash (in the case of cash settlement) or shares of our common stock (in the case of net share settlement) to the relevant forward purchaser. We currently expect to fully physically settle any forward sale agreement with the respective forward purchaser on one or more dates specified by us on or prior to the maturity date of such forward sale agreement, in which case we expect to receive aggregate net cash proceeds at settlement equal to the number of shares specified in such forward sale agreement multiplied by the relevant forward price per share. We currently expect to fully settle the outstanding forward sale agreements during the three months ended December 31, 2022, representing \$1.3 billion in gross proceeds, for which the weighted average forward price at September 30, 2022 was \$66.43 per share. Our forward sale confirmations are accounted for as equity instruments, as we have determined the agreements meet the derivatives and hedging guidance scope exception. No shares were sold pursuant to forward sale confirmations during the three and nine months ended September 30, 2021.

C. Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSP, 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 DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSP authorizes up to 26,000,000 common shares to be issued. At September 30, 2022, we had 11,207,318 shares remaining for future issuance under our DRSP program.

The following table outlines common stock issuances pursuant to our DRSP program (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Shares of common stock issued under the DRSP program	43,430	41,463	128,061	124,430
Gross proceeds	\$ 3.0	\$ 2.9	\$ 8.7	\$ 8.2

Our DRSP 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 nine months ended September 30, 2022, or 2021.

11. Noncontrolling Interests

There are four entities with noncontrolling interests that we consolidate, including an operating partnership, Realty Income, L.P., a joint venture acquired in 2019, and two development joint ventures, one acquired in 2020 and one acquired in May 2021. The following table represents the change in the carrying value of all noncontrolling interests through September 30, 2022 (dollars in thousands):

	Realty Income, L.P. units ⁽¹⁾	Other Noncontrolling Interests	Total
Carrying value at December 31, 2021	\$ 62,416	\$ 14,410	\$ 76,826
Contributions	51,221	—	51,221
Distributions	(2,623)	(223)	(2,846)
Allocation of net income	1,784	153	1,937
Carrying value at September 30, 2022	\$ 112,798	\$ 14,340	\$ 127,138

⁽¹⁾ 1,795,167 and 1,060,709 units were outstanding as of September 30, 2022 and December 31, 2021, respectively. In September 2022, we issued 734,458 common partnership units in Realty Income, L.P. in connection with the acquisition of nine properties and recorded \$51.2 million of contributions to non-controlling interests.

At September 30, 2022, Realty Income, L.P. and certain of our joint venture investments are considered VIEs in which we were deemed the primary beneficiary based on our controlling financial interests. Below is a summary of selected financial data of consolidated VIEs included on our consolidated balance sheets at September 30, 2022, and December 31, 2021 (in thousands):

	September 30, 2022	December 31, 2021
Net real estate	\$ 787,643	\$ 688,229
Total assets	\$ 900,497	\$ 795,670
Total liabilities	\$ 60,614	\$ 57,057

12. Financial Instruments and Fair Value Measurements

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 exit price).

ASC 820, *Fair Value Measurements and Disclosures*, sets forth a fair value hierarchy that categorizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

- **Level 1 – Unadjusted quoted prices in active markets**
Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.
- **Level 2 – Valuation Technique Using Observable Inputs**
Financial instruments classified as Level 2 are valued using quoted prices for identical instruments in markets that are not considered to be active, or quoted prices for similar assets or liabilities in active markets, or valuation techniques in which all significant inputs are observable or can be corroborated by observable market data for substantially the entire contractual term of the financial asset or liability.
- **Level 3 – Valuation Technique Using Significant Unobservable Inputs**
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the inputs, or other analytical techniques.

We evaluate our hierarchy disclosures each quarter and depending on various factors, it is possible that an asset or liability may be classified differently from period to period. Changes in the type of inputs may result in a reclassification for certain assets. We have not historically had changes in classifications and do not expect that changes in classifications between levels will be frequent.

Financial Instruments Not Measured at Fair Value on the Consolidated Balance Sheets

The fair value of short-term financial instruments such as cash and cash equivalents, accounts receivable, escrow deposits, loans receivable, accounts payable, distributions payable, line of credit payable and commercial paper borrowings, and other liabilities approximate their carrying value in the accompanying consolidated balance sheets, due to their short-term nature. The fair value of our term loan approximates carrying value due to the frequent repricing of the variable interest rate charged on the borrowing, which is based on the daily SOFR. The fair value of our financial instruments not carried at fair value are disclosed as follows (in millions):

September 30, 2022	Carrying value		Estimated fair value
Mortgages payable assumed in connection with acquisitions ⁽¹⁾	\$	840.7	\$ 808.3
Notes and bonds payable ⁽²⁾	\$	13,131.8	\$ 11,331.8

December 31, 2021	Carrying value		Estimated fair value
Mortgages payable assumed in connection with acquisitions ⁽¹⁾	\$	1,114.1	\$ 1,154.7
Notes and bonds payable ⁽²⁾	\$	12,257.3	\$ 13,114.5

⁽¹⁾ Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums was \$15.6 million at September 30, 2022, and \$28.7 million at December 31, 2021. Also excludes deferred financing costs of \$926,000 at September 30, 2022, and \$790,000 at December 31, 2021.

⁽²⁾ Excludes non-cash premiums and discounts recorded on notes payable. The unamortized balance of the net premiums was \$241.3 million at September 30, 2022, and \$295.5 million at December 31, 2021. Also excludes deferred financing costs of \$56.6 million at September 30, 2022, and \$53.1 million at December 31, 2021.

The estimated fair values of our mortgages payable assumed in connection with acquisitions and private senior notes 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 mortgages payable is categorized as level three on the three-level valuation hierarchy.

The estimated fair values of our publicly-traded senior notes and bonds payable are based upon indicative market prices and recent trading activity of our senior notes and bonds payable, including the senior notes and bonds payable assumed in the debt exchange offer on November 9, 2021, in connection with our merger with VEREIT. 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.

Financial Instruments Measured at Fair Value on a Recurring Basis

For derivative assets and liabilities, we may utilize interest rate swaps and forward-starting swaps to manage interest rate risk, and cross-currency swaps, currency exchange swaps, foreign currency forwards and foreign currency collars to manage foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, spot and forward rates, as well as option volatility.

Derivative fair values also include credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within level two on the three-level valuation hierarchy, the credit valuation adjustments associated with our derivatives utilize level three inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by ourselves and our counterparties. However, at September 30, 2022, and December 31, 2021, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we determined that our derivative valuations in their entirety are classified as level two.

Items Measured at Fair Value on a Non-Recurring Basis

Certain financial and nonfinancial assets and liabilities are measured at fair value on a non-recurring basis and are subject to fair value adjustments only under certain circumstances, such as when an impairment write-down occurs.

The following table summarizes our provisions for impairment on real estate investments during the periods indicated below (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Carrying value prior to impairment	\$ 48.1	\$ 35.0	\$ 107.0	\$ 85.7
Less: total provisions for impairment	(1.7)	(11.0)	(16.4)	(31.0)
Carrying value after impairment	<u>\$ 46.4</u>	<u>\$ 24.0</u>	<u>\$ 90.6</u>	<u>\$ 54.7</u>
Number of properties:				
Classified as held for sale	3	—	3	—
Classified as held for investment	—	1	5	7
Sold	20	22	69	57

Derivative Designated as Hedging Instruments

In order to hedge the foreign currency risk associated with interest payments on intercompany loans denominated in British Pound Sterling, or GBP, we initiated a hedging strategy to enter into foreign currency forward contracts to sell GBP and buy U.S. Dollars, or USD. These foreign currency forwards are designated as cash flow hedges. Forward points on the forward contracts are included in the assessment of hedge effectiveness. Amounts reported in other comprehensive income (loss) related to foreign currency derivative contracts will be reclassified to other gain and (loss) in the same period during which the hedged forecasted transactions affect earnings.

In May 2019, we entered into four cross-currency swaps to exchange £130 million Sterling for \$166 million maturing in May 2034, in order to hedge the foreign currency risk associated with our Sterling-denominated intercompany loan receivable from our consolidated foreign subsidiaries. These cross-currency swaps were designated as cash flow hedges on their trade date. In June 2022, following the early prepayment of our Sterling-denominated intercompany loan receivable from our consolidated foreign subsidiaries, we terminated the four cross-currency swaps used to hedge the foreign currency exposure of the intercompany loan. As the hedge relationship was terminated and the future principal and interest associated with the prepaid intercompany loan did not occur, a \$20.0 million gain was reclassified from AOCI to 'Foreign currency and derivative loss, net' during the three months ended June 30, 2022.

As of September 30, 2022, we had one interest rate swap in place on our \$250.0 million unsecured term loan. Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. We designated this interest rate swap as a cash flow hedge in accordance with Topic 815, *Derivatives and Hedging*. This interest rate swap is recorded on the consolidated balances sheets at fair value. Changes to fair value are recorded to accumulated other comprehensive income (loss), or AOCI, and subsequently reclassified into interest expense in the same periods during which the hedged transaction affects earnings. This interest rate swap, which was converted to a SOFR benchmark from LIBOR during June 2022, continues to be accounted for as a cash flow hedge.

The following table summarizes the amount of unrealized gain (loss) on derivatives in other comprehensive income during the periods indicated below (in thousands):

Derivatives in Cash Flow Hedging Relationships	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Currency swaps	\$ —	\$ 6,570	\$ (5,091)	\$ 10,548
Interest rate swaps	30,838	5,701	100,229	33,377
Foreign currency forwards	11,076	4,581	23,920	8,503
Total unrealized gain on derivatives	\$ 41,914	\$ 16,852	\$ 119,058	\$ 52,428

The following table summarizes the amount of gain (loss) on derivatives reclassified from AOCI (in thousands):

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Currency swaps	Foreign currency and derivative gain, net	\$ 2,784	\$ 4,747	\$ 30,425	\$ 3,360
Interest rate swaps	Interest expense	(1,286)	(2,614)	(5,969)	(7,734)
Net increase (decrease) to net income		\$ 1,498	\$ 2,133	\$ 24,456	\$ (4,374)

We expect to reclassify \$10.0 million from AOCI as a decrease to interest expense relating to interest rate swaps and \$15.5 million from AOCI to foreign currency gain relating to foreign currency forwards within the next twelve months.

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency exchange swap agreements to reduce the effects of currency exchange rate fluctuations between the U.S. dollar, our reporting currency, and British Pound Sterling and Euro. These derivative contracts generally mature within one to three months and are not designated as hedge instruments for accounting purposes. As the currency exchange swap is not accounted for as a hedging instrument, the change in fair value is recorded in earnings through the caption entitled 'Foreign currency and derivative loss, net' in the consolidated statements of income and comprehensive income.

The following table details our foreign currency and derivative gains (losses), net included in income (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Realized foreign currency and derivative gain (loss), net:				
Gain on the settlement of undesignated derivatives	\$ 4,050	\$ —	\$ 80,677	\$ —
Gain on the settlement of designated derivatives reclassified from AOCI	2,784	4,747	30,425	3,360
Gain (loss) on the settlement of transactions with third parties	(111)	58	(41)	58
Total realized foreign currency and derivative gain (loss), net	\$ 6,723	\$ 4,805	\$ 111,061	\$ 3,418
Unrealized foreign currency and derivative gain (loss), net:				
Gain (loss) on the change in fair value of undesignated derivatives	\$ (24,488)	\$ —	\$ 35,506	\$ 3,724
Gain (loss) on remeasurement of certain assets and liabilities	(5,128)	(7,179)	(162,570)	(8,312)
Total unrealized foreign currency and derivative loss, net	\$ (29,616)	\$ (7,179)	\$ (127,064)	\$ (4,588)
Total foreign currency and derivative gains (losses), net	\$ (22,893)	\$ (2,374)	\$ (16,003)	\$ (1,170)

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The following table summarizes the terms and fair values of our derivative financial instruments at September 30, 2022, and December 31, 2021 (dollars in millions):

Derivative Type	Number of Instruments ⁽¹⁾	Accounting Classification	Notional Amount as of		Weighted Average Strike Rate ⁽²⁾	Maturity Date ⁽³⁾	Fair Value - asset (liability) as of	
			September 30, 2022	December 31, 2021			September 30, 2022	December 31, 2021
Derivatives Designated as Hedging Instruments								
Interest rate swap	1	Derivative	\$ 250.0	\$ 250.0	2.88%	March 2024	\$ 4.7	\$ (11.9)
Cross-currency swaps ⁽⁴⁾	—	Derivative	—	166.3	—	—	—	(13.8)
Foreign currency forwards	32	Derivative	167.4	176.1	(5)	Oct 2022 - Aug 2024	31.5	7.6
Forward-starting swaps ⁽⁶⁾	4	Derivative	300.0	300.0	1.86%	Nov 2032 - Jun 2033 ⁽⁶⁾	47.0	(3.2)
Forward-starting swaps ⁽⁶⁾	2	Hybrid Debt	200.0	200.0	1.93%	Nov 2032 - Jun 2033 ⁽⁶⁾	26.2	(5.1)
			<u>\$ 917.4</u>	<u>\$ 1,092.4</u>			<u>\$ 109.4</u>	<u>\$ (26.4)</u>
Derivatives not Designated as Hedging Instruments								
Currency exchange swaps ⁽⁷⁾	9	Derivative	2,590.8	1,639.5	(8)	Oct 2022 - Nov 2022	(4.2)	(14.7)
Total of all Derivatives			<u>\$ 3,508.2</u>	<u>\$ 2,731.9</u>			<u>\$ 105.2</u>	<u>\$ (41.1)</u>

⁽¹⁾ This column represents the number of instruments outstanding as of September 30, 2022.

⁽²⁾ Weighted average strike rate is calculated using the current notional value as of September 30, 2022.

⁽³⁾ This column represents maturity dates for instruments outstanding as of September 30, 2022.

⁽⁴⁾ In June 2022, we terminated the four British Pound Sterling, or GBP, cross-currency swaps with a notional amount of \$166.3 million.

⁽⁵⁾ Weighted average forward GBP-USD exchange rate of 1.39.

⁽⁶⁾ There were five treasury rate locks entered into during February 2020 that were terminated in June 2020 and converted into six forward starting interest rate swaps through a cashless settlement. These forward starting interest rate swaps were terminated in connection with a senior unsecured note issuance in October 2022. See Note 19, *Subsequent Events*.

⁽⁷⁾ Represents five GBP currency exchange swaps with a notional amount of \$1.2 billion and four Euro, or EUR, currency exchange swaps with an associated notional amount of \$1.4 billion.

⁽⁸⁾ Weighted average Forward GBP-USD exchange rate of 1.14 and Weighted Average Forward EUR-USD exchange rate of 0.99.

We measure our derivatives at fair value and include the balances within other assets and accounts payable as well as accrued expenses on our consolidated balance sheets.

We have agreements with each of our derivative counterparties containing provisions under which we could be declared in default on our derivative obligations if repayment of our indebtedness is accelerated by the lender due to our default.

We utilize interest rate swaps and forward starting swaps to manage interest rate risk and cross-currency swaps, currency exchange swaps, foreign currency forwards and foreign currency collars to manage foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, spot and forward rates, as well as option volatility.

To comply with the provisions of ASC 820, *Fair Value Measurement*, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

13. Operating Leases

A. At September 30, 2022, we owned 11,733 properties in all 50 U.S. states, Puerto Rico, the U.K. and Spain. Of the 11,733 properties, 11,587, or 98.8%, are single-client properties, and the remaining are multi-client properties. At September 30, 2022, 131 properties were available for lease or sale.

Substantially all of our leases are net leases where our client pays or reimburses us for property taxes and assessments, maintains the interior and exterior of the building and leased premises, and carries insurance coverage for public liability, property damage, fire and extended coverage.

Rent based on a percentage of our client's gross sales, or percentage rent, for the three months ended September 30, 2022, and 2021 was \$2.3 million and \$441,000, respectively. Percentage rents for the nine months ended September 30, 2022 and 2021 were \$8.3 million and \$2.0 million, respectively.

B. Major Clients - No individual client's rental revenue, including percentage rents, represented more than 10% of our total revenue for each of the nine months ended September 30, 2022, and 2021.

14. Distributions Paid and Payable

We pay monthly distributions to our common stockholders. The following is a summary of monthly distributions paid per common share for the nine months ended September 30, 2022, and 2021:

Month	2022	2021
January	\$ 0.2465	\$ 0.2345
February	0.2465	0.2345
March	0.2465	0.2345
April	0.2470	0.2350
May	0.2470	0.2350
June	0.2470	0.2350
July	0.2475	0.2355
August	0.2475	0.2355
September	0.2475	0.2355
Total	<u>\$ 2.2230</u>	<u>\$ 2.1150</u>

At September 30, 2022, a distribution of \$0.2480 per common share was payable and was paid in October 2022.

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.

