



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 June 30, 2021, 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                   |
| 1.625% Notes due 2030          | O30               | New York Stock Exchange                   |
| 1.750% Notes due 2033          | O33A              | 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.

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 389,388,286 shares of common stock outstanding as of July 30, 2021.

**REALTY INCOME CORPORATION**  
**Index to Form 10-Q**  
**June 30, 2021**

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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)

|  | <b>June 30, 2021</b> | <b>December 31, 2020</b> |
|--|----------------------|--------------------------|
| <b>ASSETS</b>  |                      | (unaudited)              |
| Real estate held for investment, at cost:  |                      |                          |
| Land   | \$ 6,975,008         | \$ 6,318,926             |
| Buildings and improvements   | 15,700,846           | 14,696,712               |
| Total real estate held for investment, at cost   | 22,675,854           | 21,015,638               |
| Less accumulated depreciation and amortization   | (3,775,540)          | (3,549,486)              |
| Real estate held for investment, net   | 18,900,314           | 17,466,152               |
| Real estate and lease intangibles held for sale, net   | 39,540               | 19,004                   |
| Cash and cash equivalents  | 231,164              | 824,476                  |
| Accounts receivable, net   | 327,920              | 285,701                  |
| Lease intangible assets, net   | 1,969,793            | 1,710,655                |
| Other assets, net  | 516,210              | 434,297                  |
| <b>Total assets</b>  | <b>\$ 21,984,941</b> | <b>\$ 20,740,285</b>     |
| <b>LIABILITIES AND EQUITY</b>  |                      |                          |
| Distributions payable  | \$ 90,455            | \$ 85,691                |
| Accounts payable and accrued expenses  | 259,805              | 241,336                  |
| Lease intangible liabilities, net  | 319,495              | 321,198                  |
| Other liabilities  | 276,120              | 256,863                  |
| Line of credit payable and commercial paper  | 1,285,306            | —                        |
| Term loan, net   | 249,457              | 249,358                  |
| Mortgages payable, net   | 300,574              | 300,360                  |
| Notes payable, net   | 7,330,050            | 8,267,749                |
| <b>Total liabilities</b>   | <b>10,111,262</b>    | <b>9,722,555</b>         |
| Commitments and contingencies  |                      |                          |
| Stockholders' equity:  |                      |                          |
| Common stock and paid in capital, par value \$0.01 per share, 740,200,000 shares authorized, 380,174,042 and 361,303,445 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively | 15,827,231           | 14,700,050               |
| Distributions in excess of net income  | (3,968,333)          | (3,659,933)              |
| Accumulated other comprehensive loss   | (19,366)             | (54,634)                 |
| <b>Total stockholders' equity</b>  | <b>11,839,532</b>    | <b>10,985,483</b>        |
| Noncontrolling interests   | 34,147               | 32,247                   |
| <b>Total equity</b>  | <b>11,873,679</b>    | <b>11,017,730</b>        |
| <b>Total liabilities and equity</b>  | <b>\$ 21,984,941</b> | <b>\$ 20,740,285</b>     |

*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 data) (unaudited)

|  | Three months ended June 30,<br>2021 |                   | Six months ended June 30,<br>2021 |                   |
|--|-------------------------------------|-------------------|-----------------------------------|-------------------|
|  | 2021                                | 2020              | 2021                              | 2020              |
| <b>REVENUE</b>   |                                     |                   |                                   |                   |
| Rental (including reimbursable)                              | \$ 460,256                          | \$ 410,201        | \$ 899,621                        | \$ 822,358        |
| Other  | 4,026                               | 4,435             | 7,465                             | 6,619             |
| <b>Total revenue</b>   | <b>464,282</b>                      | <b>414,636</b>    | <b>907,086</b>                    | <b>828,977</b>    |
| <b>EXPENSES</b>  |                                     |                   |                                   |                   |
| Depreciation and amortization                                | 187,789                             | 168,328           | 365,774                           | 332,913           |
| Interest   | 73,674                              | 77,841            | 146,749                           | 153,766           |
| Property (including reimbursable)                            | 31,734                              | 26,452            | 60,233                            | 52,058            |
| General and administrative                                   | 21,849                              | 19,063            | 42,645                            | 40,027            |
| Provisions for impairment                                    | 17,246                              | 13,869            | 19,966                            | 18,347            |
| Merger-related costs   | 13,298                              | —                 | 13,298                            | —                 |
| <b>Total expenses</b>  | <b>345,590</b>                      | <b>305,553</b>    | <b>648,665</b>                    | <b>597,111</b>    |
| Gain on sales of real estate                                 | 14,901                              | 1,323             | 23,302                            | 39,829            |
| Foreign currency and derivative gains (losses), net          | 400                                 | 502               | 1,204                             | (1,062)           |
| Loss on extinguishment of debt                               | —                                   | —                 | (46,473)                          | (9,819)           |
| Income before income taxes                                   | 133,993                             | 110,908           | 236,454                           | 260,814           |
| Income taxes   | (9,225)                             | (2,838)           | (15,450)                          | (5,601)           |
| <b>Net income</b>  | <b>124,768</b>                      | <b>108,070</b>    | <b>221,004</b>                    | <b>255,213</b>    |
| Net income attributable to noncontrolling interests          | (289)                               | (246)             | (585)                             | (562)             |
| <b>Net income available to common stockholders</b>           | <b>\$ 124,479</b>                   | <b>\$ 107,824</b> | <b>\$ 220,419</b>                 | <b>\$ 254,651</b> |
| Amounts available to common stockholders per common share:   |                                     |                   |                                   |                   |
| Net Income:  |                                     |                   |                                   |                   |
| Basic and diluted  | \$ 0.33                             | \$ 0.31           | \$ 0.59                           | \$ 0.75           |
| Weighted average common shares outstanding:                  |                                     |                   |                                   |                   |
| Basic  | 374,236,424                         | 343,515,406       | 372,879,165                       | 340,061,487       |
| Diluted  | 374,341,023                         | 343,685,259       | 372,971,744                       | 340,281,265       |
| Other comprehensive income:                                  |                                     |                   |                                   |                   |
| Net income available to common stockholders                  | \$ 124,479                          | \$ 107,824        | \$ 220,419                        | \$ 254,651        |
| Foreign currency translation adjustment                      | (49)                                | 22                | (308)                             | 414               |
| Unrealized gain (loss) on derivatives, net                   | (10,833)                            | (10,534)          | 35,576                            | (36,396)          |
| <b>Comprehensive income available to common stockholders</b> | <b>\$ 113,597</b>                   | <b>\$ 97,312</b>  | <b>\$ 255,687</b>                 | <b>\$ 218,669</b> |

***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 June 30, 2021 and 2020**

|   | Shares of common stock | Common stock and paid in capital | Distributions in excess of net income | Accumulated other comprehensive loss | Total stockholders' equity | Noncontrolling interests | Total equity  |
|---|------------------------|----------------------------------|---------------------------------------|--------------------------------------|----------------------------|--------------------------|---------------|
| Balance, March 31, 2021                   | 373,509,822            | \$ 15,371,016                    | \$ (3,827,660)                        | \$ (8,484)                           | \$ 11,534,872              | \$ 32,141                | \$ 11,567,013 |
| Net income                                | —                      | —                                | 124,479                               | —                                    | 124,479                    | 289                      | 124,768       |
| Other comprehensive loss                  | —                      | —                                | —                                     | (10,882)                             | (10,882)                   | —                        | (10,882)      |
| Distributions paid and payable            | —                      | —                                | (265,152)                             | —                                    | (265,152)                  | (389)                    | (265,541)     |
| Share issuances, net of costs             | 6,629,021              | 452,355                          | —                                     | —                                    | 452,355                    | —                        | 452,355       |
| Contributions by noncontrolling interests | —                      | —                                | —                                     | —                                    | —                          | 2,106                    | 2,106         |
| Share-based compensation, net             | 35,199                 | 3,860                            | —                                     | —                                    | 3,860                      | —                        | 3,860         |
| Balance, June 30, 2021                    | 380,174,042            | \$ 15,827,231                    | \$ (3,968,333)                        | \$ (19,366)                          | \$ 11,839,532              | \$ 34,147                | \$ 11,873,679 |
|   |                        |                                  |                                       |                                      |                            |                          |               |
| Balance, March 31, 2020                   | 343,402,030            | \$ 13,604,055                    | \$ (3,173,468)                        | \$ (42,572)                          | \$ 10,388,015              | \$ 29,624                | \$ 10,417,639 |
| Net Income                                | —                      | —                                | 107,824                               | —                                    | 107,824                    | 246                      | 108,070       |
| Other comprehensive loss                  | —                      | —                                | —                                     | (10,512)                             | (10,512)                   | —                        | (10,512)      |
| Distributions paid and payable            | —                      | —                                | (240,944)                             | —                                    | (240,944)                  | (400)                    | (241,344)     |
| Share issuances, net of costs             | 1,555,966              | 96,996                           | —                                     | —                                    | 96,996                     | —                        | 96,996        |
| Share-based compensation, net             | 65,425                 | 3,070                            | —                                     | —                                    | 3,070                      | —                        | 3,070         |
| Balance, June 30, 2020                    | 345,023,421            | \$ 13,704,121                    | \$ (3,306,588)                        | \$ (53,084)                          | \$ 10,344,449              | \$ 29,470                | \$ 10,373,919 |