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Weighted average shares used for the basic net income per share computation	617,511,609	391,913,478	604,463,977	379,291,782
Incremental shares from share-based compensation	355,063	136,923	341,626	117,645
Dilutive effect of forward ATM offerings	90,367	—	30,233	—
Weighted average shares used for diluted net income per share computation	<u>617,957,039</u>	<u>392,050,401</u>	<u>604,835,836</u>	<u>379,409,427</u>
Unvested shares from share based compensation that were anti-dilutive	68,318	91,221	36,950	119,981
Weighted average partnership common units convertible to common shares that were anti-dilutive	1,244,324	463,119	1,122,586	463,119
Weighted average forward ATM offerings that were anti-dilutive	563,295	—	188,455	—

16. Supplemental Disclosures of Cash Flow Information

The following table summarizes our supplemental cash flow information during the periods indicated below (dollars in thousands):

	Nine months ended September 30,	
	2022	2021
Supplemental disclosures:		
Cash paid for interest	\$ 363,518	\$ 229,465
Cash paid for income taxes	\$ 42,225	\$ 9,776
Non-cash activities:		
Net increase in fair value of derivatives	\$ 146,310	\$ 75,279
Mortgages assumed at fair value ⁽¹⁾	\$ 45,079	\$ 43,779
Issuance of common partnership units of Realty Income, L.P. ⁽²⁾	\$ 51,221	\$ —

⁽¹⁾ Represents £31.0 million Sterling, converted at the applicable exchange rate on the date of transaction. Mortgages assumed at fair value entirely consists of one Sterling denominated mortgage for the nine months ended September 30, 2021.

⁽²⁾ In September 2022, we issued 734,458 common partnership units of Realty Income L.P. in connection with the acquisition of nine properties.

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 (dollars in thousands):

	September 30, 2022	September 30, 2021
Cash and cash equivalents shown in the consolidated balance sheets	\$ 187,745	\$ 516,983
Restricted escrow deposits ⁽¹⁾	90,639	28,141
Impounds related to mortgages payable ⁽¹⁾	10,529	974
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 288,913</u>	<u>\$ 546,098</u>

⁽¹⁾ Included within other assets, net on the consolidated balance sheets (see note 4). These amounts consist of cash that we are legally entitled to, but that is not immediately available to us. As a result, these amounts were considered restricted as of the dates presented.

17. Common Stock Incentive Plan

In March 2021, our Board of Directors adopted, and in May 2021, stockholders approved, the Realty Income 2021 Incentive Award Plan, or 2021 Plan. This note should be read in conjunction with the more complete discussion of our 2021 Plan included in note 16 to our consolidated financial statements in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021.

The amount of share-based compensation costs recognized in 'General and administrative' in the consolidated statements of income and comprehensive income was \$5.1 million and \$4.3 million during the three months ended September 30, 2022 and 2021, respectively and \$16.7 million and \$12.5 million during the nine months ended September 30, 2022 and 2021, respectively.

A. *Restricted Stock*

During the nine months ended September 30, 2022, we granted 154,332 shares of common stock under the 2021 Plan. This included 40,000 total shares of restricted stock granted to the independent members of our Board of Directors in connection with our annual awards in May 2022, 20,000 shares of which vested immediately and 20,000 shares of which vest in equal parts over a three-year service period. Our restricted stock awards granted to employees vest in equal parts over a four-year service period.

As of September 30, 2022, the remaining unamortized share-based compensation expense related to restricted stock totaled \$13.0 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 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 nine months ended September 30, 2022, we granted 154,840 performance shares, as well as dividend equivalent rights, to our executive officers. The performance shares are earned based on our Total Shareholder Return (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 nine months ended September 30, 2022, we also granted 24,456 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 September 30, 2022, the remaining share-based compensation expense related to the performance shares and restricted stock units totaled \$20.5 million. The fair value of the performance shares was 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 expense amortization period for restricted stock units is the lesser of the four-year service period or the period over which the awardee reaches the qualifying retirement age. For employees who have already met the qualifying retirement age, restricted stock units are fully expensed at the grant date.

C. *Stock Options*

We did not grant any stock options during the nine months ended September 30, 2022. During the nine months ended September 30, 2022, we recorded \$47,000 of expense related to stock options. There was no comparable expense for the nine months ended September 30, 2021. As of September 30, 2022, there was no unamortized expense relating to our outstanding stock options.

18. 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 September 30, 2022, we had commitments of \$22.3 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements. In addition, as of September 30, 2022, we had committed \$764.9 million

under construction contracts related to development projects, which have estimated rental revenue commencement dates between October 2022 and May 2024.

19. Subsequent Events

A. Dividends

In October 2022, we declared a dividend of \$0.2480 per share to our common stockholders, which will be paid in November 2022.

B. Note Issuance

In October 2022, we issued \$750.0 million of 5.625% senior unsecured notes due October 2032 (the "October 2032 Notes"). The public offering price for the October 2032 Notes was 99.879% of the principal amount for an effective semi-annual yield to maturity of 5.641%.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of 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, without limitation, discussions of our business, portfolio, strategy, plans and intentions and statements regarding estimated or future operations and results of operations, financial condition or prospects (including, without limitation, estimated and future funds from operations (“FFO”), adjusted funds from operations (“AFFO”) and normalized and adjusted FFO and net income, estimated initial weighted average contractual lease rates, estimated square footage of properties under development or expansion, the timing, prices and other terms of potential or planned acquisitions or dispositions, statements regarding initial cash lease yields on or percentages of investment grade clients that are lessees of properties that we have acquired or intend or agreed to acquire or that are under development or expansion, client bankruptcies, statements regarding the payment, dependability and amount of and potential increases in future common stock dividends, statements regarding future cash flow or cash generation, capital raising, settlement of shares of common stock sold pursuant to forward sale confirmations under our ATM program, statements regarding our ability to meet our liquidity needs, and statements regarding the anticipated or projected impact of our merger with VEREIT on our business, results of operations, financial condition or prospects). Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our access to capital and other sources of funding;
- 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-client properties;
- Future expenditures for development projects;
- The impact of the COVID-19 pandemic, or future pandemics, on us, our business, our clients (including those in the theater industry), or the economy generally; and
- The uncertainties regarding whether the anticipated benefits or results of our merger with VEREIT will be achieved.

Future events and actual results, financial and otherwise, may differ materially from the results discussed in or implied by the forward-looking statements. In particular, forward-looking statements regarding estimated or future results of operations or financial condition, estimated or future acquisitions or dispositions of properties, or the estimated or potential impact of the merger are based upon numerous assumptions and estimates and are inherently subject to substantial uncertainties and actual results of operations, financial condition, property acquisitions or dispositions, and the impacts of the merger may differ materially from those expressed or implied in the forward-looking statements, particularly if actual events differ from those reflected in the estimates and assumptions upon which such forward-looking statements are based. Some of the factors that could cause actual results to differ materially are:

- Our continued qualification as a real estate investment trust;
- General domestic and foreign business and economic conditions;
- Competition;
- Fluctuating interest and currency 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 our clients' defaults under leases, 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 income tax laws and rates;

- The continued evolution of the COVID-19 pandemic and the measures taken to limit its spread, and its impacts on us, our business, our clients (including those in the theater industry), or the economy generally;
- The timing and pace of reopening efforts at the local, state and national level in response to the COVID-19 pandemic and developments, such as the unexpected surges in COVID-19 cases, that cause a delay in or postponement of reopenings;
- The outcome of any legal proceedings to which we are a party, or which may occur in the future;
- Acts of terrorism and war; and
- Any effects of uncertainties regarding whether the anticipated benefits or results of our merger with VEREIT will be achieved.

Additional factors that may cause future events and actual results, financial or otherwise, to differ, potentially materially, from those discussed in or implied by the forward-looking statements 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, 2021.

Readers are cautioned not to place undue reliance on forward-looking statements. Those forward-looking statements are not guarantees of future performance and 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 and member of the S&P 500 Dividend Aristocrats[®] index for having increased its dividend every year for over 25 consecutive years. We invest in people and places to deliver dependable monthly dividends that increase over time. The Company is structured as a real estate investment trust ("REIT"), requiring us annually to distribute at least 90% of our 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 our commercial clients.

Realty Income was founded in 1969 and listed on the New York Stock Exchange (NYSE: O) in 1994. Over the past 53 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term net lease agreements with our commercial clients.

At September 30, 2022, we owned a diversified portfolio:

- Consisting of 11,733 properties;
- With an occupancy rate of 98.9%⁽¹⁾, or 11,602 properties leased and 131 properties available for lease or sale;
- With clients doing business in 79 separate industries;
- Located in all 50 U.S. states, Puerto Rico, the United Kingdom (U.K.) and Spain;
- With approximately 225.7 million square feet of leasable space;
- With a weighted average remaining lease term (excluding rights to extend a lease at the option of the client) of approximately 8.8 years; and
- With an average leasable space per property of approximately 19,230 square feet; approximately 13,100 square feet per retail property and approximately 235,790 square feet per industrial property.

⁽¹⁾Excludes four properties with ancillary leases only, such as cell towers and billboards.

Of the 11,733 properties in the portfolio at September 30, 2022, 11,587, or 98.8%, are single-client properties, of which 11,457 were leased, and the remaining are multi-client properties.

Unless otherwise specified, references to rental revenue in the Management's Discussion and Analysis of Financial Condition and Results of Operations are exclusive of reimbursements from clients for recoverable real estate taxes and operating expenses totaling \$44.1 million and \$23.9 million for the three months ended September 30, 2022 and 2021, respectively, and \$129.0 million and \$69.1 million for the nine months ended September 30, 2022 and 2021, respectively. Rental revenue during the three and nine months ended September 30, 2021 excludes the impact of the mergers, which occurred on November 1, 2021.

Investment Philosophy

We believe that owning an actively managed, diversified portfolio of commercial properties under long-term, net lease agreements produces consistent and predictable income. A net lease typically requires the client to be responsible for monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, clients of our properties typically pay rent increases based on: (1) fixed increases, (2) increases tied to inflation (typically subject to ceilings), or (3) additional rent calculated as a percentage of the clients' gross sales above a specified level. We believe that a portfolio of properties under long-term net lease agreements with our commercial clients 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 client, industry, geography, and 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 September 30, 2022, consisted of 11,733 properties located in all 50 U.S. states, Puerto Rico, the U.K. and Spain, and doing business in 79 industries. None of the 79 industries represented in our property portfolio accounted for more than 9.0% of our annualized contractual rent as of September 30, 2022.

As we look to continue to expand geographically across Europe, we hope to partner with new multinational clients that seek a real estate partner with an expanding geographic footprint.

Investment Strategy

We seek to invest in high-quality real estate that our clients consider important to the successful operation of their businesses. We generally seek to acquire commercial real estate that has some or all of the following characteristics:

- Properties in markets or locations important to our clients;
- Properties that we deem to be profitable for our clients (e.g., retail stores or revenue generating sites);
- Properties with strong demographic attributes relative to the specific business drivers of our clients;
- Properties with real estate valuations that approximate replacement costs;
- Properties with rental or lease payments that approximate market rents for similar properties;
- 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;
- Properties that leverage relationships with clients, sellers, investors, or developers as part of a long-term strategy; and
- Properties that leverage our proprietary insights, including predictive analytics (e.g., through the selection of locations and geographic markets we expect to remain strong or strengthen in the future).

We typically seek to invest in properties owned or leased by clients that are already or could become leaders in their respective businesses supported by mechanisms including (but not limited to) occupancy of prime real estate locations, pricing, merchandise assortment, service, quality, economies of scale, consumer branding, e-commerce, and advertising. In addition, we frequently acquire large portfolios of properties net leased to different clients operating in a variety of industries. We have an internal team dedicated to sourcing such opportunities, often using our relationships with various clients, 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, clients, 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 generally look for clients with the following attributes:

- Reliable and sustainable cash flow, including demonstrated economic resiliency;
- Revenue and cash flow from multiple sources;
- Are willing to sign a long-term lease (10 or more years); and
- Are large owners and users of real estate.

From a retail perspective, our investment strategy is to target clients that have a service, non-discretionary, and/or low-price-point component to their business. Our investments are usually with clients who have demonstrated resiliency to e-commerce or have a strong omni channel retail strategy, uniting brick-and-mortar and mobile browsing, both of which reflect the continued importance of last mile retail, the movement of goods to their final destination, real estate as part of a customer experience and supply chain strategy. Our overall investments

(including last mile retail) are driven by an optimal portfolio strategy that, among other considerations, targets allocation ranges by asset class and industry. We review our strategy periodically and stress test our portfolio in a variety of positive and negative economic scenarios to ensure we deliver consistent earnings growth and value creation across economic cycles. As a result of the execution of this strategy, approximately 93% of our annualized retail contractual rent on September 30, 2022, is derived from our clients 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 industry leaders, the majority of which are investment grade rated companies. We believe these characteristics enhance the stability of the rental revenue generated from these properties.

After applying this investment strategy, we pursue those transactions where we believe we can achieve an attractive investment spread over our cost of capital and favorable risk-adjusted returns. We will continue to evaluate all investments for consistency with our objective of owning net lease assets.

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, client (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 clients' business.

We believe the principal financial obligations for most of our clients typically include their bank and other debt, payment obligations to employees, suppliers, and real estate lease obligations. Because we typically own the land and building in which a client conducts its business or which are critical to the client's ability to generate revenue, we believe the risk of default on a client's lease obligation is less than the client's unsecured general obligations. It has been our experience that clients must retain their profitable and critical locations in order to survive. Therefore, in the event of reorganization, we believe 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 client in the event of reorganization. If a property is rejected by our client during reorganization, we own the property and can either lease it to a new client 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 our clients' individual locations and considering whether to proactively sell locations that meet our criteria for disposition.

We conduct comprehensive reviews of the business segments and industries in which our clients operate. Prior to entering into any transaction, our research department conducts a review of a client'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 client, and continue to monitor our clients' credit quality on an ongoing basis by reviewing the available information previously discussed, and providing summaries of these findings to management.

At September 30, 2022, approximately 42.7% of our total portfolio annualized contractual rent comes from properties leased to our investment grade clients, their subsidiaries or affiliated companies. At September 30, 2022, our top 20 clients (based on percentage of total portfolio annualized contractual rent) represented approximately 41.3% of our annualized rent and 12 of these clients have investment grade credit ratings or are subsidiaries or affiliates of investment grade companies.

Asset Management Strategy

In addition to pursuing new properties for investment, we seek to increase earnings and dividends through active asset management.

Generally, our asset management efforts seek to achieve:

- Rent increases at the expiration of existing leases, when market conditions permit;
- Optimum exposure to certain clients, 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.

We continually monitor our portfolio for any changes that could affect the performance of our clients, our clients' 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 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 client, industry, or geographic concentration.

The active management of the portfolio is an essential component of our long-term strategy of maintaining high occupancy.

Impact of Real Estate and Credit Markets

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, during certain periods, including the current market, the global 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 global 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 53-year policy of paying monthly dividends. In addition, we increased the dividend four times during 2022. As of October 2022, we have paid 100 consecutive quarterly dividend increases and increased the dividend 117 times since our listing on the NYSE in 1994.

The following table summarizes our dividend increases in 2022:

2022 Dividend increases	Month Declared	Month Paid	Dividend per share	Increase per share
1st increase	Dec 2021	Jan 2022	\$0.2465	\$0.0005
2nd increase	Mar 2022	Apr 2022	\$0.2470	\$0.0005
3rd increase	Jun 2022	Jul 2022	\$0.2475	\$0.0005
4th increase	Sep 2022	Oct 2022	\$0.2480	\$0.0005

The dividends paid per share during the nine months ended September 30, 2022, totaled approximately \$2.2230, as compared to approximately \$2.1150 during the nine months ended September 30, 2021, an increase of \$0.1080, or 5.1%.

The monthly dividend of \$0.2480 per share represents a current annualized dividend of \$2.9760 per share, and an annualized dividend yield of approximately 5.1% based on the last reported sale price of our common stock on the NYSE of \$58.20 on September 30, 2022. 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 Three and Nine Months Ended September 30, 2022

Below is a listing of our acquisitions in the U.S. and Europe for the periods indicated below:

	Number of Properties	Leasable Square Feet (in thousands)	Investment (\$ in millions)	Weighted Average Lease Term (Years)	Initial Weighted Average Cash Lease Yield ⁽¹⁾
Three months ended September 30, 2022⁽²⁾					
Acquisitions - U.S.	272	3,845	\$ 1,131.6	16.5	6.1 %
Acquisitions - Europe	27	3,512	587.4	8.8	6.2 %
Total acquisitions	299	7,357	\$ 1,719.0	13.9	6.2 %
Properties under development ⁽³⁾	76	1,758	148.5	15.1	5.6 %
Total ⁽⁴⁾	375	9,115	\$ 1,867.5	14.0	6.1 %
Nine months ended September 30, 2022⁽²⁾					
Acquisitions - U.S.	561	9,396	\$ 2,623.6	15.1	5.9 %
Acquisitions - Europe	78	8,904	2,058.6	8.9	5.8 %
Total acquisitions	639	18,300	\$ 4,682.2	12.5	5.9 %
Properties under development ⁽³⁾	127	3,201	416.4	15.6	5.6 %
Total ⁽⁵⁾	766	21,501	\$ 5,098.6	12.7	5.8 %

⁽¹⁾ The initial weighted average cash lease yield for a property is generally computed as estimated contractual first year cash net operating income, which, in the case of a net leased property, is equal to the aggregate cash base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a client 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. Contractual net operating income used in the calculation of initial weighted average cash yield includes approximately \$1.2 million and \$8.0 million, received as settlement credits as reimbursement of free rent periods for the three and nine months ended September 30, 2022, respectively.

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 initial average cash lease yield is computed as follows: estimated cash 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.

⁽²⁾ None of our investments during the three and nine months ended September 30, 2022, caused any one client to be 10% or more of our total assets at September 30, 2022.

⁽³⁾ Includes five U.K. development properties that represent investments of £21.7 million and £36.6 million Sterling during the three and nine months ended September 30, 2022, respectively, converted at the applicable exchange rate on the funding date.

⁽⁴⁾ Our clients occupying the new properties are 95.7% retail, 4.1% industrial and 0.2% other property types, based on rental revenue. Approximately 27% of the rental revenue generated from acquisitions during the three months ended September 30, 2022, is from our investment grade rated clients, their subsidiaries or affiliated companies.

⁽⁵⁾ Our clients occupying the new properties are 90.6% retail, 9.3% industrial and 0.1% other property types, based on rental revenue. Approximately 30% of the rental revenue generated from acquisitions during the nine months ended September 30, 2022, is from our investment grade rated clients, their subsidiaries or affiliated companies.

Announcement of Transaction with Wynn Resorts

In February 2022, we announced that we had signed a definitive agreement with Wynn Resorts, Limited to acquire the Encore Boston Harbor Resort and Casino for \$1.7 billion under a long-term net lease agreement. This sale-leaseback transaction, which is expected to close in the fourth quarter of 2022, is expected to be executed at a 5.9% initial weighted average cash lease yield and includes an initial lease term of 30 years with annual rent growth of 1.75% for the first ten years and the greater of 1.75% or CPI (capped at 2.5%) over the remaining lease term. The lease also includes an additional 30-year option to renew upon expiration. This transaction is subject to numerous uncertainties, including various closing conditions, and there can be no assurance that the transaction will be consummated on the terms or timetable currently contemplated, or at all.

Theater Industry Update

For the third quarter 2022, we collected approximately 85% of the contractual rent⁽¹⁾ across our theater portfolio as Cineworld Group plc ("Cineworld"), the parent entity of the entities that lease certain of our theater properties, including Regal Cinemas, commenced Chapter 11 reorganization proceedings during the month of September 2022 and, as is customary in this jurisdiction pursuant to the proceedings of the bankruptcy court, was not yet required to pay rent for the month of September. However, for the month of October 2022, we have collected all of the contractual rent across our theater portfolio.

As of September 2022, we had cumulative reserves of \$23.5 million on properties leased to Cineworld and its affiliates. These reserves, representing a reduction of rental revenue, primarily relate to contractual rent and expense recoveries recorded during the COVID-19 pandemic in 2020 and exclude straight-line rent reserves. Total receivables from Cineworld and its affiliates were \$31.0 million at September 30, 2022, net of reserves and excluding straight line rent receivables, and include both deferred contractual rent and deferred expense recoveries.

⁽¹⁾We define contractual rent as the monthly aggregate cash amount charged to clients, inclusive of monthly base rent receivables. Charged amounts have not been adjusted for any COVID-19 related rent relief granted and includes contractual rent from any clients in bankruptcy.

Portfolio Discussion

Leasing Results

At September 30, 2022, we had 131 properties available for lease out of 11,733 properties in our portfolio, representing a 98.9% occupancy rate based on the number of properties in the portfolio. Our property-level occupancy rate at September 30, 2022 excludes four properties with ancillary leases only, such as cell towers and billboards.

Below is a summary of our portfolio activity for the periods indicated below:

Three months ended September 30, 2022

Properties available for lease at June 30, 2022	132
Lease expirations ⁽¹⁾	181
Re-leases to same client	(147)
Re-leases to new client	(8)
Vacant dispositions	(27)
Properties available for lease at September 30, 2022	131

Nine months ended September 30, 2022

Properties available for lease at December 31, 2021	164
Lease expirations ⁽¹⁾	534
Re-leases to same client	(420)
Re-leases to new client	(25)
Vacant dispositions	(122)
Properties available for lease at September 30, 2022	131

⁽¹⁾ Includes scheduled and unscheduled expirations (including leases rejected in bankruptcy), as well as future expirations resolved in the periods indicated above.

During the three months ended September 30, 2022, the annual new rent on re-leases was \$33.36 million, as compared to the previous annual rent of \$30.75 million on the same units, representing a rent recapture rate of 108.5% on the units re-leased. We re-leased five units to new clients without a period of vacancy, and six units to new clients after a period of vacancy.

During the nine months ended September 30, 2022, the annual new rent on re-leases was \$100.57 million, as compared to the previous annual rent of \$94.22 million on the same units, representing a rent recapture rate of 106.7% on the units re-leased. We re-leased 12 units to new clients without a period of vacancy, and 25 units to new clients after a period of vacancy.

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 rent concessions to our clients. We do not consider the collective impact of the leasing commissions or rent concessions to our clients to be material to our financial position or results of operations.

At September 30, 2022, our average annualized contractual rent was approximately \$14.06 per square foot on the 11,602 leased properties in our portfolio. At September 30, 2022, we classified 24 properties, with a carrying amount of \$18.3 million, as real estate and lease intangibles held for sale, net 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.

Investments in Existing Properties

During the three months ended September 30, 2022, we capitalized costs of \$32.8 million on existing properties in our portfolio, consisting of \$685,000 for re-leasing costs, \$273,000 for recurring capital expenditures, and \$31.8 million for non-recurring building improvements. During the nine months ended September 30, 2022, we capitalized costs of \$70.6 million on existing properties in our portfolio, consisting of \$3.9 million re-leasing costs, \$3.0 million for recurring capital expenditures, and \$63.7 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, credit worthiness of our clients, the lease term and the willingness of our clients 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.

Sale of Unconsolidated Joint Ventures

During July 2022, all seven of the properties owned by our industrial partnerships acquired in connection with the VEREIT merger were sold. The gross purchase price for the properties was \$905.0 million and we collected \$113.5 million of net proceeds (after mortgage defeasance and closing costs) during the three months ended September 30, 2022, representing our proportionate share of partnership distributions.

Equity Capital Raising

In June 2022, we replaced our prior ATM program, which authorized us to offer and sell up to 69,088,433 shares of common stock, with a new equity distribution program, pursuant to which we may offer and sell up to 120,000,000 shares of common stock (1) by us to, or through, a consortium of banks acting as our sales agents or (2) by a consortium of banks acting as forward sellers on behalf of any forward purchasers contemplated thereunder, in each case by means of ordinary brokers' transactions on the NYSE at prevailing market prices or at negotiated prices.

During the three and nine months ended September 30, 2022, we raised \$0.7 billion and \$2.4 billion of gross proceeds from the sale of common stock, respectively, at a weighted average price of \$73.05 and \$68.27 per share, respectively, primarily through proceeds from the sale of common stock through our ATM programs. The ATM program issuances during the three and nine months ended September 30, 2022 included 9,532,853 and 25,432,825 shares issued pursuant to forward sale confirmations, respectively. As of September 30, 2022, 19,995,547 shares of common stock subject to forward sale confirmations have been executed but not settled.

Note Issuances

In October 2022, we issued \$750.0 million of 5.625% senior unsecured notes due October 2032 (the "October 2032 Notes"). The public offering price for the October 2032 notes was 99.879% of the principal amount for an effective semi-annual yield to maturity of 5.641%.

In June 2022, we closed on the previously announced private placement of £600.0 million of senior unsecured notes, which included £140.0 million of notes due 2030, £345.0 million of notes due 2032, and £115.0 million of notes due 2037. The combined notes have a weighted average tenor of approximately 10.5 years, and a weighted average fixed interest rate of 3.22%.

In January 2022, we issued £250.0 million of 1.875% senior unsecured notes due January 2027 (the "January 2027 Notes") and £250.0 million of 2.500% senior unsecured notes due January 2042 (the "January 2042 Notes"). The public offering price for the January 2027 Notes was 99.487% of the principal amount, for an effective semi-annual yield to maturity of 1.974%, and the public offering price for the January 2042 Notes was 98.445% of the principal amount, for an effective semi-annual yield to maturity of 2.584%. Combined, the new issues of the January 2027 Notes and the January 2042 Notes have a weighted average term of approximately 12.5 years and a weighted average effective semi-annual yield to maturity of approximately 2.28%.

New, Expanded Revolving Credit Facility

In April 2022, we entered a new \$4.25 billion unsecured credit facility to amend and restate our previous \$3.0 billion unsecured credit facility, which was due to expire in March 2023. The new revolving credit facility matures in June 2026 and includes two six-month extensions that can be exercised at our option. Similar to our previous revolving credit facility, the new revolving credit facility also has a \$1.0 billion expansion feature, which is subject to obtaining lender commitments. As of September 30, 2022, the balance of borrowings outstanding under our new revolving credit facility was \$1.2 billion, and we had a cash balance of \$187.7 million.

Expansion of Commercial Paper Programs

During July 2022, our U.S. Dollar-denominated unsecured commercial paper program was amended to increase the maximum aggregate amount of outstanding notes from \$1.0 billion to \$1.5 billion. We also established a new Euro-denominated unsecured commercial paper program, which permits us to issue additional unsecured commercial notes up to a maximum aggregate amount of \$1.5 billion (or foreign currency equivalent), which may be issued in U.S. Dollars or various other foreign currencies, including but not limited to, Euros, Sterling, Swiss Francs, Yen, Canadian Dollars, and Australian Dollars, in each case, pursuant to customary terms in the European commercial paper note market. The notes offered under our European commercial paper program will rank *pari passu* with all of our other unsecured senior indebtedness, including borrowings under our revolving credit facility and our term loan, and our outstanding senior notes, including under our U.S. Dollar-denominated commercial paper programs. We use our unsecured revolving credit facility as a liquidity backstop for the repayment of the notes issued under these programs.

Select Financial Results

The following summarizes our select financial results (dollars in millions, except per share data).

	Three months ended September 30,		Nine months ended September 30,		% Increase	
	2022	2021	2022	2021	Three months	Nine Months
Total revenue	\$ 837.3	\$ 489.9	\$ 2,455.0	\$ 1,395.4	70.9 %	75.9 %
Net income available to common stockholders ⁽¹⁾	\$ 219.6	\$ 135.0	\$ 642.1	\$ 355.4	62.7 %	80.7 %
Net income per share ⁽²⁾	\$ 0.36	\$ 0.34	\$ 1.06	\$ 0.94	5.9 %	12.8 %
Funds from operations available to common stockholders ("FFO")	\$ 597.2	\$ 332.3	\$ 1,807.4	\$ 914.4	79.7 %	97.7 %
FFO per share ⁽²⁾	\$ 0.97	\$ 0.85	\$ 2.99	\$ 2.41	14.1 %	24.1 %
Normalized funds from operations available to common stockholders ("Normalized FFO")	\$ 600.9	\$ 349.1	\$ 1,820.4	\$ 944.5	72.1 %	92.7 %
Normalized FFO per share ⁽²⁾	\$ 0.97	\$ 0.89	\$ 3.01	\$ 2.49	9.0 %	20.9 %
Adjusted funds from operations available to common stockholders ("AFFO")	\$ 603.6	\$ 356.8	\$ 1,767.4	\$ 1,002.7	69.2 %	76.3 %
AFFO per share ⁽²⁾	\$ 0.98	\$ 0.91	\$ 2.92	\$ 2.64	7.7 %	10.6 %

⁽¹⁾ The calculation to determine net income available to common stockholders includes provisions for impairment, gain from the sale of real estate, and foreign currency gain and loss. These items can vary from quarter to quarter and can significantly impact net income available to common stockholders and period to period comparisons.

⁽²⁾ All per share amounts are presented on a diluted per common share basis.

Our financial results during the three and nine months ended September 30, 2022 were impacted by the following transactions: (i) merger and integration-related costs related to our merger with VEREIT of \$3.7 million and \$13.0 million, respectively, and (ii) \$1.7 million and \$16.4 million of provisions for impairment, respectively. Our financial results during the three and nine months ended September 30, 2021 were impacted by the following transactions: (i) a \$50.5 million loss on extinguishment of debt primarily due to the January 2021 early redemption of the 3.250% notes due October 2022 recorded in the three months ended March 31, 2021, (ii) merger and integration-related costs related to our merger with VEREIT of \$16.8 million and \$30.1 million, respectively, and (iii) \$11.0 million and \$31.0 million of provisions for impairment, respectively.

See our discussion of FFO, Normalized 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 Normalized FFO, and AFFO.

LIQUIDITY AND CAPITAL RESOURCES

Capital Philosophy

Historically, we have met our long-term capital needs by issuing common stock, long-term unsecured notes and bonds, term loans under our revolving credit facility, and preferred stock. Over the long term, we believe that common stock should be the majority of our capital structure; however, we may also raise funds from debt or other equity 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 revolving credit facility, commercial paper programs, 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 stockholders, primarily through cash provided by operating activities, borrowings on our credit facility and under our commercial paper programs and through public securities offerings. As of September 30, 2022, there are approximately \$1.3 billion of obligations becoming due through the remainder of 2022, which we expect to fund through a combination of cash flows from operations, issuances of common stock or debt, and additional borrowings under our revolving credit facility and rolling over borrowings under our commercial paper programs.

We may choose to mitigate our financial exposure to exchange rate risk for properties acquired outside the U.S. through the issuance of debt securities denominated in the same local currency and through currency derivatives. We may leave a portion of our foreign cash flow unhedged to reinvest in additional properties in the same local currency.

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 September 30, 2022, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable, revolving credit facility and commercial paper were \$16.14 billion, or approximately 30.6% of our total market capitalization of \$52.75 billion.

We define our total market capitalization at September 30, 2022, as the sum of:

- Shares of our common stock outstanding of 627,145,827, plus total common units outstanding of 1,795,167, multiplied by the last reported sales price of our common stock on the NYSE of \$58.20 per share on September 30, 2022, or \$36.60 billion;
- Outstanding borrowings of \$1.2 billion on our revolving credit facility, comprised entirely of Euro borrowings;
- Outstanding borrowings of \$723.8 million on our commercial paper programs, including €511.0 million of Euro-denominated borrowings;
- Outstanding mortgages payable of \$840.7 million, excluding net mortgage premiums of \$15.6 million and deferred financing costs of \$926,000;
- Outstanding borrowings of \$250.0 million on our term loan, excluding deferred financing costs of \$295,000; and
- Outstanding senior unsecured notes and bonds of \$13.1 billion, including Sterling-denominated notes of £2.57 billion, and excluding unamortized net premiums of \$241.3 million and deferred financing costs of \$56.6 million.

Universal Shelf Registration

In June 2021, we filed a shelf registration statement with the SEC, which is effective for a term of three years and will expire in June 2024. 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) depository shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities, common stock, preferred stock, or depository 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") Program

Under our ATM program, up to 120,000,000 shares of common stock may be offered and sold (1) by us to, or through, a consortium of banks acting as our sales agents or (2) by a consortium of banks acting as forward sellers on behalf of any forward purchasers contemplated thereunder, in each case by means of ordinary brokers' transactions on the NYSE at prevailing market prices or at negotiated prices. Our ATM program replaced our prior ATM program in June 2022, which previously authorized us to offer and sell up to 69,088,433 shares of common stock. Upon settlement, subject to certain exceptions, we may elect, in our sole discretion, to cash settle or net share settle all or any portion of our obligations under any forward sale agreement, in which cases we may not receive any proceeds (in the case of cash settlement) or will not receive any proceeds (in the case of net share settlement), and we may owe cash (in the case of cash settlement) or shares of our common stock (in the case of net share settlement) to the relevant forward purchaser. We currently expect to fully physically cash settle any forward sale agreement with the respective forward purchaser on one or more dates specified by us on or prior to the maturity date of such forward sale agreement, in which case we expect to receive aggregate net cash proceeds at settlement equal to the number of shares specified in such forward sale agreement multiplied by the relevant forward price per share. During the three months ended September 30, 2022, we issued 9,532,853 shares, which were sold pursuant to forward sale confirmations, and raised approximately \$696.6 million of gross proceeds under the ATM program. During the nine months ended September 30, 2022, we issued 35,506,034 shares and raised approximately \$2.42 billion of gross proceeds under the ATM programs. With respect to forward sales pursuant to our ATM program, we do not initially receive any proceeds from any sale of shares of our common stock borrowed by a forward purchaser and sold through a forward seller. As of September 30, 2022, there were 19,995,547 shares of common stock underlying the outstanding forward sale agreements under our ATM program with a weighted average initial price of \$66.70 per share as of September 30, 2022, representing approximately \$1.3 billion in gross proceeds assuming full physical settlement of all outstanding shares of common stock subject to such forward sale agreements and certain assumptions made with respect to settlement dates. The weighted average forward price at September 30, 2022 was \$66.43 per share, after price deduction and adjustments. After deducting the 20.0 million shares sold pursuant forward sale confirmations that remained outstanding as of September 30, 2022, we had 90,471,600 shares remaining for future issuance under our ATM program. We anticipate maintaining the availability of our ATM program in the future, including the replenishment of authorized shares issuable thereunder.

Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSP, 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 DRSP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSP authorizes up to 26,000,000 common shares to be issued. Our DRSP 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 nine months ended September 30, 2022. During the three months ended September 30, 2022, we issued 43,430 shares and raised approximately \$3.0 million under our DRSP. During the nine months ended September 30, 2022, we issued 128,061 shares and raised approximately \$8.7 million under our DRSP. At September 30, 2022, we had 11,207,318 shares remaining for future issuance under our DRSP program.

Revolving Credit Facility

In April 2022, we entered a new \$4.25 billion unsecured revolving credit facility to amend and restate our previous \$3.0 billion unsecured revolving credit facility, which was due to expire in March 2023. This new multicurrency credit facility matures in June 2026, includes two six-month extensions that can be exercised at our option and allows us to borrow in up to 14 currencies, including U.S. dollars. Similar to our previous credit facility, our new revolving credit facility also has a \$1.0 billion expansion feature, which is subject to obtaining lender commitments. Under the new revolving credit facility, our current investment grade credit ratings provide for financing on U.S. Dollar borrowings at the Secured Overnight Financing Rate ("SOFR"), plus 0.725% with a SOFR adjustment charge of 0.10% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.95% over SOFR and British Pound Sterling at the Sterling Overnight Indexed Average ("SONIA"), plus 0.725% with a SONIA adjustment charge of 0.0326% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.8826% over SONIA.