**Six Months Ended June 30, 2021 and 2020**

|   | 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, 2020                | 361,303,445            | \$ 14,700,050                    | \$ (3,659,933)                        | \$ (54,634)                                   | \$ 10,985,483              | \$ 32,247                | \$ 11,017,730 |
| Net Income                                | —                      | —                                | 220,419                               | —   | 220,419                    | 585                      | 221,004       |
| Other comprehensive income                | —                      | —                                | —                                     | 35,268  | 35,268                     | —                        | 35,268        |
| Distributions paid and payable            | —                      | —                                | (528,819)                             | —   | (528,819)                  | (791)                    | (529,610)     |
| Share issuances, net of costs             | 18,747,415             | 1,124,576                        | —                                     | —   | 1,124,576                  | —                        | 1,124,576     |
| Contributions by noncontrolling interests | —                      | —                                | —                                     | —   | —                          | 2,106                    | 2,106         |
| Share-based compensation, net             | 123,182                | 2,605                            | —                                     | —   | 2,605                      | —                        | 2,605         |
| Balance, June 30, 2021                    | 380,174,042            | \$ 15,827,231                    | \$ (3,968,333)                        | \$ (19,366)                                   | \$ 11,839,532              | \$ 34,147                | \$ 11,873,679 |
|   |                        |                                  |                                       |   |                            |                          |               |
| Balance, December 31, 2019                | 333,619,106            | \$ 12,873,849                    | \$ (3,082,291)                        | \$ (17,102)                                   | \$ 9,774,456               | \$ 29,702                | \$ 9,804,158  |
| Net income                                | —                      | —                                | 254,651                               | —   | 254,651                    | 562                      | 255,213       |
| Other comprehensive loss                  | —                      | —                                | —                                     | (35,982)                                      | (35,982)                   | —                        | (35,982)      |
| Distributions paid and payable            | —                      | —                                | (478,948)                             | —   | (478,948)                  | (794)                    | (479,742)     |
| Share issuances, net of costs             | 11,280,466             | 827,772                          | —                                     | —   | 827,772                    | —                        | 827,772       |
| Share-based compensation, net             | 123,849                | 2,500                            | —                                     | —   | 2,500                      | —                        | 2,500         |
| Balance, June 30, 2020                    | 345,023,421            | \$ 13,704,121                    | \$ (3,306,588)                        | \$ (53,084)                                   | \$ 10,344,449              | \$ 29,470                | \$ 10,373,919 |

*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)

|   | <b>Six months ended June 30,</b> |             |
|---|----------------------------------|-------------|
|   | <b>2021</b>                      | <b>2020</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                                  |             |
| Net income  | \$ 221,004                       | \$ 255,213  |
| Adjustments to net income:  |                                  |             |
| Depreciation and amortization   | 365,774                          | 332,913     |
| Amortization of share-based compensation                              | 8,169                            | 10,400      |
| Non-cash revenue adjustments  | (8,233)                          | (1,507)     |
| Loss on extinguishment of debt  | 46,473                           | 9,819       |
| Amortization of net premiums on mortgages payable                     | (485)                            | (710)       |
| Amortization of deferred financing costs                              | 5,352                            | 4,916       |
| Loss on interest rate swaps   | 1,447                            | 1,992       |
| Foreign currency and derivative (gains) losses, net                   | (1,204)                          | 1,062       |
| Gain on sales of real estate  | (23,302)                         | (39,829)    |
| Provisions for impairment on real estate                              | 19,966                           | 18,347      |
| Change in assets and liabilities                                      |                                  |             |
| Accounts receivable and other assets                                  | (67,970)                         | (61,091)    |
| Accounts payable, accrued expenses and other liabilities              | 14,143                           | (16,881)    |
| Net cash provided by operating activities                             | 581,134                          | 514,644     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                                  |             |
| Investment in real estate   | (2,102,042)                      | (632,174)   |
| Improvements to real estate, including leasing costs                  | (3,997)                          | (4,710)     |
| Proceeds from sales of real estate                                    | 91,616                           | 133,643     |
| Purchase of short-term investment                                     | —                                | (300,000)   |
| Insurance and other proceeds received                                 | —                                | 108         |
| Non-refundable escrow deposits  | (11,153)                         | —           |
| Net cash used in investing activities                                 | (2,025,576)                      | (803,133)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                           |                                  |             |
| Cash distributions to common stockholders                             | (524,056)                        | (474,294)   |
| Borrowings on line of credit and commercial paper program             | 5,403,699                        | 2,324,409   |
| Payments on line of credit and commercial paper program               | (4,097,909)                      | (2,385,859) |
| Principal payment on term loan  | —                                | (250,000)   |
| Proceeds from notes and bonds payable issued                          | —                                | 593,922     |
| Principal payment on notes payable                                    | (950,000)                        | (250,000)   |
| Principal payments on mortgages payable                               | (42,590)                         | (14,730)    |
| Payments upon extinguishment of debt                                  | (47,235)                         | (9,445)     |
| Proceeds from common stock offerings, net                             | 669,295                          | 728,883     |
| Proceeds from dividend reinvestment and stock purchase plan           | 5,322                            | 4,815       |
| Proceeds from At-the-Market (ATM) program, net                        | 449,959                          | 94,076      |
| Distributions to noncontrolling interests                             | (791)                            | (794)       |
| Net receipts on derivative settlements                                | 1,650                            | 2,421       |
| Debt issuance costs   | —                                | (5,526)     |
| Other items, including shares withheld upon vesting                   | (5,564)                          | (7,901)     |
| Net cash provided by financing activities                             | 861,780                          | 349,977     |
| Effect of exchange rate changes on cash and cash equivalents          | (1,032)                          | (2,175)     |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (583,694)                        | 59,313      |
| Cash, cash equivalents and restricted cash, beginning of period       | 850,679                          | 71,005      |
| Cash, cash equivalents and restricted cash, end of period             | \$ 266,985                       | \$ 130,318  |

For supplemental disclosures, see note 18.

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

REALTY INCOME CORPORATION AND SUBSIDIARIES  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2021  
(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, 2020, which are included in our 2020 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. Unless otherwise indicated, all dollar amounts are expressed in United States (U.S.) dollars.

At June 30, 2021 we owned 6,761 properties, located in all 50 U.S. states, Puerto Rico and the United Kingdom (U.K.), consisting of approximately 118.3 million leasable square feet.

**2. Summary of Significant Accounting Policies and Procedures**

**Principles of Consolidation.** The accompanying consolidated financial statements include the accounts of Realty Income and other subsidiaries for which we make operating and financial decisions (i.e., control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination or asset acquisition was recognized at fair value as of the date of the transaction (see note 11). We have no unconsolidated investments.

**Federal 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, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for federal income taxes of our taxable REIT subsidiaries. The income taxes recorded on our consolidated statements of income and comprehensive income represent amounts accrued or paid by Realty Income and its subsidiaries for city and state income and franchise taxes and for U.K. income taxes.

**Lease Revenue Recognition and Accounts Receivable.** The COVID-19 pandemic and the measures taken to limit its spread are negatively impacting the economy across many industries, including the industries in which some of our clients operate. These impacts may continue as the duration and severity of the pandemic increases. As a result, we have closely monitored the collectability of our accounts receivable and continue to evaluate the potential impacts of the COVID-19 pandemic and the measures taken to limit its spread on our business and industry segments as the situation continues to evolve and more information becomes available.

We must 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*. If a company concludes 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 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.

The majority of concessions granted to our clients during 2020 and the six months ended June 30, 2021 as a result of the COVID-19 pandemic have been rent deferrals with the original lease term unchanged. We currently anticipate future concessions to be similar. 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 rental revenue for six months ended June 30, 2021. Similarly, rent abatements granted, which are also accounted

for as lease modifications, impacted our rental revenue by an insignificant amount for the six months ended June 30, 2021.

Unless otherwise specified, references to reserves recorded as a reduction of rental revenue include amounts reserved for in the current period, as well as unrecognized contractual rental revenue and unrecognized straight-line rental revenue for leases accounted for on a cash basis. The following table summarizes reserves recorded as a reduction of rental revenue (dollars in millions):

|                               | Three months ended June 30, |        | Six months ended June 30, |         |
|-------------------------------|-----------------------------|--------|---------------------------|---------|
|                               | 2021                        | 2020   | 2021                      | 2020    |
| Rental revenue reserves       | \$ 7.5                      | \$ 6.4 | \$ 15.8                   | \$ 7.4  |
| Straight-line rent reserves   | 0.7                         | 2.1    | 1.2                       | 2.8     |
| Total rental revenue reserves | \$ 8.2                      | \$ 8.5 | \$ 17.0                   | \$ 10.2 |

As of June 30, 2021, 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.

**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. We are currently evaluating the impact that the expected market transition from LIBOR to alternative references rates will have on our financial statements as well as the applicability of the aforementioned expedients and exceptions provided in ASU 2020-04.

**Reclassification.** For the three months ended June 30, 2021, we began presenting 'Income taxes,' which was previously presented in 'Expenses,' below a newly captioned subtotal for 'Income before income taxes' within our consolidated statements of income and comprehensive income. Prior year amounts have been reclassified to conform to the current year presentation.

### 3. Agreement and Plan of Merger

On April 29, 2021, we entered into an Agreement and Plan of Merger, as amended, or the Merger Agreement, with VEREIT, Inc., or VEREIT, its operating partnership, VEREIT Operating Partnership, L.P., or VEREIT OP, and two newly formed wholly-owned subsidiaries of us. Pursuant to the terms of the Merger Agreement, (i) one of the newly formed subsidiaries of us will merge with and into VEREIT OP, with VEREIT OP as the surviving entity, which we refer to as the Partnership Merger, and (ii) immediately thereafter, VEREIT will merge with and into the other newly formed subsidiary of us, with our subsidiary as the surviving corporation, which we refer to as the Merger and, together with the Partnership Merger, the Mergers.

Pursuant to the terms of the Merger Agreement and subject to the terms thereof, upon the consummation of the Mergers, (i) each outstanding share of VEREIT common stock, and each outstanding common partnership unit of VEREIT OP owned by any of its partners other than VEREIT, Realty Income or their respective affiliates, will automatically be converted into 0.705 of a newly issued share of our common stock, subject to possible adjustment as provided in the Merger Agreement, (ii) each outstanding Series F preferred partnership unit of VEREIT OP owned by a partner other than VEREIT shall be converted into the right to receive \$25.00, plus the accumulated and unpaid distributions described in the Merger Agreement, and (iii) each outstanding Series F preferred partnership unit of VEREIT OP owned by VEREIT will remain outstanding as a preferred partnership unit and each outstanding common partnership unit of VEREIT OP owned by VEREIT, Realty Income or their respective affiliates will remain outstanding as a common partnership unit in the surviving entity of VEREIT OP. Immediately prior to the Mergers, VEREIT will issue a redemption notice to redeem each share of issued and outstanding VEREIT Series F preferred stock at its redemption price in accordance with its terms.

In connection with the Mergers, we and VEREIT intend to contribute some or all of our office real estate properties to a newly formed, wholly owned subsidiary, which we refer to as OfficeCo, and, following the Mergers, for us to

distribute the outstanding voting shares of common stock of OfficeCo to our stockholders (including former VEREIT stockholders who receive shares of our common stock in the Mergers) on a pro rata basis, which we refer to as the Spin-Off. Following the consummation of the Spin-Off, we and VEREIT intend for OfficeCo to operate as a separate, publicly-traded REIT. Subject to the terms and conditions of the Merger Agreement, we and VEREIT may also or alternatively seek to sell some or all of the office real estate properties in connection with the closing of the Mergers or choose to retain some or all of the OfficeCo properties.

The Merger Agreement contains customary covenants, representations, and warranties, as well as certain termination rights for VEREIT and us, in each case, as more fully described in the Merger Agreement. The consummation of the Mergers is also subject to certain customary closing conditions, including receipt of the approval by our stockholders and the stockholders of VEREIT. In addition, we will not be obligated to consummate the Mergers before January 29, 2022 unless the Spin-Off is ready, in all respects, to be consummated contemporaneously with the closing of the Mergers. If this condition is not satisfied or waived by us by January 29, 2022, and all other conditions to closing have been satisfied, the parties will be obligated to close the Mergers, regardless of whether the Spin-Off is ready to be consummated. Likewise, the Spin-Off is subject to various conditions and uncertainties and we and VEREIT may elect to sell some or all of the applicable office properties before the Spin-Off and we may elect not to proceed with the Spin-Off at all.

In connection with the Merger, we have filed a registration statement on Form S-4 (File No. 333-256772), declared effective by the SEC on June 29, 2021, that includes a joint proxy statement of Realty Income and VEREIT. Realty Income and VEREIT have each scheduled special meetings of their respective stockholders to be held on August 12, 2021 in connection with the Mergers and related transactions. Realty Income stockholders will be asked to consider and vote on a proposal to approve the issuance of Realty Income common stock in the Mergers pursuant to the Merger Agreement. VEREIT stockholders will be asked to consider and vote on a proposal to approve the Merger, on the terms and subject to the conditions of the Merger Agreement and a proposal to approve, by advisory (non-binding) vote, the compensation that may be paid or become payable to the named executive officers of VEREIT in connection with the Merger.

#### **A. Merger-related Costs**

In conjunction with our proposed acquisition of VEREIT, we incurred approximately \$13.3 million of merger-related transaction costs during the three and six months ended June 30, 2021. The merger-related costs incurred to date primarily consist of advisory fees, attorney fees, accountant fees and SEC filing fees.

In addition, we have engaged service providers, including investment banks and advisors, to help us negotiate the terms of the Merger and to advise us on other merger-related matters. In connection with these services, we expect to be required to pay success-based fees to the extent that certain conditions, including the closing of the Merger and consummation of the Spin-Off and/or sale of OfficeCo business, are met. As of June 30, 2021, we expect to incur approximately \$18.0 million of such success fees. As closing of the Merger has not occurred, no such amounts have been paid or accrued through June 30, 2021. If closing of the Merger does not occur, we would not expect to be required to pay these fees.

#### **B. Litigation Relating to the Mergers**

To date, purported stockholders of VEREIT filed 12 lawsuits challenging disclosures related to the Merger (*Stein v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-01409 (D. Ct. Md., June 7, 2021) (the “Stein Complaint”); *Bowles v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-00845 (D. Ct. Del., June 10, 2021) (the “Bowles Complaint”); *Leach v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-05270 (D. Ct. S.D.N.Y., June 14, 2021) (the “Leach Complaint”); *Jenkins v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-05286 (D. Ct. S.D.N.Y., June 15, 2021) (the “Jenkins Complaint”); *Tacka v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-05357 (D. Ct. S.D.N.Y., June 17, 2021) (the “Tacka Complaint”); *Congregation Zichron Moishe v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-01729 (D. Ct. Colo., June 24, 2021) (the “Congregation Zichron Moishe Complaint”); *Mishra v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-01758 (D. Colo. June 28, 2021) (the “Mishra Complaint”); *Walker v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-01791 (D. Ct. Colo. July 1, 2021) (the “Walker Complaint”); *Ciccotelli v. VEREIT, Inc., et. al.*, Case No. 2:21-cv-02983 (D. Ct. E.D. Pa. July 2, 2021) (the “Ciccotelli Complaint”); *Upton v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-06129 (D. Ct. S.D.N.Y. July 16, 2021) (the “Upton Complaint”); *Matten v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-06212 (S.D.N.Y. July 21, 2021) (the “Matten Complaint”); and *Halberstam v. VEREIT, Inc., et. al.*, Case No. 1:21-cv-02000 (D. Colo. July 23, 2021) (the “Halberstam Complaint”)). Purported stockholders of Realty Income filed one lawsuit challenging the disclosures related to the Merger (*Boyko v. Realty Income Corp., et. al.*, Case No. 1:21-cv-01653 (D. Ct. Colo., June 16, 2021) (the “Boyko Complaint,” and collectively, the “Complaints”)). A stockholder of Realty Income also sent the Company a demand disclosure letter on June 30, 2021 (the “Demand Letter”).

The Stein, Leach, Tacka, Matten and Halberstam Complaints name VEREIT and the members of the VEREIT board of directors as defendants. The Congregation Zichron Moishe, Mishra, Walker and Upton Complaints name VEREIT, VEREIT OP, and the members of the VEREIT board of directors as defendants. The Bowles and Ciccotelli Complaints name VEREIT, the members of the VEREIT board of directors, VEREIT OP, Realty Income, Merger Sub 1 and Merger Sub 2 as defendants. The Jenkins Complaint names VEREIT, the members of the VEREIT board of directors, Realty Income, Merger Sub 1 and Merger Sub 2 as defendants. The Boyko Complaint names Realty Income and the members of the Realty Income board of directors as defendants. The Demand Letter is addressed to Realty Income and the members of the Realty Income board of directors.