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 in different currencies as well. Our new credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At September 30, 2022, we had a borrowing capacity of \$3.05 billion available on our revolving credit facility and an \$1.2 billion outstanding balance. The weighted average interest rate on borrowings under our revolving credit facility during the nine months ended September 30, 2022, was 1.7% per annum. We must comply with various financial and other covenants in our credit facility. At September 30, 2022, 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.

Commercial Paper Programs

During July 2022, our U.S. Dollar-denominated unsecured commercial paper program was amended to increase the maximum aggregate amount of outstanding notes from \$1.0 billion to \$1.5 billion. We also established a new Euro-denominated unsecured commercial paper program, which permits us to issue additional unsecured commercial notes up to a maximum aggregate amount of \$1.5 billion (or foreign currency equivalent), which may be issued in U.S. Dollars or various other foreign currencies, including but not limited to, Euros, Sterling, Swiss Francs, Yen, Canadian Dollars, and Australian Dollars, in each case, pursuant to customary terms in the European commercial paper note market. At September 30, 2022, we had an outstanding balance of \$723.8 million, including €511.0 million of Euro-denominated borrowings. The weighted average interest rate on borrowings under our commercial paper programs was 1.3% for the nine months ended September 30, 2022. We use our \$4.25 billion revolving credit facility as a liquidity backstop for the repayment of the notes issued under the commercial paper programs.

The commercial paper borrowings outstanding at September 30, 2022 have matured and will mature between October 2022 and January 2023. We generally use our credit facility and commercial paper borrowings 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 more permanent financing, including the issuance of equity 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 commercial paper programs and may seek to extend, renew or replace our credit facility and commercial paper programs, to the extent we deem appropriate.

Term Loan

In October 2018, in conjunction with entering into our current revolving credit facility, we entered into a \$250.0 million senior unsecured term loan, which matures in March 2024. Prior to April 2022, borrowing under this term loan bore interest at the current one-month LIBOR, plus 0.85%. In connection with entering into our new unsecured credit facility in April 2022, the previous LIBOR benchmark rate was replaced with daily SOFR, based on a five day lookback period, and, due to our current credit ratings, is not subject to a credit spread adjustment. In conjunction with this term loan, we also entered into an interest rate swap, which was based off the daily SOFR through June 30, 2022. As of September 30, 2022, the effective interest rate on this term loan, after giving effect to the interest rate swap, was 3.83%.

Mortgage Debt

As of September 30, 2022, we had \$840.7 million of mortgages payable, of which £30.7 million related to a Sterling-denominated mortgage. The majority of our mortgages payable were assumed in connection with our merger with VEREIT or with our property acquisitions, including the assumption of eight mortgages on 17 properties totaling \$45.1 million during the nine months ended September 30, 2022. At September 30, 2022, we had net premiums totaling \$15.6 million on these mortgages and deferred financing costs of \$926,000. We expect to pay off the mortgages payable as soon as prepayment penalties have declined to a level that would make it economically feasible to do so. During the nine months ended September 30, 2022, we made \$311.1 million in principal payments, including the repayment of 12 mortgages in full for \$308.0 million. 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 September 30, 2022, we were in compliance with these covenants.

Notes Outstanding

As of September 30, 2022, our senior unsecured note and bond obligations had a total principal amount of \$13.13 billion, including Sterling- denominated notes of £2.57 billion, and excluding net unamortized premiums of \$241.3 million and deferred financing costs of \$56.6 million. The carrying value of these note and bond obligations as of September 30, 2022, includes the portion of the VEREIT OP notes that remained outstanding, totaling \$39.1 million in the aggregate, that were not exchanged in the exchange offers commenced by us with respect to the outstanding bonds of VEREIT Operating Partnership, L.P. ("VEREIT OP") in connection with the consummation of the merger with VEREIT (the "Exchange Offers"); consequently, these notes were originally issued by VEREIT OP in December 2019 for the principal amount of \$600 million, while the amount of debt issued by Realty Income Corporation through the Exchange Offers was \$599 million, resulting from cancellations due to late tenders that forfeited the early participation premium of \$30 per \$1,000 principal amount and cash paid in lieu of fractional shares.

	As of September 30, 2022	
	Principal Amount (Currency Denomination)	Carrying Value (USD)
4.600% notes, \$500 issued February 2014, of which \$485 was exchanged in November 2021, both due in February 2024 ⁽¹⁾	\$ 500	\$ 500
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	500
4.625% notes, \$550 issued October 2018, of which \$544 was exchanged in November 2021, both due in November 2025 ⁽¹⁾	\$ 550	550
0.750% notes, issued December 2020 and due in March 2026	\$ 325	325
4.875% notes, \$600 issued June 2016, of which \$596 was exchanged in November 2021, both due in June 2026 ⁽¹⁾	\$ 600	600
4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026	\$ 650	650
1.875% notes, issued in January 2022 and due in January 2027	£ 250	279
3.000% notes, issued in October 2016 and due in January 2027	\$ 600	600
1.125% notes, issued in July 2021 and due in July 2027	£ 400	446
3.950% notes, \$600 issued August 2017, of which \$594 was exchanged in November 2021, both due in August 2027 ⁽¹⁾	\$ 600	600
3.650% notes, issued in December 2017 and due in January 2028	\$ 550	550
3.400% notes, \$600 issued June 2020, of which \$598 was exchanged in November 2021, both due in January 2028 ⁽¹⁾	\$ 600	600
2.200% notes, \$500 issued November 2020, of which \$497 was exchanged in November 2021, both due in June 2028 ⁽¹⁾	\$ 500	500
3.250% notes, issued in June 2019 and due in June 2029	\$ 500	500
3.100% notes, \$600 issued December 2019, of which \$596 was exchanged in November 2021, both due in December 2029 ⁽¹⁾⁽²⁾	\$ 599	599
3.160% notes, issued in June 2022 and due in June 2030	£ 140	156
1.625% notes, issued in October 2020 and due December 2030	£ 400	446
3.250% notes, \$600 issued in May 2020 and \$350 issued in July 2020, both due in January 2031	\$ 950	950
3.180% notes, issued in June 2022 and due June in June 2032	£ 345	384
2.850% notes, \$700 issued November 2020, of which \$699 was exchanged in November 2021, both due in December 2032 ⁽¹⁾	\$ 700	700
1.800% notes, issued in December 2020 and due in March 2033	\$ 400	400
1.750% notes, issued in July 2021 and due in July 2033	£ 350	390
2.730% notes, issued in May 2019 and due in May 2034	£ 315	350
5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035	\$ 250	250
3.390% notes, issued in June 2022 and due in June 2037	£ 115	128
2.500% notes, issued in January 2022 and due in January 2042	£ 250	279
4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047	\$ 550	550
Total principal amount	\$	13,132
Unamortized net premiums and deferred financing costs		184
	\$	13,316

⁽¹⁾ Carrying Value (USD) as of September 30, 2022, includes the portion of the VEREIT OP notes that remained outstanding, totaling \$39.1 million in the aggregate, that were not exchanged in the exchange offers commenced by us with respect to the outstanding bonds of VEREIT Operating Partnership, L.P. ("VEREIT OP") in connection with the consummation of the merger with VEREIT (the "Exchange Offers").

⁽²⁾ These notes were originally issued by VEREIT OP in December 2019 for the principal amount of \$600 million. The amount of Realty Income debt issued through the Exchange Offers was \$599 million, resulting from cancellations due to late tenders that forfeited the early participation premium of \$30 per \$1,000 principal amount and cash paid in lieu of fractional shares.

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In October 2022, we issued \$750.0 million of 5.625% senior unsecured notes due October 2032 (the "October 2032 Notes"). The public offering price for the October 2032 Notes was 99.879% of the principal amount, for an effective semi-annual yield to maturity of 5.641%.

All of our outstanding notes and bonds have fixed interest rates and contain various covenants, with which we remained in compliance as of September 30, 2022. Interest on our £400 million of 1.625% senior unsecured notes issued in October 2020, our £400 million of 1.125% senior unsecured notes issued in July 2021, our £350 million of 1.750% senior unsecured notes also issued in July 2021, our £250 million of 1.875% senior unsecured notes issued in January 2022, and £250 million of 2.500% senior unsecured notes also issued in January 2022 is paid annually. Interest on our remaining senior unsecured 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. generally accepted accounting principles ("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 September 30, 2022, are:

Note Covenants	Required	Actual
Limitation on incurrence of total debt	≤ 60% of adjusted assets	39.8 %
Limitation on incurrence of secured debt	≤ 40% of adjusted assets	2.2 %
Debt service coverage (trailing 12 months) ⁽¹⁾	≥ 1.5x	5.5
Maintenance of total unencumbered assets	≥ 150% of unsecured debt	259.0 %

⁽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 October 1, 2021 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 October 1, 2021, nor does it purport to reflect our debt service coverage ratio for any future period. The following is our calculation of debt service and fixed charge coverage at September 30, 2022 (in thousands, for trailing twelve months):

Net income available to common stockholders	\$	646,184
Plus: interest expense, excluding the amortization of deferred financing costs		421,714
Plus: loss on extinguishment of debt		46,355
Plus: provision for taxes		45,930
Plus: depreciation and amortization		1,565,445
Plus: provisions for impairment		24,370
Plus: pro forma adjustments		269,307
Less: gain on sales of real estate		(114,013)
Income available for debt service, as defined	<u>\$</u>	<u>2,905,292</u>
Total pro forma debt service charge	<u>\$</u>	<u>528,120</u>
Debt service and fixed charge coverage ratio		5.5

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 September 30, 2022, we had cash and cash equivalents totaling \$187.7 million, inclusive of £97.8 million Sterling and €9.6 million Euro.

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 and commercial paper programs.

Credit Agency Ratings

The borrowing interest rates under our revolving credit facility are based upon our ratings assigned by credit rating agencies. As of September 30, 2022, 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 and Standard & Poor's Ratings Group has assigned a rating of A- with a "stable" outlook. In addition, we were assigned the following ratings on our commercial paper at September 30, 2022: Moody's Investors Service has assigned a rating of P-2 and Standard & Poor's Ratings Group has assigned a rating of A-2.

Based on our credit agency ratings as of September 30, 2022, interest rates under our new credit facility for U.S. borrowings would have been at the SOFR, plus 0.725% with a SOFR adjustment charge of 0.10% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.95% over SOFR and, for British Pound Sterling borrowings, at the SONIA, plus 0.725% with a SONIA adjustment charge of 0.0326% and a revolving credit facility fee of 0.125%, for all-in pricing of 0.8826% over SONIA. In addition, our new credit facility provides that the interest rates can range between: (i) SOFR/SONIA, plus 1.40% if our credit rating is lower than BBB-/Baa3 or our senior unsecured debt is unrated and (ii) SOFR/SONIA, plus 0.70% if our credit rating is A/A2 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) 0.10% for a credit rating of A/A2 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 Obligations

The following table summarizes the maturity of each of our obligations as of September 30, 2022 (dollars in millions):

Principal due	Credit Facility and Commercial Paper Programs ⁽¹⁾	Senior Unsecured Notes and Bonds ⁽²⁾	Term Loan ⁽³⁾	Mortgages Payable ⁽⁴⁾	Interest ⁽⁵⁾	Ground Leases Paid by Realty Income ⁽⁶⁾	Ground Leases Paid by Our Clients ⁽⁷⁾	Other ⁽⁸⁾	Totals
2022	\$ 703.8	\$ —	\$ —	\$ 1.1	\$ 124.0	\$ 2.6	\$ 7.7	\$ 544.5	\$ 1,259.7
2023	20.0	—	—	22.0	509.8	10.5	30.6	241.5	324.6
2024	—	850.0	250.0	740.5	484.0	13.2	29.9	1.2	1,884.8
2025	—	1,050.0	—	39.2	427.6	11.4	29.3	—	1,129.9
2026	1,196.3	1,575.0	—	12.0	354.8	17.2	28.4	—	2,828.9
Thereafter	—	9,656.8	—	25.9	1,562.2	295.2	224.3	—	10,202.2
Totals	\$ 1,920.1	\$ 13,131.8	\$ 250.0	\$ 840.7	\$ 3,462.4	\$ 350.1	\$ 350.2	\$ 787.2	\$ 17,630.1

⁽¹⁾ The initial term of the credit facility expires in June 2026 and includes, at our option, two six-month extensions. At September 30, 2022, there were \$1.2 billion borrowings under our revolving credit facility. Commercial paper programs outstanding at September 30, 2022 were \$723.8 million, which have matured and will mature between October 2022 and January 2023.

⁽²⁾ Excludes non-cash net premiums recorded on notes payable of \$241.3 million and deferred financing costs of \$56.6 million. The table of obligations also excludes the October 2022 issuance of \$750.0 million of senior unsecured notes due October 2032

⁽³⁾ Excludes deferred financing costs of \$295,000.

⁽⁴⁾ Excludes both non-cash net premiums recorded on the mortgages payable of \$15.6 million and deferred financing costs of \$926,000.

⁽⁵⁾ Interest on the term loan, notes, bonds, mortgages payable, credit facility and commercial paper programs has been calculated based on outstanding balances at period end through their respective maturity dates.

⁽⁶⁾ Realty Income currently pays the ground lessors directly for the rent under the ground leases.

⁽⁷⁾ Our clients, who are generally sub-clients under ground leases, are responsible for paying the rent under these ground leases. In the event our client fails to pay the ground lease rent, we are primarily responsible.

⁽⁸⁾ "Other" consists of \$764.9 million of commitments under construction contracts, and \$22.3 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements.

Our credit facility, commercial paper programs, term loan, and notes payable obligations are unsecured. Accordingly, we have not pledged any assets as collateral for these obligations.

Unconsolidated Investments

As a result of our merger with VEREIT, we assumed an equity method investment in three unconsolidated entities. In July 2022, six of the seven properties owned by our industrial partnerships acquired in connection with the VEREIT merger were sold, and the seventh property was sold in September 2022. The gross purchase price for the properties was \$905.0 million and we collected \$113.5 million of net proceeds (after mortgage defeasance and closing costs) during the three months ended September 30, 2022, representing our proportionate share of partnership distributions. Up until the point of sale of these properties, we were responsible to fund our proportionate share of any operating cash deficits pursuant to the governance documents of the applicable entities. There were no further material commitments related to those investments. The debt held by the unconsolidated entities was secured by its properties, though was non-recourse to use with limited customary exceptions, which varied from loan to loan.

Dividend Policy

Distributions are paid monthly to holders of shares of our common stock.

Distributions are paid monthly to the limited partners holding common units of Realty Income, L.P. each on a per unit basis that is generally equal to the amount paid per share to our common stockholders.

In order to maintain our status as a REIT for federal income tax purposes, we generally are required to distribute dividends to our stockholders aggregating annually at least 90% of our taxable income (excluding net capital gains), and we are subject to income tax to the extent we distribute less than 100% of our taxable income (including net capital gains). In 2021, our cash distributions to common stockholders totaled \$1.17 billion, or approximately 125.3% of our taxable income of \$933.3 million. Our taxable income reflects non-cash deductions for depreciation and amortization. Our taxable income is presented to show our compliance with REIT dividend requirements and is not a measure of our liquidity or operating performance. We intend to continue to make distributions to our stockholders that are sufficient to meet this dividend requirement and that will reduce or eliminate our exposure to income taxes. Furthermore, we believe our cash on hand and funds from operations are sufficient to support our current level of cash distributions to our stockholders. Our cash distributions to common stockholders in the nine months ended September 30, 2022, totaled \$1.34 billion, representing 76.0% of our adjusted funds from operations available to common stockholders of approximately \$1.77 billion. In comparison, our cash distributions to common stockholders in 2021 totaled \$1.17 billion, representing 78.5% our adjusted funds from operations available to common stockholders of \$1.49 billion.

Future distributions will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, FFO, Normalized FFO, AFFO, cash flow from operations, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, our debt service requirements, and any other factors the Board of Directors may deem relevant. In addition, our credit facility contains financial covenants that could limit the amount of distributions payable by us in the event of a default, and which prohibit the payment of distributions on our common stock in the event that we fail to pay when due (subject to any applicable grace period) any principal or interest on borrowings under our credit facility.

Distributions of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to stockholders as ordinary income, except to the extent that we recognize capital gains and declare a capital gains dividend, or that such amounts constitute "qualified dividend income" subject to a reduced rate of tax. The maximum tax rate of non-corporate taxpayers for "qualified dividend income" is generally 20%. In general, dividends payable by REITs are not eligible for the reduced tax rate on qualified dividend income, except to the extent that certain holding requirements have been met with respect to the REIT's stock and the REIT's dividends are attributable to dividends received from certain taxable corporations (such as our taxable REIT subsidiaries) or to income that was subject to tax at the corporate or REIT level (for example, if we distribute taxable income that we retained and paid tax on in the prior taxable year). However, non-corporate stockholders, including individuals, generally may deduct up to 20% of dividends from a REIT, other than capital gain dividends and dividends treated as qualified dividend income, for taxable years beginning after December 31, 2017, and before January 1, 2026.