The Complaints each allege generally that the entities and individual defendants named in such Complaint violated Section 14(a) and Rule 14a-9 promulgated thereunder and that the individual defendants violated Section 20(a) of the Exchange Act by preparing and disseminating a registration statement that misstates or omits certain allegedly material information. The Demand Letter includes similar allegations. Furthermore, the Jenkins Complaint also alleges that: (1) members of the VEREIT board of directors breached their fiduciary duties by entering into the transactions contemplated by the Merger Agreement through a flawed and unfair process and by failing to disclose all material information to VEREIT's stockholders; and (2) VEREIT, Realty Income, Merger Sub 1 and Merger Sub 2 each aided and abetted such breach of fiduciary duty by the VEREIT board of directors.

Each Complaint seeks, among other things, injunctive relief enjoining the consummation of the Merger, if the Merger is consummated, rescission or rescissory damages and an award of the plaintiff's costs, including attorneys' and experts' fees. The defendants believe that all of the claims asserted in the Complaints are without merit and intend to defend against them vigorously. On July 30, 2021, VEREIT filed a Form 8-K containing supplemental disclosures regarding the Mergers and related transactions in response to allegations set forth in the Complaints and the Demand letter. We have determined that there is a reasonable possibility that we and/or VEREIT will incur losses associated with the Complaints and Demand letter, though the amount of the reasonably possible loss or range of losses is not expected to be material. Accordingly, no accrual for merger-related litigation matters has been recorded as of June 30, 2021. However, litigation is inherently uncertain and there can be no assurance regarding the likelihood that the defendants' defense of the actions will be successful. The outcome of these lawsuits can't be predicted and could have a significant impact on the timing or our ability to close the Merger. Additional lawsuits arising out of the Mergers may also be filed in the future.

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

##### **A. Accounts Receivable, net, consist of the following at:**

|                                     | <b>June 30, 2021</b>    | <b>December 31, 2020</b> |
|-------------------------------------|-------------------------|--------------------------|
| Straight-line rent receivables, net | \$ 195,860              | \$ 174,074               |
| Client receivables, net             | 132,060                 | 111,627                  |
|                                     | <hr/> <b>\$ 327,920</b> | <hr/> <b>\$ 285,701</b>  |

##### **B. Lease intangible assets, net, consist of the following at:**

|   | <b>June 30, 2021</b>      | <b>December 31, 2020</b>  |
|---|---------------------------|---------------------------|
| In-place leases                                 | \$ 1,978,479              | \$ 1,840,704              |
| Accumulated amortization of in-place leases     | (695,394)                 | (744,375)                 |
| Above-market leases                             | 951,483                   | 866,567                   |
| Accumulated amortization of above-market leases | (264,775)                 | (252,241)                 |
|   | <hr/> <b>\$ 1,969,793</b> | <hr/> <b>\$ 1,710,655</b> |

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| C.  | Other assets, net, consist of the following at:                    | June 30, 2021 | December 31, 2020 |
|---|--|---------------|-------------------|
| Financing receivables   | \$ 165,604   | \$ 131,291    |                   |
| Right of use asset - operating leases, net                                    | 108,112  | 112,049       |                   |
| Right of use asset - financing leases   | 103,474  | 118,585       |                   |
| Derivative assets and receivables - at fair value                             | 43,068   | 10            |                   |
| Restricted escrow deposits  | 34,636   | 21,220        |                   |
| Goodwill  | 14,017   | 14,180        |                   |
| Prepaid expenses  | 13,225   | 11,795        |                   |
| Non-refundable escrow deposits  | 12,153   | 1,000         |                   |
| Corporate assets, net   | 8,344  | 8,598         |                   |
| Credit facility origination costs, net  | 5,993  | 7,705         |                   |
| Impounds related to mortgages payable   | 1,185  | 4,983         |                   |
| Other items   | 6,399  | 2,881         |                   |
|   | \$ 516,210   | \$ 434,297    |                   |
| D.  | Accounts payable and accrued expenses consist of the following at: | June 30, 2021 | December 31, 2020 |
| Notes payable - interest payable  | \$ 83,966  | \$ 83,219     |                   |
| Derivative liabilities and payables - at fair value                           | 64,207   | 73,356        |                   |
| Property taxes payable  | 23,897   | 23,413        |                   |
| Accrued costs on properties under development                                 | 21,208   | 12,685        |                   |
| Accrued income taxes  | 11,064   | 5,182         |                   |
| Merger-related costs  | 8,944  | —             |                   |
| Value-added tax payable   | 6,450  | 8,077         |                   |
| Mortgages, term loans, credit line - interest payable and interest rate swaps | 1,261  | 1,044         |                   |
| Other items   | 38,808   | 34,360        |                   |
|   | \$ 259,805   | \$ 241,336    |                   |
| E.  | Lease intangible liabilities, net, consist of the following at:    | June 30, 2021 | December 31, 2020 |
| Below-market leases   | \$ 462,898   | \$ 460,895    |                   |
| Accumulated amortization of below-market leases                               | (143,403)  | (139,697)     |                   |
|   | \$ 319,495   | \$ 321,198    |                   |
| F.  | Other liabilities consist of the following at:                     | June 30, 2021 | December 31, 2020 |
| Rent received in advance and other deferred revenue                           | \$ 153,020   | \$ 130,231    |                   |
| Lease liability - operating leases, net                                       | 110,826  | 114,559       |                   |
| Lease liability - financing leases  | 6,410  | 6,256         |                   |
| Security deposits   | 5,864  | 5,817         |                   |
|   | \$ 276,120   | \$ 256,863    |                   |

## 5. Investments in Real Estate

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

### A. Acquisitions During the Six Months Ended June 30, 2021 and 2020

Below is a summary of our acquisitions for the six months ended June 30, 2021:

|  | Number of Properties | Leasable Square Feet | Investment (\$ in thousands) | Weighted Average Lease Term (Years) | Initial Average Cash Lease Yield (%) |
|--|----------------------|----------------------|------------------------------|-------------------------------------|--------------------------------------|
| <b>Six months ended June 30, 2021 <sup>(2)</sup></b> |                      |                      |                              |                                     |                                      |
| Acquisitions - U.S. (in 29 states)                   | 173                  | 4,484,715            | \$ 1,052,333                 | 13.7                                | 5.5 %                                |
| Acquisitions - U.K. <sup>(3)</sup>                   | 41                   | 3,133,460            | 994,783                      | 9.8                                 | 5.6 %                                |
| <b>Total acquisitions</b>                            | <b>214</b>           | <b>7,618,175</b>     | <b>\$ 2,047,116</b>          | <b>11.8</b>                         | <b>5.5 %</b>                         |
| Properties under development - U.S.                  | 40                   | 2,015,992            | 114,798                      | 15.6                                | 5.7 %                                |
| <b>Total <sup>(4)</sup></b>                          | <b>254</b>           | <b>9,634,167</b>     | <b>\$ 2,161,914</b>          | <b>12.0</b>                         | <b>5.5 %</b>                         |

<sup>(1)</sup> The initial 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 average cash yield for the six months ended June 30, 2021 includes approximately \$850,000 received as settlement credits for four properties acquired as reimbursement of free rent periods.

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.

<sup>(2)</sup> None of our investments during the six months ended June 30, 2021 caused any one client to be 10% or more of our total assets at June 30, 2021. All of our investments in acquired properties during the six months ended June 30, 2021 are 100% leased at the acquisition date.

<sup>(3)</sup> Represents investments of £715.1 million Sterling during the six months ended June 30, 2021, converted at the applicable exchange rate on the date of acquisition.

<sup>(4)</sup> Our clients occupying the new properties operate in 28 industries, and are 75.8% retail and 24.2% industrial, based on rental revenue. Approximately 47% of the rental revenue generated from acquisitions during the six months ended June 30, 2021 is from investment grade rated clients, their subsidiaries or affiliated companies.

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

|   | Acquisitions - U.S.<br>(USD) | Acquisitions - U.K.<br>(£ Sterling) |
|---|------------------------------|-------------------------------------|
| <b>Six months ended June 30, 2021</b>       |                              |                                     |
| Land <sup>(1)</sup>                         | \$ 383.6                     | £ 217.6                             |
| Buildings and improvements                  | 538.6                        | 370.6                               |
| Lease intangible assets <sup>(2)</sup>      | 173.2                        | 132.4                               |
| Other assets <sup>(3)</sup>                 | 38.5                         | —                                   |
| Lease intangible liabilities <sup>(4)</sup> | (14.1)                       | (5.2)                               |
| Other liabilities <sup>(5)</sup>            | (21.5)                       | (0.3)                               |
|   | <b>\$ 1,098.3</b>            | <b>£ 715.1</b>                      |

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

<sup>(2)</sup> The weighted average amortization period for acquired lease intangible assets is 12.6 years.

<sup>(3)</sup> U.S. other assets consists of financing receivables with above-market terms and a right-of-use asset accounted for as a finance lease.

<sup>(4)</sup> The weighted average amortization period for acquired lease intangible liabilities is 14.0 years.

<sup>(5)</sup> U.S. other liabilities consists entirely of deferred rent on certain below-market leases. U.K. other liabilities consists entirely of a GBP mortgage premium.

The properties acquired during the six months ended June 30, 2021 generated total revenues of \$24.9 million and net income of \$6.1 million during the six months ended June 30, 2021.

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Below is a summary of our acquisitions for the six months ended June 30, 2020:

|  | Number of Properties | Leasable Square Feet | Investment (\$ in thousands) | Weighted Average Lease Term (Years) | Initial Average Cash Lease Yield |
|--|----------------------|----------------------|------------------------------|-------------------------------------|----------------------------------|
| <b>Six months ended June 30, 2020 <sup>(1)</sup></b> |                      |                      |                              |                                     |                                  |
| Acquisitions - U.S. (in 25 states)                   | 80                   | 1,851,346            | \$ 412,584                   | 14.4                                | 6.5 %                            |
| Acquisitions - U.K. <sup>(2)</sup>                   | 6                    | 488,310              | \$ 223,751                   | 11.8                                | 5.3 %                            |
| Total acquisitions                                   | 86                   | 2,339,656            | \$ 636,335                   | 13.6                                | 6.1 %                            |
| Properties under development - U.S.                  | 8                    | 179,662              | \$ 3,869                     | 10.5                                | 8.8 %                            |
| <b>Total <sup>(3)</sup></b>                          | <b>94</b>            | <b>2,519,318</b>     | <b>\$ 640,204</b>            | <b>13.6</b>                         | <b>6.1 %</b>                     |

<sup>(1)</sup> None of our investments during the six months ended June 30, 2020 caused any one client to be 10% or more of our total assets at June 30, 2020. All of our investments in acquired properties during the six months ended June 30, 2020 were 100% leased at the acquisition date.

<sup>(2)</sup> Represents investments of £180.1 million Sterling during the six months ended June 30, 2020 converted at the applicable exchange rate on the date of the acquisition.

<sup>(3)</sup> Our clients occupying the new properties operated in 17 industries, and are 96.5% retail and 3.5% industrial, based on rental revenue. Approximately 37% of the rental revenue generated from acquisitions during the six months ended June 30, 2020 was from investment grade rated clients, their subsidiaries or affiliated companies.

The acquisitions during the six months ended June 30, 2020, which had no associated contingent consideration, were allocated as follows (amounts in millions):

| Six months ended June 30, 2020              | Acquisitions - U.S. (USD) | Acquisitions - U.K. (£ Sterling) |
|---|---------------------------|----------------------------------|
| Land <sup>(1)</sup>                         | \$ 85.1                   | £ 22.8                           |
| Buildings and improvements                  | 276.4                     | 63.9                             |
| Lease intangible assets <sup>(2)</sup>      | 54.5                      | 42.8                             |
| Other assets <sup>(3)</sup>                 | 1.5                       | 50.6                             |
| Lease intangible liabilities <sup>(4)</sup> | (2.5)                     | —                                |
| Other liabilities <sup>(5)</sup>            | (0.9)                     | —                                |
|   | \$ 414.1                  | £ 180.1                          |

<sup>(1)</sup> U.K. land includes £6.5 million of right of use assets under long-term ground leases.

<sup>(2)</sup> The weighted average amortization period for acquired lease intangible assets is 11.8 years.

<sup>(3)</sup> U.S. other assets consists of \$810,000 of financing receivables with above-market terms and \$689,000 of right of use assets under ground leases. U.K. other assets consists entirely of right of use assets under ground leases.

<sup>(4)</sup> The weighted average amortization period for acquired lease intangible liabilities is 13.7 years.

<sup>(5)</sup> U.S. other liabilities consists entirely of lease liabilities under ground leases.

The properties acquired during the six months ended June 30, 2020 generated total revenues of \$13.6 million and net income of \$4.6 million during the six months ended June 30, 2020.

**B. Investments in Existing Properties**

During the six months ended June 30, 2021, we capitalized costs of \$4.3 million on existing properties in our portfolio, consisting of \$827,000 for re-leasing costs, \$51,000 for recurring capital expenditures, and \$3.4 million for non-recurring building improvements. In comparison, during the six months ended June 30, 2020, we capitalized costs of \$4.4 million on existing properties in our portfolio, consisting of \$1.1 million for re-leasing costs, \$23,000 for recurring capital expenditures, and \$3.3 million for non-recurring building improvements.

**C. Properties with Existing Leases**

Of the \$2.16 billion we invested during the six months ended June 30, 2021, approximately \$1.81 billion was used to acquire 143 properties with existing leases. In comparison, of the \$640.2 million we invested during the six months ended June 30, 2020, approximately \$500.3 million was used to acquire 57 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 liabilities, net on our consolidated balance sheets.

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for the six months ended June 30, 2021 and 2020 were \$77.5 million and \$66.3 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income and comprehensive income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for the six months ended June 30, 2021 and 2020 were \$19.7 million and \$16.1 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 June 30, 2021 (dollars in thousands):

|               | Net decrease to rental revenue | Increase to amortization expense |
|---------------|--------------------------------|----------------------------------|
| 2021          | \$ (19,166)                    | \$ 86,752                        |
| 2022          | (37,749)                       | 161,804                          |
| 2023          | (36,446)                       | 145,644                          |
| 2024          | (34,737)                       | 132,517                          |
| 2025          | (34,857)                       | 118,843                          |
| Thereafter    | (204,258)                      | 637,525                          |
| <b>Totals</b> | <b>\$ (367,213)</b>            | <b>\$ 1,283,085</b>              |

## 6. Revolving Credit Facility and Commercial Paper Program

### A. Credit Facility

We have a \$3.0 billion unsecured revolving credit facility with an initial term that expires in March 2023 and includes, at our option, two six-month extensions. The revolving credit facility allows us to borrow in up to 14 currencies, including U.S. dollars, and has a \$1.0 billion expansion option, which is subject to obtaining lender commitments. Under our credit facility, our investment grade credit ratings as of June 30, 2021 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.775% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.90% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings change. We also have other interest rate options available to us under our revolving credit facility. Our revolving credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At June 30, 2021, credit facility origination costs of \$6.0 million are included in other assets, net, as compared to \$7.7 million at December 31, 2020, on our consolidated balance sheet. These costs are being amortized over the remaining term of our revolving credit facility.

At June 30, 2021, we had a borrowing capacity of \$2.4 billion available on our revolving credit facility (subject to customary conditions to borrowing) and an outstanding balance of \$635.3 million, consisting entirely of Sterling-denominated borrowings of £460.0 million, as compared to no outstanding balance on December 31, 2020.

The weighted average interest rate on outstanding borrowings under our revolving credit facility was 0.9% during the six months ended June 30, 2021 and 1.6% during the six months ended June 30, 2020. Our revolving credit facility is subject to various leverage and interest coverage ratio limitations, and at June 30, 2021, we were in compliance with the covenants on our revolving credit facility.

### B. Commercial Paper Program

In August 2020, we established a U.S. dollar-denominated unsecured commercial paper program. Under the terms of the program, we may issue from time to time unsecured commercial paper notes up to a maximum aggregate amount outstanding of \$1.0 billion. The commercial paper will rank 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 and our term loan facility and our outstanding senior unsecured notes. Proceeds from commercial paper borrowings will be used for general corporate purposes. As of June 30, 2021, the balance of borrowings outstanding under our commercial paper program was \$650.0 million, which matured on July 8, 2021, as compared to no

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outstanding commercial paper borrowings at December 31, 2020. The weighted average interest rate on outstanding borrowings under our commercial paper program for the six months ended June 30, 2021 was 0.3%. We use our \$3.0 billion revolving credit facility as a liquidity backstop for the repayment of the notes issued under the commercial paper program.

### **7. Term Loans**

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. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.85%. In conjunction with this term loan, we also entered into an interest rate swap, which effectively fixes our per annum interest on this term loan at 3.89%.

At June 30, 2021, deferred financing costs of \$543,000 are included net of the term loan principal balance, as compared to \$642,000 at December 31, 2020, on our consolidated balance sheet. These costs are being amortized over the remaining term of the term loan.