Distributions in excess of earnings and profits generally will first be treated as a non-taxable reduction in the stockholders' basis in their stock, but not below zero. Distributions in excess of that basis generally will be taxable as a capital gain to stockholders who hold their shares as a capital asset. Approximately 67.3% of the distributions to our common stockholders, made or deemed to have been made in 2021, were classified as a return of capital for federal income tax purposes.

RESULTS OF OPERATIONS

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP and are the basis for our discussion and analysis of financial condition and results of operations. Preparing our consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. We believe that we have made these estimates and assumptions in an appropriate manner and in a way that accurately reflects our financial condition. We continually test and evaluate these estimates and assumptions using our historical knowledge of the business, as well as other factors, to ensure that they are reasonable for reporting purposes. However, actual results may differ from these estimates and assumptions. This summary should be read in conjunction with the more complete discussion of our accounting policies and procedures included in note 2 to our consolidated financial statements in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021.

In order to prepare our consolidated financial statements according to the rules and guidelines set forth by GAAP, many subjective judgments must be made with regard to critical accounting policies. Management must make significant assumptions in determining the fair value of assets acquired and liabilities assumed. When acquiring a property for investment purposes, we typically allocate the cost of real estate acquired, inclusive of transaction costs, to: (1) land, (2) building and improvements, and (3) identified intangible assets and liabilities, based in each case on their relative estimated fair values. Intangible assets and liabilities consist of above-market or below-market lease value and the value of in-place leases, as applicable. Additionally, above-market rents on certain leases under which we are a lessor are accounted for as financing receivables amortizing over the lease term, while below-market rents on certain leases under which we are a lessor are accounted for as prepaid rent. In an acquisition of multiple properties, we must also allocate the purchase price among the properties. The allocation of the purchase price is based on our assessment of estimated fair value of the land, building and improvements, and identified intangible assets and liabilities and is often based upon the various characteristics of the market where the property is located. In addition, any assumed mortgages are recorded at their estimated fair values. The estimated fair values of our mortgages payable have been calculated by discounting the future cash flows using applicable interest rates that have been adjusted for factors, such as industry type, client investment grade, maturity date, and comparable borrowings for similar assets. The use of different assumptions in the allocation of the purchase price of the acquired properties and liabilities assumed could affect the timing of recognition of the related revenue and expenses.

Another significant judgment must be made as to if, and when, impairment losses should be taken on our properties when events or a change in circumstances indicate that the carrying amount of the asset may not be recoverable. 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, a fair value analysis is performed and, to the extent the estimated fair value is less than the current book value, a provision for impairment is recorded to reduce the book value to estimated fair value. Key inputs that we utilize in this analysis include projected rental rates, estimated holding periods, capital expenditures, and property sales capitalization rates. If a property is held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell. The carrying value of our real estate is the largest component of our consolidated balance sheets. Our strategy of primarily holding properties, long-term, directly decreases the likelihood of their carrying values not being recoverable, thus requiring the recognition of an impairment. However, if our strategy, or one or more of the above assumptions were to change in the future, an impairment may need to be recognized. If events should occur that require us to reduce the carrying value of our real estate by recording provisions for impairment, they could have a material impact on our results of operations.

The following is a comparison of our results of operations for the three and nine months ended September 30, 2022, to the three and nine months ended September 30, 2021.

Total Revenue

The following summarizes our total revenue (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,		\$ Increase	
	2022	2021	2022	2021	Three Months	Nine Months
REVENUE						
Rental (excluding reimbursable)	\$ 781,883	\$ 462,416	\$ 2,297,272	\$ 1,316,838	\$ 319,467	\$ 980,434
Rental (reimbursable)	44,063	23,921	129,039	69,120	20,142	59,919
Other	11,323	3,554	28,720	9,485	7,769	19,235
Total revenue	<u>\$ 837,269</u>	<u>\$ 489,891</u>	<u>\$ 2,455,031</u>	<u>\$ 1,395,443</u>	<u>\$ 347,378</u>	<u>\$ 1,059,588</u>

The increase in total revenue primarily relates to the merger with VEREIT and acquisitions for the nine months ended September 30, 2022.

Rental Revenue (excluding reimbursable)

The table below summarizes the increase in rental revenue (excluding reimbursable) in the three months ended September 30, 2022, compared to the three months ended September 30, 2021 (dollars in thousands):

	Number of Properties	Square Footage ⁽¹⁾	Three months ended September 30,		Increase/ (Decrease)
			2022	2021	\$ Change
Properties acquired during 2022 & 2021	1,781	42,439,083	\$ 140,524	41,337	\$ 99,187
Same store rental revenue ⁽²⁾	9,645	168,085,523	612,270	606,426	5,844
Orion Divestiture	92	10,093,123	21	43,928	(43,907)
Constant currency adjustment ⁽³⁾	N/A	N/A	3,725	7,716	(3,991)
Properties sold during and prior to 2022	393	9,587,827	9,037	9,428	(391)
Straight-line rent and other non-cash adjustments	N/A	N/A	2,788	4,895	(2,107)
Vacant rents, development and other ⁽⁴⁾	307	6,573,977	11,628	12,468	(840)
Other excluded revenue ⁽⁵⁾	N/A	N/A	1,890	3,195	(1,305)
Less: VEREIT rental revenue ⁽⁶⁾	N/A	N/A	—	(266,977)	266,977
Totals			<u>\$ 781,883</u>	<u>\$ 462,416</u>	<u>\$ 319,467</u>

⁽¹⁾ Excludes 5,913,131 square feet from properties ground leased to clients and 2,647,226 square feet from properties with no land or building ownership.

⁽²⁾ The same store rental revenue percentage increase for the three months ended September 30, 2022 as compared with the same period in prior year is 1.0%.

⁽³⁾ For purposes of comparability, same store rental revenue is presented on a constant currency basis using the exchange rate as of September 30, 2022, of 1.11 GBP/USD. None of the properties in Spain met our same store pool definition for the periods presented.

⁽⁴⁾ Relates to the aggregate of (i) rental revenue from properties (292 properties comprising 5,869,312 square feet) that were available for lease during part of 2022 or 2021, and (ii) rental revenue for properties (15 properties comprising 704,665 square feet) under development.

⁽⁵⁾ Primarily consists of lease termination revenue and reimbursements for tenant improvements and rental revenue that is not contractual base rent such as lease termination settlements.

⁽⁶⁾ Amounts for the three months ended September 30, 2021 represent rental revenue from VEREIT properties, which were not included in our financial statements prior to the close of the merger on November 1, 2021.

The table below summarizes the increase in rental revenue (excluding reimbursable) in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 (dollars in thousands):

	Number of Properties	Square Footage ⁽¹⁾	Nine months ended September 30,		Increase/ (Decrease)
			2022	2021	\$ Change
Properties acquired during 2022 & 2021	1,781	42,439,083	\$ 351,162	\$ 66,111	\$ 285,051
Same store rental revenue ⁽²⁾	9,645	168,085,523	1,844,225	1,801,469	42,756
Orion Divestiture	92	10,093,123	430	132,518	(132,088)
Constant currency adjustment ⁽³⁾	N/A	N/A	21,605	25,754	(4,149)
Properties sold during and prior to 2022	393	9,587,827	17,442	48,882	(31,440)
Straight-line rent and other non-cash adjustments	N/A	N/A	15,126	13,925	1,201
Vacant rents, development and other ⁽⁴⁾	307	6,573,977	39,586	29,184	10,402
Other excluded revenue ⁽⁵⁾	N/A	N/A	7,696	7,164	532
Less: VEREIT rental revenue ⁽⁶⁾	N/A	N/A	—	(808,169)	808,169
Totals			<u>2,297,272</u>	<u>1,316,838</u>	<u>980,434</u>

- ⁽¹⁾ Excludes 5,913,131 square feet from properties ground leased to clients and 2,647,226 square feet from properties with no land or building ownership.
- ⁽²⁾ The same store rental revenue percentage increase for the nine months ended September 30, 2022 as compared with the same period in prior year is 2.4%.
- ⁽³⁾ For purposes of comparability, same store rental revenue is presented on a constant currency basis using the exchange rate as of September 30, 2022, of 1.11 GBP/USD. None of the properties in Spain met our same store pool definition for the periods presented.
- ⁽⁴⁾ Relates to the aggregate of (i) rental revenue from properties (292 properties comprising 5,869,312 square feet) that were available for lease during part of 2022 or 2021, and (ii) rental revenue for properties (15 properties comprising 704,665 square feet) under development.
- ⁽⁵⁾ Primarily consists of lease termination revenue and reimbursements for tenant improvements and rental revenue that is not contractual base rent such as lease termination settlements.
- ⁽⁶⁾ Amounts for the nine months ended September 30, 2021 represent rental revenue from VEREIT properties, which were not included in our financial statements prior to the close of the merger on November 1, 2021.

For purposes of determining the same store rent property pool, we include all properties that were owned for the entire year-to-date period, for both the current and prior year, except for properties during the current or prior year that; (i) were vacant at any time, (ii) were under development or redevelopment, or (iii) were involved in eminent domain and rent was reduced. Beginning with the first quarter of 2022, properties acquired through the merger with VEREIT were considered under each element of our same store pool criterion, except for the requirement that the property be owned for the full comparative period. If the property was owned by VEREIT for the full comparative period and each of the other criterion were met, the property was included in our same store property pool. Each of the exclusions from the same store pool are separately addressed within the applicable sentences above, explaining the changes in rental revenue for the period.

Our calculation of same store rental revenue includes rent deferred for future payment as a result of lease concessions we granted in response to the COVID-19 pandemic and recognized under the practical expedient provided by the Financial Accounting Standards Board (FASB). Beginning with the first quarter of 2022, properties acquired through the merger with VEREIT were considered under each element of our Same Store Pool criterion, except for the requirement that the property be owned for the full comparative period. If the property was owned by VEREIT for the full comparative period and each of the other criterion were met, the property was included in our same store property pool. Our calculation of same store rental revenue also includes uncollected rent for which we have not granted a lease concession. If these applicable amounts of rent deferrals and uncollected rent were excluded from our calculation of same store rental revenue, the increases for the three and nine months ended September 30, 2022 relative to the comparable periods for 2021 would have been 0.3% and 2.5%, respectively.

Of the 11,733 properties in the portfolio at September 30, 2022, 11,587, or 98.8%, are single-client properties and the remaining are multi-client properties. Of the 11,587 single-client properties, 11,457, or 98.9%, were net leased at September 30, 2022.

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Of the 12,146 in-place leases in the portfolio, which excludes 167 vacant units, 10,306, or 84.9%, were under leases that provide for increases in rents through:

- Base rent increases tied to inflation (typically subject to ceilings);
- Percentage rent based on a percentage of the clients' gross sales;
- Fixed increases; or
- A combination of two or more of the above rent provisions.

Rent based on a percentage of our client's gross sales, or percentage rent, was \$2.3 million in the three months ended September 30, 2022, \$441,000 in the three months ended September 30, 2021, \$8.3 million in the nine months ended September 30, 2022, and \$2.0 million in the nine months ended September 30, 2021. We anticipate percentage rent to be less than 1% of rental revenue for 2022.

At September 30, 2022, our portfolio of 11,733 properties was 98.9% leased with 131 properties available for lease, as compared to 98.5% leased with 164 properties available for lease at December 31, 2021, and 98.8% leased with 86 properties available for lease at September 30, 2021. It has been our experience that approximately 1% to 4% of our property portfolio will be available for lease at any given time; however, it is possible that the number of properties available for lease or sale could increase in the future, given the nature of economic cycles and other unforeseen global events, such as the COVID-19 pandemic.

Rental Revenue (reimbursable)

A number of our leases provide for contractually obligated reimbursements from clients for recoverable real estate taxes and operating expenses. The increase in contractually obligated reimbursements by our clients in the periods presented is primarily due to the growth of our portfolio due to acquisitions.

Other Revenue

Other revenue primarily relates to interest income recognized on financing receivables for certain leases with above-market terms.

Total Expenses

The following summarizes our total expenses (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,		\$ Increase/(Decrease)	
	2022	2021	2022	2021	Three Months	Nine Months
EXPENSES						
Depreciation and amortization	\$ 419,016	\$ 198,832	\$ 1,232,215	\$ 564,606	\$ 220,184	\$ 667,609
Interest	117,409	76,156	333,933	222,905	41,253	111,028
Property (excluding reimbursable)	8,656	5,741	28,202	20,775	2,915	7,427
Property (reimbursable)	44,063	23,921	129,039	69,120	20,142	59,919
General and administrative	34,096	23,813	100,934	66,458	10,283	34,476
Provisions for impairment	1,650	11,011	16,379	30,977	(9,361)	(14,598)
Merger and integration-related costs	3,746	16,783	12,994	30,081	(13,037)	(17,087)
Total expenses	<u>\$ 628,636</u>	<u>\$ 356,257</u>	<u>\$ 1,853,696</u>	<u>\$ 1,004,922</u>	<u>\$ 272,379</u>	<u>\$ 848,774</u>
Total revenue ⁽¹⁾	\$ 793,206	\$ 465,970	\$ 2,325,992	\$ 1,326,323		
General and administrative expenses as a percentage of total revenue ⁽¹⁾	4.3 %	5.1 %	4.3 %	5.0 %		
Property expenses (excluding reimbursable) as a percentage of total revenue ⁽¹⁾	1.1 %	1.2 %	1.2 %	1.6 %		

⁽¹⁾ Excludes rental revenue (reimbursable). During 2021, we began presenting 'Other income, net', which consists of certain miscellaneous non-recurring revenue previously presented in 'Other' within 'Revenue,' in a separate caption in the consolidated statements of income and

comprehensive income. There was no change to the general and administrative expense as a percentage of total revenue prior to this adjustment for the three and nine months ended September 30, 2021.

Depreciation and Amortization

The increase in depreciation and amortization for the three and nine months ended September 30, 2022, was primarily due to the acquisition of properties in 2021 and the merger with VEREIT. As discussed in the sections entitled "Funds from Operations Available to Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO)" and "Adjusted Funds from Operations Available to Common Stockholders (AFFO)," depreciation and amortization is a non-cash item that is added back to net income available to common stockholders for our calculation of FFO, Normalized FFO, and AFFO.

Interest Expense

The following is a summary of the components of our interest expense (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest on our credit facility, commercial paper, term loan, notes, mortgages and interest rate swaps	\$ 131,160	\$ 72,299	\$ 376,448	\$ 212,030
Credit facility commitment fees	1,358	958	3,521	2,844
Amortization of debt origination and deferred financing costs	3,653	3,010	10,056	8,346
Loss on interest rate swaps	734	734	2,180	2,180
Amortization of net mortgage premiums	(3,327)	(673)	(10,418)	(1,158)
Amortization of net note premiums	(15,762)	102	(47,185)	(37)
Interest capitalized	(789)	(423)	(1,729)	(1,604)
Capital lease obligation	382	149	1,060	304
Interest expense	<u>\$ 117,409</u>	<u>\$ 76,156</u>	<u>\$ 333,933</u>	<u>\$ 222,905</u>

Credit facility, commercial paper, term loan, mortgages and notes				
Average outstanding balances (dollars in thousands)	\$ 16,174,244	\$ 9,282,808	\$ 15,680,253	\$ 8,857,204
Average interest rates	3.21 %	3.02 %	3.16 %	3.10 %

The increase in interest expense for the three and nine months ended September 30, 2022 is primarily due to the June 2022 issuance of £600 million in principal of Sterling denominated notes, January 2022 issuance of £500 million in principal of Sterling denominated notes, the issuance of \$4.65 billion in principal of notes associated with the exchange offer and assumption of \$839.1 million in principal of mortgage debt, both associated with our merger with VEREIT in November 2021, the July 2021 issuance of £750 million in principal of Sterling denominated notes, and higher average balances and rates on the credit facility and commercial paper borrowings, partially offset by the December 2021 early redemption on all \$750.0 million in principal of the 4.650% notes due August 2023, and the January 2021 early redemption on all \$950.0 million in principal of the 3.250% notes due October 2022.

During the nine months ended September 30, 2022, the weighted average interest rate on our:

- Revolving credit facility outstanding borrowings of \$1.2 billion was 1.7%;
- Commercial paper outstanding borrowings of \$723.8 million was 1.3%;
- Term loan outstanding of \$250.0 million (excluding deferred financing costs of \$295,000) was swapped to fixed at 3.8%;
- Mortgages payable of \$840.7 million (excluding net premiums totaling \$15.6 million and deferred financing costs of \$926,000 on these mortgages) was 4.8%;
- Notes and bonds payable of \$13.13 billion (excluding net unamortized original issue premiums of \$241.3 million and deferred financing costs of \$56.6 million) was 3.3%; and
- Notes, bonds, mortgages, term loan, and credit facility and commercial paper borrowings of \$16.1 billion (excluding all net premiums and deferred financing costs) was 3.2%.

Property Expenses (excluding reimbursable)

Property expenses (excluding reimbursable) consist of costs associated with properties available for lease, non-net-leased properties and general portfolio expenses. Expenses related to properties available for lease and non-net-leased properties include, but are not limited to, property taxes, maintenance, insurance, utilities, property inspections and legal fees. General portfolio costs include, but are not limited to, insurance, legal, property inspections, and title search fees. At September 30, 2022, 131 properties were available for lease or sale, as compared to 164 at December 31, 2021, and 86 at September 30, 2021.

The increase in property expenses (excluding reimbursable) for the three and nine months ended September 30, 2022, is primarily due to the increase in portfolio size, resulting in higher utilities, repairs and maintenance and property-related legal expenses.

Property Expenses (reimbursable)

The increase in property expenses (reimbursable) for the three and nine months ended September 30, 2022, was primarily attributable to our increased portfolio size, which contributed to higher operating expenses as a result of our acquisitions in 2021 and the nine months ended September 30, 2022, and an increase in ground lease rent, insurance, and property taxes paid on behalf of our clients.

General and Administrative Expenses

General and administrative expenses are expenditures related to the operations of our company, including employee-related costs, professional fees, and other general overhead costs associated with running our business.

The increase in general and administrative expenses for the three and nine months ended September 30, 2022, is primarily due to higher payroll-related costs and higher corporate-level professional fees, information technology, and corporate occupancy costs associated with the growth of the company, including the merger with VEREIT. At September 30, 2022, the headcount was 388 versus 257 at September 30, 2021.

Provisions for Impairment

The following table summarizes provisions for impairment during the periods indicated below (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Carrying value prior to impairment	\$ 48.1	\$ 35.0	\$ 107.0	\$ 85.7
Less: total provisions for impairment	(1.7)	(11.0)	(16.4)	(31.0)
Carrying value after impairment	46.4	24	90.6	54.7

Number of properties:

Classified as held for sale	3	—	3	—
Classified as held for investment	—	1	5	7
Sold	20	22	69	57

Merger and Integration-Related Costs

In conjunction with our merger with VEREIT, we incurred approximately \$3.7 million and \$13.0 million of merger and integration-related transaction costs during the three and nine months ended September 30, 2022, respectively, compared to approximately \$16.8 million and \$30.1 million during three and nine months ended September 30, 2021. Merger and integration-related costs consist of advisory fees, attorney fees, accountant fees, SEC filing fees and additional incremental and non-recurring costs necessary to convert data and systems, retain employees and otherwise enable us to operate the acquired business or assets efficiently.

Gain on Sales of Real Estate

The following summarizes our property dispositions, excluding our proportionate share of net proceeds from the disposition of properties by our consolidated industrial partnerships (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Number of properties sold	34	27	138	96
Net sales proceeds	\$ 142.2	\$ 31.9	\$ 414.4	\$ 123.5
Gain on sales of real estate	\$ 42.6	\$ 12.1	\$ 93.4	\$ 35.4

Foreign Currency and Derivative Gains (Losses), Net

We borrow in the functional currencies of the countries in which we invest. Net foreign currency gain and loss are primarily related to the remeasurement of intercompany debt from foreign subsidiaries. Gain and loss on foreign currency are largely offset by derivative gain and loss.

Derivative gain and loss relates to mark-to-market adjustments on derivatives that do not qualify for hedge accounting. Net derivative gain and loss are primarily related to realized and unrealized short term currency exchange swaps. Gain and loss on derivatives are largely offset by foreign currency gain and loss.

In June 2022, following the early prepayment of our Sterling-denominated intercompany loan receivable from our consolidated foreign subsidiaries, we terminated the four cross-currency swaps used to hedge the foreign currency exposure of the intercompany loan. As the hedge relationship was terminated and the future principal and interest associated with the prepaid intercompany loan will not occur, \$20.0 million gain was reclassified from accumulated other comprehensive income, or AOCI, to 'Foreign currency and derivative loss, net' during the nine months ended September 30, 2022. The reclassification from AOCI was offset by \$7.9 million in losses from the intercompany loan remeasurement on the final exchange.

Gain (loss) on extinguishment of debt

In September 2021, we completed the early redemption on \$12.5 million in principal of a mortgage due June 2032, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$4.0 million loss on extinguishment of debt for the nine months ended September 30, 2021.

In January 2021, we completed the early redemption on all \$950.0 million in principal amount of outstanding 3.250% notes due October 2022, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$46.5 million loss on extinguishment of debt for the nine months ended September 30, 2021.

Equity in Income and Impairment of Investment in Unconsolidated Entities

Equity in income of unconsolidated entities for the three and nine months ended September 30, 2022, relates to three equity method investments that were acquired in our merger with VEREIT. The loss for the three and nine months ended September 30, 2022 is primarily driven by an other than temporary impairments. There were no comparative investments for the three and nine months ended September 30, 2021. During the third quarter of 2022 all seven of the properties owned by our industrial partnerships acquired in connection with the VEREIT merger were sold.

Other Income, Net

Certain miscellaneous non-recurring revenue is included in other income, net. The increase in the three and nine months ended September 30, 2022, is primarily related to insurance proceeds received from property losses and other non-recurring settlements.

Income Taxes

Income taxes are for city and state income and franchise taxes, and for international income taxes accrued or paid by us and our subsidiaries. The increase in income taxes for the three and nine months ended September 30, 2022, was primarily attributable to our increased volume of U.K. investments, which contributed to higher U.K. income taxes as compared to the same period in 2021.

Net Income Available to Common Stockholders

The following summarizes our net income available to common stockholders (dollars in millions, except per share data):

	Three months ended September 30,		Nine months ended September 30,		% Increase	
	2022	2021	2022	2021	Three Months	Nine Months
Net income available to common stockholders	\$ 219.6	\$ 135.0	\$ 642.1	\$ 355.4	62.7 %	80.7 %
Net income per share ⁽¹⁾	\$ 0.36	\$ 0.34	\$ 1.06	\$ 0.94	5.9 %	12.8 %

⁽¹⁾ All per share amounts are presented on a diluted per common share basis.

The calculation to determine net income available to common stockholders includes provisions for impairment, gain from the sale of properties, and foreign currency gain and loss, which can vary from period to period based on timing and significantly impact net income available to the Company and available to common stockholders.

The increase in net income available to common stockholders for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021 primarily related to the increase in the size of our portfolio due to the merger with VEREIT, which closed on November 1, 2021. In addition, net income available to common stockholders for the nine months ended September 30, 2021, was impacted by the following transactions: (i) a \$50.5 million loss on extinguishment of debt, primarily due to the January 2021 early redemption of the 3.250% notes due October 2022 recorded in the three months ended March 31, 2021, (ii) \$30.1 million of merger-related costs related to our merger with VEREIT, of which \$16.8 million related to the three months ended September 30, 2021, and (iii) \$31.0 million of provisions for impairment, of which \$11.0 million related to the three months ended September 30, 2021.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization for Real Estate (Adjusted EBITDAre)

The National Association of Real Estate Investment Trusts (Nareit) established an EBITDA metric for real estate companies (i.e., EBITDA for real estate, or EBITDAre) it believed would provide investors with a consistent measure to help make investment decisions among REITs. Our definition of "Adjusted EBITDAre" is generally consistent with the Nareit definition, other than our adjustments to remove foreign currency and derivative gain and loss, excluding gain and loss from the settlement of foreign currency forwards not designated as hedges, (which is consistent with our previous calculations of "Adjusted EBITDA"). We define Adjusted EBITDAre, a non-GAAP financial measure, for the most recent quarter as earnings (net income) before (i) interest expense, including non-cash loss (gain) on swaps, (ii) income and franchise taxes, (iii) gain (loss) on extinguishment of debt, (iv) real estate depreciation and amortization, (v) provisions for impairment, (vi) merger and integration-related costs, (vii) gain on sales of real estate, (viii) foreign currency and derivative gain, net (as described in the Adjusted Funds from Operations section), and (ix) equity in income and impairment of investment in unconsolidated entities. Our Adjusted EBITDAre may not be comparable to Adjusted EBITDAre reported by other companies or as defined by Nareit, and other companies may interpret or define Adjusted EBITDAre differently than we do. Management believes Adjusted EBITDAre to be a meaningful measure of a REIT's performance because it provides a view of our operating performance, analyzes our ability to meet interest payment obligations before the effects of income tax, depreciation and amortization expense, provisions for impairment, gain on sales of real estate and other items, as defined above, that affect comparability, including the removal of non-recurring and non-cash items that industry observers believe are less relevant to evaluating the operating performance of a company. In addition, EBITDAre is widely followed by industry analysts, lenders, investors, rating agencies, and others as a means of evaluating the operational cash generating capacity of a company prior to servicing debt obligations. Management also believes the use of an annualized quarterly Adjusted EBITDAre metric, which we refer to as Annualized Adjusted EBITDAre, is meaningful because it represents our current earnings run rate for the period presented. Annualized Adjusted EBITDAre and Annualized Pro Forma Adjusted EBITDAre, as defined below, are also used to determine the vesting of performance share awards granted to executive officers. Annualized Adjusted EBITDAre should be considered along with, but not as an alternative to net income as a measure of our operating performance. We define Annualized Pro Forma Adjusted EBITDAre as Annualized Adjusted EBITDAre, subject to certain adjustments to incorporate Adjusted EBITDAre from properties we acquired or stabilized during the applicable quarter and to remove Adjusted EBITDAre from properties we disposed of during the applicable quarter, and includes transaction accounting adjustments in accordance with U.S. GAAP, giving pro forma effect to all transactions as if they occurred at the beginning of the applicable period. Our calculation includes all adjustments consistent with the requirements to present Adjusted EBITDAre on a pro forma basis in accordance with Article 11 of Regulation S-X. The Annualized Pro Forma Adjustments are consistent with the debt service coverage ratio calculated under financial covenants for our senior unsecured notes. We believe Annualized Pro Forma Adjusted EBITDAre is a useful non-GAAP supplemental measure, as it excludes properties that were no longer owned at the balance sheet date and includes the annualized rent from properties acquired during the quarter. Management also uses our ratios of net debt-to-Annualized Adjusted EBITDAre and net debt-to-Annualized Pro Forma Adjusted EBITDAre as measures of leverage in assessing our financial performance, which is calculated as net debt (which we define as total debt per the consolidated balance sheets, excluding deferred financing costs and net premiums and discounts, but including our proportionate share on debt from unconsolidated entities, less cash and cash equivalents), divided by annualized quarterly Adjusted EBITDAre and annualized Pro Forma Adjusted EBITDAre, respectively.

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The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to Adjusted EBITDAre and Annualized Pro Forma EBITDAre calculations for the periods indicated below (dollars in thousands):

	Three months ended September 30,	
	2022	2021
Net income	\$ 220,287	\$ 135,276
Interest	117,409	76,156
(Gain) loss on extinguishment of debt	(240)	3,983
Income taxes	10,163	6,079
Depreciation and amortization	419,016	198,832
Provisions for impairment	1,650	11,011
Merger and integration-related costs	3,746	16,783
Gain on sales of real estate	(42,883)	(12,094)
Foreign currency and derivative losses, net	22,893	2,374
Gain on settlement of foreign currency forwards	2,784	—
Equity in income and impairment of investment in unconsolidated entities	662	—
Quarterly Adjusted EBITDAre	<u>\$ 755,487</u>	<u>\$ 438,400</u>
Annualized Adjusted EBITDAre ⁽¹⁾	<u>\$ 3,021,948</u>	<u>\$ 1,753,600</u>
Annualized Pro Forma Adjustments	<u>\$ 31,700</u>	<u>\$ 43,910</u>
Annualized Pro Forma Adjusted EBITDAre	<u>\$ 3,053,648</u>	<u>\$ 1,797,510</u>
Total debt per the consolidated balance sheets, excluding deferred financing costs and net premiums and discounts	\$ 16,142,608	\$ 9,293,592
Less: Cash and cash equivalents	(187,745)	(516,983)
Net Debt ⁽²⁾	\$ 15,954,863	\$ 8,776,609
Net Debt/Annualized Adjusted EBITDAre ⁽³⁾	5.3 x	5.0 x
Net Debt/Annualized Pro Forma Adjusted EBITDAre ⁽³⁾	5.2 x	4.9 x

⁽¹⁾ We calculate Annualized Adjusted EBITDAre by multiplying the Quarterly Adjusted EBITDAre by four.

⁽²⁾ Net Debt is total debt per our consolidated balance sheets, excluding deferred financing costs and net premiums and discounts, but including our proportionate share on debt from unconsolidated entities, less cash and cash equivalents.

⁽³⁾ During 2021, Net Debt was adjusted to exclude deferred financing costs and net premiums and discounts. The adjustment of Net Debt did not impact the calculation for the Net Debt/Annualized Adjusted EBITDAre for the three months ended September 30, 2021.

As described above, the Annualized Pro Forma Adjustments, which includes transaction accounting adjustments in accordance with U.S. GAAP, consists of adjustments to incorporate the Adjusted EBITDAre from properties we acquired or stabilized during the applicable quarter and removes Adjusted EBITDAre from properties we disposed of during the applicable quarter, giving pro forma effect to all transactions as if they occurred at the beginning of the period, consistent with the requirements of Article 11 of Regulation S-X. The following table summarizes our Annualized Pro Forma Adjusted EBITDAre calculation for the periods indicated below:

Dollars in thousands	Three months ended September 30,	
	2022	2021
Annualized pro forma adjustments from properties acquired or stabilized	\$ 68,589	\$ 45,901
Annualized pro forma adjustments from properties disposed	(36,889)	(1,991)
Annualized Pro forma Adjustments	<u>\$ 31,700</u>	<u>\$ 43,910</u>

FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (FFO) AND NORMALIZED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (Normalized FFO)

The following summarizes our FFO and Normalized FFO (dollars in millions, except per share data):

We define FFO, a non-GAAP measure, consistent with the National Association of Real Estate Investment Trusts' definition, as net income available to common stockholders, plus depreciation and amortization of real estate assets, plus provisions for impairments of depreciable real estate assets, and reduced by gain on property sales. We define Normalized FFO, a non-GAAP financial measure, as FFO excluding merger and integration-related costs related to our merger with VEREIT. We define diluted FFO and diluted normalized FFO as FFO and normalized FFO adjusted for dilutive noncontrolling interests.

	Three months ended September 30,		Nine months ended September 30,		% Increase	
	2022	2021	2022	2021	Three Months	Nine Months
FFO available to common stockholders	\$ 597.2	\$ 332.3	\$ 1,807.4	\$ 914.4	79.7 %	97.7 %
FFO per share ⁽¹⁾	\$ 0.97	\$ 0.85	\$ 2.99	\$ 2.41	14.1 %	24.1 %
Normalized FFO available to common stockholders	\$ 600.9	\$ 349.1	\$ 1,820.4	\$ 944.5	72.1 %	92.7 %
Normalized FFO per share ⁽¹⁾	\$ 0.97	\$ 0.89	\$ 3.01	\$ 2.49	9.0 %	20.9 %

⁽¹⁾ All per share amounts are presented on a diluted per common share basis.

FFO and Normalized FFO for the three and nine months ended September 30, 2022 and 2021 were impacted by the same transactions listed under "Net Income Available to Common Stockholders" on pages 55-56, with the exception of provisions for impairment, which do not impact FFO and Normalized FFO.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to FFO and Normalized FFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

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	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income available to common stockholders	\$ 219,567	\$ 134,996	\$ 642,143	\$ 355,415
Depreciation and amortization	419,016	198,832	1,232,215	564,606
Depreciation of furniture, fixtures and equipment	(511)	(230)	(1,478)	(674)
Provisions for impairment	1,650	11,011	16,379	30,977
Gain on sales of real estate	(42,883)	(12,094)	(93,611)	(35,396)
Proportionate share of adjustments for unconsolidated entities ⁽¹⁾	717	—	12,812	—
FFO adjustments allocable to noncontrolling interests	(402)	(180)	(1,075)	(511)
FFO available to common stockholders	\$ 597,154	\$ 332,335	\$ 1,807,385	\$ 914,417
FFO allocable to dilutive noncontrolling interests	985	356	2,569	1,062
Diluted FFO	\$ 598,139	\$ 332,691	\$ 1,809,954	\$ 915,479
FFO available to common stockholders	\$ 597,154	\$ 332,335	\$ 1,807,385	\$ 914,417
Merger and integration-related costs	3,746	16,783	12,994	30,081
Normalized FFO available to common stockholders	\$ 600,900	\$ 349,118	\$ 1,820,379	\$ 944,498
Normalized FFO allocable to dilutive noncontrolling interests	985	356	2,569	1,062
Diluted Normalized FFO	\$ 601,885	\$ 349,474	\$ 1,822,948	\$ 945,560
FFO per common share, basic and diluted	\$ 0.97	\$ 0.85	\$ 2.99	\$ 2.41
Normalized FFO per common share, basic and diluted	\$ 0.97	\$ 0.89	\$ 3.01	\$ 2.49
Distributions paid to common stockholders	\$ 458,586	\$ 273,791	\$ 1,342,695	\$ 797,847
FFO available to common stockholders in excess of distributions paid to common stockholders	\$ 138,568	\$ 58,544	\$ 464,690	\$ 116,570
Normalized FFO available to common stockholders in excess of distributions paid to common stockholders	\$ 142,314	\$ 75,327	\$ 477,684	\$ 146,651
Weighted average number of common shares used for FFO and normalized FFO:				
Basic	617,511,609	391,913,478	604,463,977	379,291,782
Diluted	619,201,363	392,513,520	605,958,422	379,872,546

⁽¹⁾ Includes an other than temporary impairment of \$0.7 million and \$8.5 million recognized during the three and nine months ended September 30, 2022, respectively, on our investment in unconsolidated entities, all of which were sold as of September 30, 2022.

We consider FFO and Normalized FFO to be appropriate supplemental measures of a REIT's operating performance as they are based on a net income analysis of property portfolio performance that adds back items such as depreciation and impairments for FFO, and adds back merger and integration-related costs, for Normalized FFO. The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative.