### **8. Mortgages Payable**

During the six months ended June 30, 2021, we made \$42.6 million in principal payments, including the repayment of five mortgages in full for \$40.9 million. During the six months ended June 30, 2020, we made \$14.7 million in principal payments, including the repayment of one mortgage in full for \$11.4 million. During the six months ended June 30, 2021, we assumed a Sterling-denominated mortgage on one property totaling £31.0 million. No mortgages were assumed during the six months ended June 30, 2020. 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 June 30, 2021, 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 \$942,000 at June 30, 2021 and \$973,000 at December 31, 2020. These costs are being amortized over the remaining term of each mortgage.

The following table summarizes our mortgages payable as of June 30, 2021 and December 31, 2020, respectively (dollars in thousands):

| As Of      | Number of Properties <sup>(1)</sup> | Weighted Average Stated Interest Rate <sup>(2)</sup> | Weighted Average Effective Interest Rate <sup>(3)</sup> | Weighted Average Remaining Years Until Maturity | Remaining Principal Balance | Unamortized Premium and Deferred Financing Costs Balance, net | Mortgage Payable Balance |
|------------|-------------------------------------|--|---|---|-----------------------------|---|--------------------------|
| 6/30/2021  | 62                                  | 4.5 %  | 4.3 %   | 2.9   | \$ 299,901                  | \$ 673  | \$ 300,574               |
| 12/31/2020 | 68                                  | 4.9 %  | 4.6 %   | 2.9   | \$ 299,631                  | \$ 729  | \$ 300,360               |

<sup>(1)</sup> At June 30, 2021, there were 14 mortgages on 62 properties. At December 31, 2020, there were 18 mortgages on 68 properties. The mortgages require monthly payments with principal payments due at maturity. At June 30, 2021 and December 31, 2020, all mortgages were at fixed interest rates.

<sup>(2)</sup> Stated interest rates ranged from 3.0% to 6.9% and 3.8% to 6.9% at each of June 30, 2021 and December 31, 2020, respectively.

<sup>(3)</sup> Effective interest rates ranged from 2.8% to 5.1% and 4.0% to 5.5% at each of June 30, 2021 and December 31, 2020, respectively.

The following table summarizes the maturity of mortgages payable, excluding net premiums of \$1.6 million and deferred financing costs of \$942,000, as of June 30, 2021 (dollars in millions):

| Year of Maturity | Principal       |
|------------------|-----------------|
| 2021             | \$ 1.9          |
| 2022             | 112.1           |
| 2023             | 20.9            |
| 2024             | 112.5           |
| 2025             | 42.4            |
| Thereafter       | 10.1            |
| <b>Totals</b>    | <b>\$ 299.9</b> |

## 9. Notes Payable

### A. General

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

|   | June 30, 2021 | December 31, 2020 |
|---|---------------|-------------------|
| 3.250% notes, \$450 issued in October 2012 and \$500 issued in December 2017, both due in October 2022 <sup>(1)</sup> | \$ —          | \$ 950            |
| 4.650% notes, issued in July 2013 and due in August 2023  | 750           | 750               |
| 3.875% notes, issued in June 2014 and due in July 2024  | 350           | 350               |
| 3.875% notes, issued in April 2018 and due in April 2025  | 500           | 500               |
| 0.750% notes, issued December 2020 and due in March 2026  | 325           | 325               |
| 4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026                 | 650           | 650               |
| 3.000% notes, issued in October 2016 and due in January 2027  | 600           | 600               |
| 3.650% notes, issued in December 2017 and due in January 2028   | 550           | 550               |
| 3.250% notes, issued in June 2019 and due in June 2029  | 500           | 500               |
| 1.625% notes, issued in October 2020 and due December 2030 <sup>(2)</sup>   | 552           | 547               |
| 3.250% notes, \$600 issued in May 2020 and \$350 issued in July 2020, both due in January 2031                        | 950           | 950               |
| 1.800% notes, issued in December 2020 and due in March 2033   | 400           | 400               |
| 2.730% notes, issued in May 2019 and due in May 2034 <sup>(2)</sup>   | 435           | 431               |
| 5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035                        | 250           | 250               |
| 4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047                    | 550           | 550               |
| Total principal amount  | 7,362         | 8,303             |
| Unamortized net original issuance premiums and deferred financing costs   | (32)          | (35)              |
|   | \$ 7,330      | \$ 8,268          |

<sup>(1)</sup> In January 2021, we completed the early redemption of all \$950.0 million in principal amount.

<sup>(2)</sup> Represents the principal balance (in U.S. dollars) of the October 2020 Sterling-denominated note offering and May 2019 Sterling-denominated private placement of £400.0 million and £315.0 million, respectively, converted at the applicable exchange rates on June 30, 2021, and December 31, 2020, respectively.

In July 2021, we issued £400 million of 1.125% senior unsecured notes due 2027 and £350 million of 1.750% senior unsecured notes due 2033. See note 22, *Subsequent Events*.

The following table summarizes the maturity of our notes and bonds payable as of June 30, 2021, excluding net unamortized original issuance premiums of \$11.7 million and deferred financing costs of \$44.1 million (dollars in millions):

| Year of Maturity | Principal       |
|------------------|-----------------|
| 2023             | \$ 750          |
| 2024             | 350             |
| 2025             | 500             |
| Thereafter       | 5,762           |
| <b>Totals</b>    | <b>\$ 7,362</b> |

As of June 30, 2021, the weighted average interest rate on our notes and bonds payable was 3.4% and the weighted average remaining years until maturity was 8.5 years. All of our outstanding notes and bonds payable have fixed interest rates and contain various covenants, with which we remained in compliance as of June 30, 2021. Additionally, with the exception of 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, and £350 million of 1.750% senior unsecured notes also issued in July 2021, in each case where interest is paid annually, interest on our remaining senior unsecured note and bond obligations is paid semiannually.

#### *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 on our consolidated statement of income and comprehensive income during the six months ended June 30, 2021.

In January 2020, we redeemed all \$250.0 million in principal amount of our outstanding 5.750% notes due January 2021, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$9.8 million loss on extinguishment of debt on our consolidated statement of income and comprehensive income during the six months ended June 30, 2020.

### **10. Issuances of Common Stock**

#### *A. Issuances of Common Stock in Underwritten Public Offerings*

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 and for general corporate purposes, and working capital.

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 program, to fund potential investment opportunities and/or for other general corporate purposes. For further information, see note 22, *Subsequent Events*.

In March 2020, we issued 9,690,500 shares of common stock in an underwritten public offering, including 690,500 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. After deducting underwriting discounts and other offering costs of \$21.5 million, the net proceeds of \$728.5 million were used to repay borrowings under our credit facility, to fund investment opportunities, and for other general corporate purposes.

#### *B. At-the-Market (ATM) Program*

Under our "at-the-market" equity distribution plan, or our ATM program, up to 33,402,405 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 New York Stock Exchange ("NYSE: O") at prevailing market prices or at negotiated prices. At June 30, 2021, we had 9,088,433 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 program (dollars in millions):

|   | Three months ended June 30, |           | Six months ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2021                        | 2020      | 2021                      | 2020      |
| Shares of common stock issued under the ATM program | 6,589,598                   | 1,511,149 | 6,589,598                 | 1,511,149 |
| Gross proceeds                                      | \$ 454.8                    | \$ 95.7   | \$ 454.8                  | \$ 95.7   |

**C. Dividend Reinvestment and Stock Purchase Plan**

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSPP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSPP authorizes up to 26,000,000 common shares to be issued. At June 30, 2021, we had 11,420,562 shares remaining for future issuance under our DRSPP program.

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

|   | Three months ended June 30, |        | Six months ended June 30, |        |
|---|-----------------------------|--------|---------------------------|--------|
|   | 2021                        | 2020   | 2021                      | 2020   |
| Shares of common stock issued under the DRSPP program | 39,423                      | 44,817 | 82,817                    | 78,817 |
| Gross proceeds  | \$ 2.7                      | \$ 2.4 | \$ 5.3                    | \$ 4.8 |

Our DRSPP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. We did not issue shares under the waiver approval process during the six months ended June 30, 2021 or 2020.

## 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 June 30, 2021 (dollars in thousands):

|                                     | Realty Income, L.P.<br>units <sup>(1)</sup> | Other<br>Noncontrolling<br>Interests | Total     |
|-------------------------------------|---|--------------------------------------|-----------|
| Carrying value at December 31, 2020 | \$ 24,100                                   | \$ 8,147                             | \$ 32,247 |
| Contributions                       | —   | 2,106                                | 2,106     |
| Distributions                       | (653)                                       | (138)                                | (791)     |
| Allocation of net income            | 498   | 87                                   | 585       |
| Carrying value at June 30, 2021     | \$ 23,945                                   | \$ 10,202                            | \$ 34,147 |

<sup>(1)</sup> 242,007 units were issued on March 30, 2018, 131,790 units were issued on April 30, 2018, and 89,322 units were issued on March 28, 2019. 463,119 remained outstanding at each of June 30, 2021 and December 31, 2020.