ADJUSTED FUNDS FROM OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS (AFFO)

The following summarizes our AFFO (dollars in millions, except per share data):

We define AFFO, a non-GAAP measure, as FFO adjusted for unique revenue and expense items, which we believe are not as pertinent to the measurement of our ongoing operating performance. We define diluted AFFO as AFFO adjusted for dilutive noncontrolling interests.

	Three months ended September 30,		Nine months ended September 30,		% Increase	
	2022	2021	2022	2021	Three months	Nine months
AFFO available to common stockholders	\$ 603.6	\$ 356.8	\$ 1,767.4	\$ 1,002.7	69.2 %	76.3 %
AFFO per share ⁽¹⁾	\$ 0.98	\$ 0.91	\$ 2.92	\$ 2.64	7.7 %	10.6 %

⁽¹⁾ All per share amounts are presented on a diluted per common share basis.

We consider AFFO to be an appropriate supplemental measure of our performance. Most companies in our industry use a similar measurement, but they may use the term “CAD” (for Cash Available for Distribution), “FAD” (for Funds Available for Distribution) or other terms. Our AFFO calculations may not be comparable to AFFO, CAD or FAD reported by other companies, and other companies may interpret or define such terms differently than we do.

The following is a reconciliation of net income available to common stockholders (which we believe is the most comparable GAAP measure) to Normalized FFO and AFFO. Also presented is information regarding distributions paid to common stockholders and the weighted average number of common shares used for the basic and diluted computation per share (dollars in thousands, except per share amounts):

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	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income available to common stockholders	\$ 219,567	\$ 134,996	\$ 642,143	\$ 355,415
Cumulative adjustments to calculate Normalized FFO ⁽¹⁾	381,333	214,122	1,178,236	589,083
Normalized FFO available to common stockholders	600,900	349,118	1,820,379	944,498
(Gain) loss on extinguishment of debt	(240)	3,983	(367)	50,456
Amortization of share-based compensation	5,099	4,315	16,742	12,484
Amortization of net debt premiums and deferred financing costs ⁽²⁾	(16,728)	1,394	(50,772)	4,284
Loss on interest rate swaps	735	733	2,181	2,179
Straight-line payments from cross-currency swaps ⁽³⁾	0	513	884	1,715
Leasing costs and commissions	(686)	(1,199)	(3,853)	(2,026)
Recurring capital expenditures	(273)	(365)	(459)	(415)
Straight-line rent and expenses, net	(29,628)	(14,801)	(85,004)	(36,268)
Amortization of above and below-market leases, net	17,422	10,312	47,466	23,546
Proportionate share of adjustments for unconsolidated entities	(85)	—	(4,239)	—
Other adjustments ⁽⁴⁾	27,050	2,834	24,434	2,253
AFFO available to common stockholders	\$ 603,566	\$ 356,837	\$ 1,767,392	\$ 1,002,706
AFFO allocable to dilutive noncontrolling interests	1,006	351	2,613	1,047
Diluted AFFO	\$ 604,572	\$ 357,188	\$ 1,770,005	\$ 1,003,753
AFFO per common share, basic and diluted	\$ 0.98	\$ 0.91	\$ 2.92	\$ 2.64
Distributions paid to common stockholders	\$ 458,586	\$ 273,791	\$ 1,342,695	\$ 797,847
AFFO available to common stockholders in excess of distributions paid to common stockholders	\$ 144,980	\$ 83,046	\$ 424,697	\$ 204,859
Weighted average number of common shares used for computation per share:				
Basic	617,511,609	391,913,478	604,463,977	379,291,782
Diluted	619,201,363	392,513,520	605,958,422	379,872,546

⁽¹⁾ See reconciling items for Normalized FFO presented under "Funds from Operations Available to Common Stockholders (FFO) and Normalized Funds from Operations Available to Common Stockholders (Normalized FFO)."

⁽²⁾ Includes the amortization of premiums and discounts on notes payable and assumption of our mortgages payable, which are being amortized over the life of the applicable debt, and costs incurred and capitalized upon issuance and exchange of our notes payable, assumption of our mortgages payable and issuance of our term loans, which are also being amortized over the lives of the applicable debt. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

⁽³⁾ Straight-line payments from cross-currency swaps represent quarterly payments in U.S. dollars received by us from counterparties in exchange for associated foreign currency payments. In June 2022, we terminated the four cross-currency swaps subject to this adjustment. The nine months ended September 30, 2022 includes the adjustment through the termination date.

⁽⁴⁾ Includes adjustments allocable to noncontrolling interests, obligations related to financing lease liabilities, mark-to-market adjustments on investments and derivatives that do not qualify for hedge accounting, and foreign currency gain and loss as a result of intercompany debt and remeasurement transactions.

We believe the non-GAAP financial measure AFFO provides useful information to investors because it is a widely accepted industry measure of the operating performance of real estate companies that is used by industry analysts and investors who look at and compare those companies. In particular, AFFO provides an additional measure to compare the operating performance of different REITs without having to account for differing depreciation assumptions and other unique revenue and expense items which are not pertinent to measuring a particular company's on-going operating performance. Therefore, we believe that AFFO is an appropriate supplemental performance metric, and that the most appropriate GAAP performance metric to which AFFO should be reconciled is net income available to common stockholders.

Presentation of the information regarding FFO, Normalized FFO, and AFFO is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO, Normalized FFO, and AFFO in the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO, Normalized FFO, and AFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as alternatives to net income as an indication of our performance. FFO, Normalized FFO, and AFFO should not be considered as alternatives to reviewing our cash flows from operating, investing, and financing activities. In addition, FFO, Normalized FFO, and AFFO should not be considered as measures of liquidity, our ability to make cash distributions, or our ability to pay interest payments.

PROPERTY PORTFOLIO INFORMATION

At September 30, 2022, we owned a diversified portfolio:

- Consisting of 11,733 properties;
- With an occupancy rate of 98.9%⁽¹⁾, or 11,602 properties leased and 131 properties available for lease or sale;
- With clients doing business in 79 separate industries;
- Located in all 50 U.S. states, Puerto Rico, the U.K. and Spain;
- With approximately 225.7 million square feet of leasable space;
- With a weighted average remaining lease term (excluding rights to extend a lease at the option of the client) of approximately 8.8 years; and
- With an average leasable space per property of approximately 19,230 square feet; approximately 13,100 square feet per retail property and approximately 235,790 square feet per industrial property.

⁽¹⁾ Excludes four properties with ancillary leases only, such as cell towers and billboards.

At September 30, 2022, 11,602 properties were leased under net lease agreements. A net lease typically requires the client to be responsible for monthly rent and certain property operating expenses including property taxes, insurance, and maintenance. In addition, clients of our properties typically pay rent increases based on: (1) fixed increases, (2) increases tied to inflation (typically subject to ceilings), or (3) additional rent calculated as a percentage of the clients' gross sales above a specified level.

We define total portfolio annualized contractual rent as the monthly aggregate cash amount charged to clients, inclusive of monthly base rent receivables, but excluding percentage rent and reimbursements from clients, as of the balance sheet date, multiplied by 12, excluding percentage rent. We believe total portfolio annualized contractual revenue is a useful supplemental operating measure, as it excludes properties that were no longer owned at the balance sheet date and includes the annualized rent from properties acquired during the quarter. Total portfolio annualized contractual rent has not been reduced to reflect reserves and reserve reversals recorded as adjustments to GAAP rental revenue in the periods presented and excludes unconsolidated entities.

Top 10 Industry Concentrations

We are engaged in a single business activity, which is the leasing of property to clients, generally on a net basis. That business activity spans various geographic boundaries and includes property types and clients engaged in various industries. Even though we now only have a single segment, we believe our investors continue to view diversification as a key component of our investment philosophy and so we believe it is still important to present certain information regarding our property portfolio classified according to the business of the respective clients, expressed as a percentage of our total portfolio annualized contractual rent:

	Percentage of Total Portfolio Annualized Contractual Rent by Industry ⁽¹⁾				
	Sept 30, 2022	Dec 31, 2021	As of Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Grocery stores	10.3%	10.2%	9.8%	7.9%	5.0%
Convenience stores	9.0	9.1	11.9	12.3	12.6
Dollar stores	7.7	7.5	7.6	7.9	7.3
Restaurants - quick service	6.4	6.6	5.3	5.8	6.3
Drug stores	6.2	6.6	8.2	8.8	9.4
Restaurants - casual dining	5.5	5.9	2.8	3.2	3.3
Home improvement	5.0	5.1	4.3	2.9	2.8
Health and fitness	4.7	4.7	6.7	7.0	7.1
Automotive service	3.9	3.2	2.7	2.6	2.2
General merchandise	3.9	3.7	3.4	2.5	2.1

⁽¹⁾ The presentation of Top 10 Industry Concentrations combines total portfolio contractual rent from the U.S. and Europe. Europe consists of properties in the U.K., starting in May 2019, and in Spain, starting in September 2021.

Property Type Composition

The following table sets forth certain property type information regarding our property portfolio as of September 30, 2022 (dollars in thousands):

Property Type	Number of Properties	Approximate Leasable Square Feet ⁽¹⁾	Total Portfolio Annualized Contractual Rent	Percentage of Total Portfolio Annualized Contractual Rent
Retail	11,400	149,442,600	\$ 2,656,115	84.6 %
Industrial	314	74,037,100	438,474	13.9
Other ⁽²⁾	19	2,179,200	48,608	1.5
Totals	11,733	225,658,900	\$ 3,143,197	100.0 %

⁽¹⁾ Includes leasable building square footage. Excludes 1,610 acres of leased land categorized as agriculture at September 30, 2022.

⁽²⁾ "Other" includes eight properties classified as office, consisting of approximately 2.0 million leasable square feet and \$25.6 million in annualized contractual rent, and 11 properties classified as agriculture, consisting of approximately 157,300 leasable square feet and \$23.0 million in annualized contractual rent.

Client Diversification

The following table sets forth the 20 largest clients in our property portfolio, expressed as a percentage of total portfolio annualized contractual rent, which does not give effect to deferred rent, at September 30, 2022:

Client	Number of Leases	Percentage of Total Portfolio Annualized Contractual Rent ⁽¹⁾
Dollar General	1,438	4.2 %
Walgreens	341	3.9
7-Eleven	632	3.8
Dollar Tree / Family Dollar	1,057	3.5
FedEx	81	2.8
LA Fitness	76	2.3
BJ's Wholesale Clubs	33	1.9
Sainsbury's	27	1.8
B&Q (Kingfisher)	36	1.7
CVS Pharmacy	183	1.7
Lifetime Fitness	21	1.7
Wal-Mart / Sam's Club	66	1.7
AMC Theaters	35	1.6
Red Lobster	200	1.5
Regal Cinemas (Cineworld)	41	1.5
Tractor Supply	165	1.4
Tesco	16	1.3
Home Depot	29	1.2
Kroger	31	1.1
Fas Mart (GPM Investments)	260	1.0
Total	4,768	41.3 %

⁽¹⁾ Amounts for each client are calculated independently; therefore, the individual percentages may not sum to the total.

Lease Expirations

The following table sets forth certain information regarding the timing of the lease term expirations in our portfolio (excluding rights to extend a lease at the option of the client) and their contribution to total portfolio annualized contractual rent as of September 30, 2022 (dollars in thousands):

Total Portfolio ⁽¹⁾						
Year	Expiring Leases		Approximate Leasable Square Feet	Total Portfolio Annualized Contractual Rent	Percentage of Total Portfolio Annualized Contractual Rent	
	Retail	Non-Retail				
2022	67	4	848,400	\$ 10,384	0.3	
2023	608	24	8,416,400	112,238	3.6	
2024	691	31	13,715,300	157,098	5.0	
2025	844	35	13,955,500	197,071	6.3	
2026	783	32	15,885,500	182,868	5.8	
2027	1,351	34	21,724,400	265,394	8.4	
2028	1,158	37	22,170,300	261,870	8.3	
2029	883	20	18,775,800	225,784	7.2	
2030	540	20	15,116,500	169,843	5.4	
2031	475	35	20,745,700	233,083	7.4	
2032	704	18	12,899,300	199,703	6.5	
2033	557	13	12,596,800	162,275	5.2	
2034	542	6	10,146,400	205,349	6.5	
2035	409	3	4,713,700	104,514	3.3	
2036	405	8	6,977,300	126,818	4.0	
2037 - 2059	1,772	37	24,911,900	528,905	16.8	
Totals	11,789	357	223,599,200	\$ 3,143,197	100.0 %	

⁽¹⁾ Leases on our multi-client properties are counted separately in the table above. This table excludes 167 vacant units.

Geographic Diversification

The following table sets forth certain state-by-state information regarding our property portfolio as of September 30, 2022 (dollars in thousands):

Location	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Percentage of Total Portfolio Annualized Contractual Rent
Alabama	385	97	4,207,900	2.0 %
Alaska	6	100	299,700	0.1
Arizona	230	100	3,589,100	1.9
Arkansas	223	100	2,441,800	1.1
California	324	99	11,384,400	6.0
Colorado	163	98	2,634,700	1.5
Connecticut	25	96	1,237,300	0.4
Delaware	25	100	189,900	0.1
Florida	723	99	9,688,100	5.2
Georgia	511	99	8,262,400	3.6
Hawaii	22	100	47,800	0.2
Idaho	27	100	189,100	0.1
Illinois	483	98	12,048,800	5.2
Indiana	393	99	7,227,500	2.8
Iowa	93	99	2,908,500	0.9
Kansas	179	100	4,531,500	1.2
Kentucky	312	99	5,376,300	1.7
Louisiana	328	100	4,988,300	2.1
Maine	54	100	1,004,900	0.5
Maryland	73	96	2,822,700	1.3
Massachusetts	90	100	3,104,500	1.4
Michigan	459	99	5,525,400	2.9
Minnesota	231	99	3,513,100	1.9
Mississippi	281	99	4,236,800	1.3
Missouri	345	99	4,770,500	2.0
Montana	21	100	204,500	0.1
Nebraska	75	99	1,013,000	0.4
Nevada	71	100	2,633,800	1.0
New Hampshire	29	100	561,500	0.3
New Jersey	142	99	2,225,900	1.7
New Mexico	102	98	1,299,200	0.6
New York	239	99	4,315,400	3.1
North Carolina	380	98	7,823,500	3.2
North Dakota	21	90	343,300	0.2
Ohio	675	99	14,541,600	4.5
Oklahoma	285	99	3,919,700	1.7
Oregon	41	100	650,400	0.4
Pennsylvania	335	99	5,904,400	2.7
Rhode Island	6	100	99,800	0.1
South Carolina	286	99	4,101,700	1.9
South Dakota	29	100	428,400	0.2
Tennessee	409	98	6,787,800	2.6
Texas	1,507	99 %	25,200,900	11.1
Utah	36	100	1,529,500	0.5
Vermont	7	100	134,900	0.1
Virginia	350	98	5,942,400	2.5
Washington	77	100	1,769,500	1.0
West Virginia	75	100	729,900	0.4
Wisconsin	266	100	5,221,000	2.1
Wyoming	23	100	157,700	0.1
Puerto Rico	6	100	59,400	0.1
United Kingdom	203	100	17,868,700	9.0
Spain	52	100 %	3,960,100	1.0
Totals/average	11,733	99 %	225,658,900	100.0 %

IMPACT OF INFLATION

Leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, or retail price index in the case of certain leases in the U.K. (typically subject to ceilings), or increases in the clients' sales volumes. We expect that inflation will cause these lease provisions to result in rent increases over time. During times when inflation is greater than increases in rent, as provided for in the leases, rent increases may not keep up with the rate of inflation.

Moreover, our use of net lease agreements tends to reduce our exposure to rising property expenses due to inflation because the client is responsible for property expenses. Inflation and increased costs may have an adverse impact on our clients if increases in their operating expenses exceed increases in revenue.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

For information on the impact of new accounting standards on our business, see note 2 of the Notes to the Consolidated Financial Statements.

OTHER INFORMATION

Our common stock is listed on the NYSE under the ticker symbol "O" with a CUSIP number of 756109-104. Our 1.625% notes due December 2030 are listed on the NYSE under the ticker symbol "O30" with a CUSIP number of 756109-AY0. Our 1.875% notes due January 2027 are listed on the NYSE under the ticker symbol "O27B" with a CUSIP number of 756109-BM5. Our 1.125% notes due July 2027 are listed on the NYSE under the ticker symbol "O27A" with a CUSIP number of 756109-BB9. Our 1.750% notes due July 2033 are listed on the NYSE under the ticker symbol "O33A" with a CUSIP number of 756109-BC7. Our 2.500% notes due January 2042 are listed on the NYSE under the ticker symbol "O42" with a CUSIP number of 756109-BN3. Our central index key number is 726728.

We maintain a corporate website at www.realtyincome.com. On our website we make available, free of charge, copies of our annual report on [Form 10-K](#), quarterly reports on Form 10-Q, Form 3s, Form 4s, Form 5s, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file these reports with the SEC. None of the information on our website is deemed to be part of this report.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to economic risks from interest rates and foreign currency exchange rates. A portion of these risks is hedged, but the risks may affect our financial statements.

Interest Rates

We are exposed to interest rate changes primarily as a result of our credit facility and commercial paper programs, term loan, mortgages payable, and long-term notes and bonds used to maintain liquidity and expand our real estate investment portfolio and operations. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flow and to lower our overall borrowing costs. To achieve these objectives, we issue long-term notes and bonds, primarily at fixed rates.