In May 2021, we completed the acquisition of a development property by acquiring a controlling interest in a joint venture. We are the managing member of this joint venture, and possess the ability to control the business and manage the affairs of this entity. At June 30, 2021, we and our subsidiaries held an 68.0% interest, and consolidated this entity in our consolidated financial statements.

At June 30, 2021, Realty Income, L.P., the joint venture acquired during 2019, and two development joint ventures, one acquired in 2020 and one acquired in May 2021, were considered variable interest entities, or 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 in the consolidated balance sheets at June 30, 2021 and December 31, 2020 (in thousands):

|                   | June 30, 2021 | December 31, 2020 |
|-------------------|---------------|-------------------|
| Net real estate   | \$ 651,920    | \$ 635,963        |
| Total assets      | 737,071       | 723,668           |
| Total liabilities | 50,300        | 47,962            |

## 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 disclosure for assets and liabilities measured at fair value requires allocation to a three-level valuation hierarchy. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

| June 30, 2021  | Carrying value | Estimated fair value |
|--|----------------|----------------------|
| Mortgages payable assumed in connection with acquisitions <sup>(1)</sup> | \$ 299.9       | \$ 314.5             |
| Notes and bonds payable <sup>(2)</sup>                                   | 7,362.5        | 8,045.6              |
| <b>December 31, 2020</b>   |                |                      |
| Mortgages payable assumed in connection with acquisitions <sup>(1)</sup> | \$ 299.6       | \$ 309.4             |
| Notes and bonds payable <sup>(2)</sup>                                   | 8,302.4        | 9,324.0              |

<sup>(1)</sup> Excludes non-cash net premiums recorded on the mortgages payable. The unamortized balance of these net premiums was \$1.6 million at June 30, 2021, and \$1.7 million at December 31, 2020. Also excludes deferred financing costs of \$942,000 at June 30, 2021 and \$973,000 at December 31, 2020.

<sup>(2)</sup> Excludes non-cash original issuance premiums and discounts recorded on notes payable. The unamortized balance of the net original issuance premiums was approximately \$11.7 million at June 30, 2021, and \$14.6 million at December 31, 2020. Also excludes deferred financing costs of \$44.1 million at June 30, 2021 and \$49.2 million at December 31, 2020.

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. 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.

### *Derivatives Designated as Hedging Instruments*

During June 2021, to hedge the foreign currency risk associated with interest payments on intercompany loans denominated in British Pound Sterling, or GBP, we entered into a series of foreign currency forward contracts to sell GBP and buy U.S. Dollars, or USD, with a total notional amount of approximately £136.9 million, which mature between September 2021 and August 2024. These foreign currency forwards are designated as cash flow hedges. Forward points on the forward contracts are included in the assessment of hedge effectiveness.

**Derivatives Not Designated as Hedging Instruments**

In June 2021, we entered into a currency exchange swap to exchange £672.5 million for \$950.0 million, which matured in July 2021. The currency exchange swap was entered into to hedge our exposure to foreign currency risk associated with Sterling-denominated assets. 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 gains, net' in the consolidated statements of income and comprehensive income. The net loss from derivatives not designated in hedging relationships for the three and six months ended June 30, 2021 totaled \$16.0 million and \$21.7 million, respectively.

The following table summarizes the terms and fair values of our derivative financial instruments at June 30, 2021 and December 31, 2020 (dollars in millions):

| Derivative Type <sup>(1)</sup>         | Number of Instruments <sup>(2)</sup> | Accounting Classification | Hedge Designation | Notional Amount |                   | Weighted Average Strike Rate <sup>(3)</sup> | Maturity Date <sup>(4)</sup> | Fair Value - asset (liability) |                   |
|--|--------------------------------------|---------------------------|-------------------|-----------------|-------------------|---|------------------------------|--------------------------------|-------------------|
|  |                                      |                           |                   | June 30, 2021   | December 31, 2020 |   |                              | June 30, 2021                  | December 31, 2020 |
| Interest rate swap                     | 1                                    | Derivative                | Cash flow         | \$ 250.0        | \$ 250.0          | 3.04%                                       | 03/2024                      | \$ (17.8)                      | \$ (22.6)         |
| Cross-currency swaps <sup>(5)</sup>    | 4                                    | Derivative                | Cash flow         | 166.4           | 166.4             | (6)   | 05/2034                      | (20.5)                         | (21.4)            |
| Currency exchange swaps <sup>(5)</sup> | 1                                    | Derivative                | N/A               | 950.0           | 625.0             | (7)   | 07/2021                      | 21.1                           | (8.2)             |
| Forward-starting swaps <sup>(6)</sup>  | 4                                    | Derivative                | Cash flow         | 300.0           | 300.0             | 1.86%                                       | 11/2032 - 06/2033            | (2.8)                          | (16.5)            |
| Forward-starting swaps <sup>(6)</sup>  | 2                                    | Hybrid debt               | Cash flow         | 200.0           | 200.0             | 1.93%                                       | 11/2032 - 06/2033            | (5.0)                          | (12.8)            |
| Foreign currency forwards              | 36                                   | Derivative                | Cash flow         | 193.3           | —                 | (9)   | 09/2021 - 08/2024            | 3.9                            | —                 |
|  |                                      |                           |                   | \$ 2,059.7      | \$ 1,541.4        |   |                              | \$ (21.1)                      | \$ (81.5)         |

<sup>(1)</sup> There have been no changes to hedging arrangements in-place at December 31, 2020. All hedges remained effective through June 30, 2021. For full discussion of the hedging arrangements, please refer to note 2 to our consolidated financial statements in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

<sup>(2)</sup> This column represents the number of instruments outstanding as of June 30, 2021.

<sup>(3)</sup> Weighted average strike rate is calculated using the current notional value as of June 30, 2021.

<sup>(4)</sup> This column represents maturity dates for instruments outstanding as of June 30, 2021.

<sup>(5)</sup> Represents British Pound Sterling, or GBP, United States Dollar, or USD, currency instrument.

<sup>(6)</sup> GBP fixed rates initially at 4.82% and escalating to 10.96%, and USD weighted average fixed rate at 9.78%.

<sup>(7)</sup> Forward GBP-USD exchange rate of 1.38.

<sup>(8)</sup> 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. For full discussion of the hedging arrangements for these six forward starting swaps, please refer to Note 2 to our consolidated financial statements in our Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

<sup>(9)</sup> Weighted average forward GBP-USD exchange rate of 1.41.

We measure our derivatives at fair value and include the balances within other assets and accounts payable and 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 and foreign currency forwards 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.

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 June 30, 2021 and December 31, 2020, 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 on the three-level valuation hierarchy.

Unrealized gains and losses in accumulated other comprehensive income, or AOCI, are reclassified to interest expense in the case of interest rate swaps and to foreign currency gains and losses, net in the case of cross-currency swaps, when the related hedged items are recognized. During the three and six months ended June 30, 2021, we reclassified \$2.6 million and \$5.1 million, respectively, from AOCI as an increase to interest expense and \$200,000 and \$1.4 million losses for cross-currency swaps into foreign exchange gains. During the three and six months ended June 30, 2020, we reclassified \$3.7 million and \$5.3 million, respectively, from AOCI as an increase to interest expense and \$800,000 and \$12.2 million gains for cross-currency swaps into foreign exchange gains.

We expect to reclassify \$10.3 million from AOCI as an increase to interest expense and \$1.8 million from AOCI to foreign currency gain related to cash flow hedges within the next twelve months.

### 13. Operating Leases

A. At June 30, 2021, we owned 6,761 properties in all 50 U.S. states, Puerto Rico, and the U.K. Of the 6,761 properties, 6,715, or 99.3%, are single-client properties, and the remaining are multi-client properties. At June 30, 2021, 103 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 rents, for the three months ended June 30, 2021 and 2020 was \$596,000 and \$547,000, respectively. Percentage rents for the six months ended June 30, 2021 and 2020 were \$1.6 million and \$1.8 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 six months ended June 30, 2021 and 2020.