In order to mitigate and manage the effects of interest rate risks on our operations, we may utilize a variety of financial instruments, including interest rate swaps, interest rate locks and caps. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks, including counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. To limit counterparty credit risk, we will seek to enter into such agreements with major financial institutions with favorable credit ratings. There can be no assurance that we will be able to adequately protect against the foregoing risks or realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging activities. We do not enter into any derivative transactions for speculative or trading purposes.

The following table presents, by year of expected maturity, the principal amounts, average interest rates and estimated fair values of our fixed and variable rate debt as of September 30, 2022. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

Expected Maturity Data

Year of Principal Due	Fixed rate debt	Weighted average rate on fixed rate debt	Variable rate debt	Weighted average rate on variable rate debt
2022	\$ 1.1	4.74 %	\$ 703.8	1.52 %
2023	22.0	4.44	20.0	2.05
2024	1,840.5	4.48	—	—
2025	1,089.2	4.23	—	—
2026	1,587.0	3.72	1,196.3	3.70
Thereafter	9,682.7	2.99	—	—
Totals ⁽¹⁾	\$ 14,222.5	3.36 %	\$ 1,920.1	2.88 %
Fair Value ⁽²⁾	\$ 12,390.1		\$ 1,920.1	

⁽¹⁾ Excludes net premiums recorded on mortgages payable, net premiums recorded on notes payable and deferred financing costs on mortgages payable, notes payable, and our term loan. At September 30, 2022, the unamortized balance of net premiums on mortgages payable is \$15.6 million, the unamortized balance of net premiums on notes payable is \$241.3 million, and the balance of deferred financing costs on mortgages payable is \$926,000, on notes payable is \$56.6 million, and on the term loan is \$295,000.

⁽²⁾ We base the estimated fair value of the publicly-traded fixed rate senior notes and bonds at September 30, 2022, on the indicative market prices and recent trading activity of our senior notes and bonds payable. We base the estimated fair value of our fixed rate mortgages and private senior notes payable at September 30, 2022, on the relevant forward interest rate curve, plus an applicable credit-adjusted spread. We believe that the carrying values of the line of credit and commercial paper borrowings and term loan balance reasonably approximate their estimated fair values at September 30, 2022.

The table above incorporates only those exposures that exist as of September 30, 2022. It does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations, would depend on the exposures that arise during the period, our hedging strategies at the time, and interest rates.

At September 30, 2022, our outstanding notes, bonds and mortgages payable had fixed interest rates. Interest on our credit facility and commercial paper borrowings and term loan balance is variable. However, the variable interest rate feature on our term loan has been mitigated by an interest rate swap agreement. Based on our revolving credit facility balance of \$1.2 billion at September 30, 2022, a 1% change in interest rates would change our interest rate costs by \$12.0 million per year.

Foreign Currency Exchange Rates

We are exposed to foreign currency exchange variability related to investments in and earnings from our foreign investments. Foreign currency market risk is the possibility that our results of operations or financial position could be better or worse than planned because of changes in foreign currency exchange rates. We primarily hedge our foreign currency risk by borrowing in the currencies in which we invest thereby providing a natural hedge. We continuously evaluate and manage our foreign currency risk through the use of derivative financial instruments, including currency exchange swaps, foreign currency collars, and foreign currency forward contracts with financial counterparties where practicable. Such derivative instruments are viewed as risk management tools and are not used for speculative or trading purposes. Additionally, our inability to redeploy rent receipts from our international operations on a timely basis subjects us to foreign exchange risk.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of and for the quarter ended September 30, 2022, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2022 our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Changes in Internal Controls

As a result of our merger with VEREIT in November 2021, we were operating two separate enterprise resource planning (ERP) systems to generate our financial statements. During the three months ended June 30, 2022, we integrated these two ERP platforms into one primary system. We have updated our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes for the integration of these parallel ERP systems into a central platform. Except as described above, there have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

You should carefully consider the risks described in "Item 1A, Risk Factors" in Part I of our Annual Report on [Form 10-K](#) for the year ended December 31, 2021. There have been no material changes to the risk factors disclosed in our Annual Report on [Form 10-K](#) for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following shares of stock were withheld for state and federal payroll taxes on the vesting of employee stock awards, as permitted under the 2021 Incentive Award Plan of Realty Income Corporation:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share
July 1, 2022 — July 31, 2022	173	\$ 70.15
August 1, 2022 — August 31, 2022	213	73.66
September 1, 2022 — September 30, 2022	120	68.45
Total	506	71.22

⁽¹⁾ All 506 shares of common stock purchased during the three months ended September 30, 2022 were withheld for state and federal payroll taxes on the vesting of employee stock awards, as permitted under the 2021 Incentive Award Plan of Realty Income Corporation. The withholding of common stock by us could be deemed a purchase of such common stock.

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Item 6: Exhibits

Exhibit No. Description

Articles of Incorporation and Bylaws

- 2.1 [Agreement and Plan of Merger, dated as of April 29, 2021, by and among Realty Income Corporation, Rams MD Acquisition Sub I, Inc., Rams Acquisition Sub II, LLC, VEREIT, Inc. and VEREIT Operating Partnership, L.P \(filed as exhibit 2.1 to the Company's Form 8-K, filed on April 30, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 2.2 [First Amendment to Agreement and Plan of Merger, dated as of June 25, 2021, by and among Realty Income Corporation, Rams MD Acquisition Sub I, Inc., Rams Acquisition Sub II, LLC, VEREIT, Inc. and VEREIT Operating Partnership, L.P \(filed as exhibit 2.1 to the Company's Form 8-K, filed on June 25, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 3.1 [Articles of Incorporation of the Company, as amended by amendment No. 1 dated May 10, 2005 and amendment No. 2 dated May 10, 2005 \(filed as exhibit 3.1 to the Company's Form 10-Q for the quarter ended June 30, 2005, filed on August 3, 2005 \(File No. 033-69410\) and incorporated herein by reference\).](#)
- 3.2 [Articles of Amendment dated July 29, 2011 \(filed as exhibit 3.1 to the Company's Form 8-K, filed on August 2, 2011 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.3 [Articles of Amendment dated June 21, 2012 \(filed as exhibit 3.1 to the Company's Form 8-K, filed on June 21, 2012 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.4 [Articles of Amendment dated May 14, 2019 \(filed as exhibit 3.1 to the Company's Form 8-K, filed on May 16, 2019 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.5 [Amended and Restated Bylaws of the Company dated February 19, 2020 \(filed as exhibit 3.1 to the Company's Form 8-K, filed on February 20, 2020 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.6 [Articles of Amendment dated May 17, 2022 \(filed as exhibit 3.1 to the Company's Form 8-K, filed on May 19, 2022 \(File No. 001-13374\) and herein by reference\).](#)
- 3.7 [Articles Supplementary dated June 30, 1998 establishing the terms of the Company's Class A Junior Participating Preferred Stock \(filed as exhibit A to exhibit 1 to the Company's Form 8-A12B, filed on June 26, 1998 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.8 [Articles Supplementary dated May 24, 1999 establishing the terms of the Company's 93/8% Class B Cumulative Redeemable Preferred Stock \(filed as exhibit 4.1 to the Company's Form 8-K, filed on May 25, 1999 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.9 [Articles Supplementary dated July 28, 1999 establishing the terms of the Company's 91/2% Class C Cumulative Redeemable Preferred Stock \(filed as exhibit 4.1 to the Company's Form 8-K, filed on July 30, 1999 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.10 [Articles Supplementary dated May 24, 2004 and the Articles Supplementary dated October 18, 2004 establishing the terms of the Company's 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock \(filed as exhibit 3.8 to the Company's Form 8-A12B, filed on May 25, 2004 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.11 [Articles Supplementary dated November 30, 2006 establishing the terms of the Company's 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock \(filed as exhibit 3.5 to the Company's Form 8-A12B, filed on December 5, 2006 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.12 [Articles Supplementary to the Articles of Incorporation of the Company classifying and designating the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated February 3, 2012 \(the "First Class F Articles Supplementary"\) \(filed as exhibit 3.1 to the Company's Form 8-K, filed on February 3, 2012 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.13 [Certificate of Correction to the First Class F Articles Supplementary, dated April 11, 2012 \(filed as exhibit 3.2 to the Company's Form 8-K, filed on April 17, 2012 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 3.14 [Articles Supplementary to the Articles of Incorporation of the Company classifying and designating additional shares of the 6.625% Monthly Income Class F Cumulative Redeemable Preferred Stock, dated April 17, 2012 \(filed as exhibit 3.3 to the Company's Form 8-K, filed on April 17, 2012 \(File No. 001-13374\) and incorporated herein by reference\).](#)

Instruments defining the rights of security holders, including indentures

- 4.1 [Indenture dated as of October 28, 1998 between the Company and The Bank of New York \(filed as exhibit 4.1 to the Company's Form 8-K, filed on October 28, 1998 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 4.2 [Form of 5.875% Senior Notes due 2035 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on March 11, 2005 \(File No. 033-69410\) and incorporated herein by reference\).](#)
- 4.3 [Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York, as Trustee, establishing a series of securities entitled 5.875% Senior Debentures due 2035 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on March 11, 2005 \(File No. 033-69410\) and incorporated herein by reference\).](#)
- 4.4 [Form of Common Stock Certificate \(filed as exhibit 4.16 to the Company's Form 10-Q for the quarter ended September 30, 2011, filed on October 28, 2011 \(File No. 001-13374\) and incorporated herein by reference\).](#)
- 4.5 [Form of 3.875% Note due 2024 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on June 25, 2014 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.6 [Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "3.875% Notes due 2024" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on June 25, 2014 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.7 [Form of 4.125% Note due 2026 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on September 23, 2014 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.8 [Officer's Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "4.125% Notes due 2026" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on September 23, 2014 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.9 [Form of 3.000% Note due 2027 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on October 12, 2016 \(File No. 001-13374\), and incorporated herein by reference\).](#)

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- 4.10 [Officers' Certificate pursuant to sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "3.000% Notes due 2027" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on October 12, 2016 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.11 [Form of 4.650% Note due 2047 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on March 15, 2017 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.12 [Form of 4.125% Note due 2026 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on March 15, 2017 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.13 [Officers' Certificate pursuant to Sections 201, 301, and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee, establishing a series of securities entitled "4.650% Notes due 2047" and re-opening a series of securities entitled "4.125% Notes due 2026" \(filed as exhibit 4.4 to the Company's Form 8-K, filed on March 15, 2017 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.14 [Form of 3.650% Note due 2028 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on December 6, 2017 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.15 [Form of 4.650% Note due 2047 \(filed as exhibit 4.4 to the Company's Form 8-K, filed on December 6, 2017 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.16 [Form of 3.875% Note due 2025 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on April 4, 2018 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.17 [Officers' Certificate pursuant to Sections 201, 301, and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A. as successor trustee, establishing a series of securities entitled "3.875% Notes due 2025" and re-opening a series of securities entitled "4.125% Notes due 2026" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on April 4, 2018 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.18 [Form of 3.250% Note due 2029 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on June 16, 2019 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.19 [Officers' Certificate pursuant to Sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "3.250% Notes due 2029." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on June 16, 2019 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.20 [Description of Securities \(filed as exhibit 4.20 to the Company's 10-K, filed on February 22, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.21 [Form of 3.250% Note due 2031 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on May 8, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.22 [Form of 3.250% Note due 2031 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on July 16, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.23 [Officers' Certificate, dated May 8, 2020, pursuant to Sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "3.250% Notes due 2031." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on May 8, 2020, \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.24 [Officers' Certificate, dated July 16, 2020, pursuant to Sections 201, 301 and 303 of the Indenture dated October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, re-opening a series of securities entitled "3.250% Notes due 2031." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on July 16, 2020, \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.25 [Form of 1.625% Note due 2030 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on October 1, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.26 [Officers' Certificate dated October 1, 2020 pursuant to Sections 201, 301 and 303 of the Indenture dated as of October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of securities entitled "1.625% Notes due 2030" \(filed as an Exhibit 4.3 to the Company's Form 8-K, filed on October 1, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.27 [Form of 0.750% Note due 2026 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on December 14, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.28 [Form of 1.800% Note due 2033 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on December 14, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.29 [Officers' Certificate dated December 14, 2020 pursuant to Sections 201, 301 and 303 of the Indenture dated as of October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing a series of debt securities entitled "0.750% Notes due 2026" and a series of debt securities entitled "1.800% Notes due 2033" \(filed as an Exhibit 4.4 to the Company's Form 8-K, filed on December 14, 2020 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.30 [Officers' Certificate dated July 13, 2021 pursuant to Sections 201, 301 and 303 of the Indenture establishing the terms of a new series of debt securities entitled "1.125% Notes due 2027" and a new series of debt securities entitled "1.750% Notes due 2033." \(filed as Exhibit 4.4 to the Company's Form 8-K, filed on July 13, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.31 [Form of 1.125% Notes due 2027 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on July 13, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.32 [Form of 1.750% Notes due 2033 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on July 13, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.33 [Form of 1.875% Notes due 2027 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on January 14, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.34 [Form of 2.500% Notes due 2042 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on January 14, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.35 [Officers' Certificate dated January 14, 2022, pursuant to Sections 201, 301 and 303 of the Indenture establishing the terms of a new series of debt securities entitled "1.875% Notes due 2027" and a new series of debt securities entitled "2.500% Notes due 2042" \(filed as exhibit 4.4 to the Company's Form 8-K, filed on January 14, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)

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- 4.36 [Indenture, dated as of February 6, 2014, among ARC Properties Operating Partnership, L.P., Clark Acquisition, LLC, the guarantors named therein and U.S. Bank National Association, as trustee \(filed as exhibit 4.1 to VEREIT, Inc.'s Form 8-K, filed on February 7, 2014 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.37 [Officers' Certificate, dated as of February 6, 2014 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on February 7, 2014 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.38 [First Supplemental Indenture, dated as of February 9, 2015, by and among ARC Properties Operating Partnership, L.P., American Realty Capital Properties, Inc. and U.S. Bank National Association \(filed as exhibit 4.1 to VEREIT, Inc.'s Form 8-K, filed on February 13, 2015 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.39 [Officers' Certificate, dated as of June 2, 2016 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on June 3, 2016 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.40 [Officers' Certificate, dated as of August 11, 2017 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on August 11, 2017 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.41 [Officers' Certificate, dated as of October 16, 2018 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on October 16, 2018 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.42 [Officers' Certificate, dated as of December 4, 2019 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on December 4, 2019 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.43 [Officers' Certificate, dated as of June 29, 2020 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on June 29, 2020 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.44 [Officers' Certificate, dated as of November 17, 2020 \(filed as exhibit 4.2 to VEREIT, Inc.'s Form 8-K, filed on November 17, 2020 \(File No. 001-35263\), and incorporated herein by reference\).](#)
- 4.45 [Second Supplemental Indenture, dated as of November 1, 2021, by an among Rams MD Subsidiary I, Inc., VEREIT Operating Partnership, L.P., VEREIT, Inc. and U.S. Bank National Association, as trustee \(filed as exhibit 4.10 to the Company's Form 8-K, filed on November 1, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.46 [Third Supplemental Indenture, dated as of November 9, 2021, by and among VEREIT Operating Partnership, L.P., Rams MD Subsidiary I, Inc. \(f/k/a VEREIT, Inc.\) and U.S. Bank National Association, as trustee \(filed as exhibit 4.1 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.47 [Form of 4.600% Notes due February 6, 2024. \(filed as exhibit 4.2 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.48 [Form of 4.625% Notes due November 1, 2025. \(filed as exhibit 4.3 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.49 [Form of 4.875% Notes due June 1, 2026. \(filed as exhibit 4.4 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.50 [Form of 3.950% Notes due August 15, 2027. \(filed as exhibit 4.5 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.51 [Form of 3.400% Notes due January 15, 2028. \(filed as exhibit 4.6 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.52 [Form of 2.200% Notes due June 15, 2028. \(filed as exhibit 4.7 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.53 [Form of 3.100% Notes due December 15, 2029. \(filed as exhibit 4.8 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.54 [Form of 2.850% Notes due December 15, 2032. \(filed as exhibit 4.9 to the Company's Form 8-K, filed on November 15, 2021 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.55 [Form of 5.625% Notes due October 13, 2032. \(filed as exhibit 4.2 to the Company's Form 8-K, filed on October 13, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)
- 4.56 [Officers' Certificate dated October 13, 2022 pursuant to Sections 201, 301 and 303 of the Indenture dated as of October 28, 1998 between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, establishing the terms of a new series of debt securities entitled "5.625% Notes due 2032" and including the form of debt securities of such series \(filed as exhibit 4.3 to the Company's Form 8-K, filed on October 13, 2022 \(File No. 001-13374\), and incorporated herein by reference\).](#)

Certifications

- *31.1 [Rule 13a-14\(a\) Certifications as filed by the Chief Executive Officer pursuant to SEC release No. 33-8212 and 34-47551.](#)
- *31.2 [Rule 13a-14\(a\) Certifications as filed by the Chief Financial Officer pursuant to SEC release No. 33-8212 and 34-47551.](#)
- *32 [Section 1350 Certifications as furnished by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

Interactive Data Files

- *101 The following materials from Realty Income Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2022 formatted in Inline Extensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
- *104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline Extensible Business Reporting Language.

* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURE

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

REALTY INCOME CORPORATION

Date: November 3, 2022

/s/ SEAN P. NUGENT

Sean P. Nugent

Senior Vice President, Controller and Principal Accounting Officer
(Principal Accounting Officer)