### 14. Gain on Sales of Real Estate

The following table summarizes our properties sold during the periods indicated below (dollars in millions):

|                              | Three months ended June 30, |        | Six months ended June 30, |          |
|------------------------------|-----------------------------|--------|---------------------------|----------|
|                              | 2021                        | 2020   | 2021                      | 2020     |
| Number of properties         | 42                          | 12     | 69                        | 29       |
| Net sales proceeds           | \$ 56.9                     | \$ 7.4 | \$ 91.6                   | \$ 133.6 |
| Gain on sales of real estate | \$ 14.9                     | \$ 1.3 | \$ 23.3                   | \$ 39.8  |

### 15. Provisions for Impairment

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 assumptions that

we utilize in this analysis include projected rental rates, estimated holding periods, capital expenditures and property sales capitalization rates.

If a property is classified as held for sale, it is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell, and depreciation of the property ceases. There were 33 properties classified as held for sale at June 30, 2021. If a property was previously reclassified as held for sale but the applicable criteria for this classification are no longer met, the property is reclassified to real estate held for investment. A property that is reclassified to held for investment is measured and recorded at the lower (i) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held for investment, or (ii) the fair value at the date of the subsequent decision not to sell.

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

|                                   | Three months ended June 30, |         | Six months ended June 30, |         |
|-----------------------------------|-----------------------------|---------|---------------------------|---------|
|                                   | 2021                        | 2020    | 2021                      | 2020    |
| Total provisions for impairment   | \$ 17.2                     | \$ 13.9 | \$ 20.0                   | \$ 18.3 |
| Number of properties:             |                             |         |                           |         |
| Classified as held for sale       | 14                          | 1       | 14                        | 1       |
| Classified as held for investment | 5                           | 7       | 9                         | 7       |
| Sold                              | 18                          | 17      | 28                        | 28      |

## 16. 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 six months ended June 30, 2021 and 2020:

| Month    | 2021      | 2020      |
|----------|-----------|-----------|
| January  | \$ 0.2345 | \$ 0.2275 |
| February | 0.2345    | 0.2325    |
| March    | 0.2345    | 0.2325    |
| April    | 0.2350    | 0.2330    |
| May      | 0.2350    | 0.2330    |
| June     | 0.2350    | 0.2330    |
| Total    | \$ 1.4085 | \$ 1.3915 |

At June 30, 2021, a distribution of \$0.2355 per common share was payable and was paid in July 2021.

## 17. 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 June 30,<br>2021 | 2020        | Six months ended June 30,<br>2021 | 2020        |
|--|-------------------------------------|-------------|-----------------------------------|-------------|
| Weighted average shares used for the basic net income per share computation                    | 374,236,424                         | 343,515,406 | 372,879,165                       | 340,061,487 |
| Incremental shares from share-based compensation   | 104,599                             | 169,853     | 92,579                            | 219,778     |
| Weighted average shares used for diluted net income per share computation                      | 374,341,023                         | 343,685,259 | 372,971,744                       | 340,281,265 |
| Unvested shares from share based compensation that were anti-dilutive                          | 161,359                             | 122,222     | 148,342                           | 65,623      |
| Weighted average partnership common units convertible to common shares that were anti-dilutive | 463,119                             | 463,119     | 463,119                           | 463,119     |

## 18. Supplemental Disclosures of Cash Flow Information

Cash paid for interest was \$139.4 million in the six months ended June 30, 2021 and \$149.4 million in the six months ended June 30, 2020.

Cash paid for income taxes was \$9.7 million in the six months ended June 30, 2021 and \$5.3 million in the six months ended June 30, 2020.

Cash paid for merger-related costs was \$4.4 million in the six months ended June 30, 2021. There were no merger-related costs in the six months ended June 30, 2020.

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

- A. During the six months ended June 30, 2021 and 2020, the fair value of net derivative liabilities decreased by \$60.4 million and \$28.6 million, respectively.
- B. During the six months ended June 30, 2021, we assumed a Sterling-denominated mortgage on one property totaling £31.0 million.
- C. Non-refundable deposits from 2019 of \$13.8 million were applied to acquisitions during the six months ended June 30, 2020.

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

|  | June 30, 2021 | June 30, 2020 |
|--|---------------|---------------|
| Cash and cash equivalents shown in the consolidated balance sheets                                   | \$ 231,164    | \$ 35,345     |
| Restricted escrow deposits <sup>(1)</sup>  | 34,636        | 81,683        |
| Impounds related to mortgages payable <sup>(1)</sup>   | 1,185         | 13,290        |
| Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows | \$ 266,985    | \$ 130,318    |

<sup>(1)</sup> 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.

## 19. Segment Information

We evaluate performance and make resource allocation decisions on an industry by industry basis. For financial reporting purposes, we have grouped our clients into 58 activity segments. All of the properties are incorporated into one of the applicable segments. Unless otherwise specified, all segments listed below are located within the U.S. Because almost all of our leases require our clients to pay or reimburse us for operating expenses, rental revenue is the only component of segment profit and loss we measure. Our investments in industries outside of the U.S. are managed as separate operating segments.

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

| Assets, as of:                   | June 30, 2021 | December 31, 2020 |
|----------------------------------|---------------|-------------------|
| Segment net real estate:         |               |                   |
| Automotive service               | \$ 382,764    | \$ 328,340        |
| Beverages                        | 362,944       | 347,366           |
| Child care                       | 215,132       | 216,718           |
| Convenience stores               | 2,198,309     | 2,101,005         |
| Dollar stores                    | 1,449,235     | 1,420,210         |
| Drug stores                      | 1,520,877     | 1,555,106         |
| Financial services               | 367,545       | 374,508           |
| General merchandise              | 883,230       | 730,806           |
| Grocery stores - U.S.            | 907,465       | 907,634           |
| Grocery stores - U.K.            | 1,492,945     | 1,131,760         |
| Health and fitness               | 1,023,606     | 1,050,791         |
| Home improvement - U.S.          | 666,622       | 608,222           |
| Home improvement - U.K.          | 464,102       | 187,289           |
| Restaurants-casual dining        | 493,962       | 515,226           |
| Restaurants-quick service - U.S. | 1,123,317     | 1,062,918         |
| Theaters - U.S.                  | 752,439       | 767,117           |
| Transportation services          | 778,149       | 729,640           |
| Wholesale club                   | 441,279       | 407,584           |
| Other non-reportable segments    | 3,415,781     | 3,042,916         |
| Total net real estate            | 18,939,703    | 17,485,156        |
| Intangible assets:               |               |                   |
| Automotive service               | 56,319        | 55,018            |
| Beverages                        | 17,146        | 9,401             |
| Child care                       | 18,852        | 19,848            |
| Convenience stores               | 116,621       | 121,151           |
| Dollar stores                    | 87,620        | 77,176            |
| Drug stores                      | 160,033       | 167,975           |
| Financial services               | 13,267        | 14,611            |
| General merchandise              | 138,486       | 108,646           |
| Grocery stores - U.S.            | 180,333       | 181,764           |
| Grocery stores - U.K.            | 363,254       | 282,211           |
| Health and fitness               | 63,290        | 67,537            |
| Home improvement - U.S.          | 100,259       | 97,228            |
| Home improvement - U.K.          | 118,272       | 57,369            |
| Restaurants-casual dining        | 18,654        | 20,553            |
| Restaurants-quick service - U.S. | 44,951        | 47,517            |
| Theaters - U.S.                  | 26,650        | 28,292            |
| Transportation services          | 56,913        | 53,902            |
| Wholesale club                   | 52,227        | 36,165            |
| Other non-reportable segments    | 336,788       | 264,291           |
| Other corporate assets           | 1,075,303     | 1,544,474         |
| Total assets                     | \$ 21,984,941 | \$ 20,740,285     |

| Revenue   | Three months ended June 30, |            | Six months ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2021                        | 2020       | 2021                      | 2020       |
| Segment rental revenue:   |                             |            |                           |            |
| Automotive service  | \$ 10,142                   | \$ 8,661   | \$ 20,061                 | \$ 17,332  |
| Beverages   | 9,379                       | 7,996      | 18,331                    | 15,991     |
| Child care  | 8,812                       | 8,714      | 17,314                    | 18,195     |
| Convenience stores  | 51,088                      | 46,819     | 101,216                   | 93,552     |
| Dollar stores   | 32,847                      | 31,595     | 65,353                    | 62,986     |
| Drug stores   | 36,356                      | 35,617     | 71,404                    | 70,916     |
| Financial services  | 7,593                       | 7,573      | 15,317                    | 15,116     |
| General merchandise   | 16,852                      | 11,887     | 32,086                    | 23,404     |
| Grocery stores - U.S.   | 19,581                      | 19,485     | 39,262                    | 38,994     |
| Grocery stores - U.K.   | 23,782                      | 11,739     | 44,640                    | 22,143     |
| Health and fitness  | 27,108                      | 27,961     | 55,718                    | 56,239     |
| Home improvement - U.S.   | 13,544                      | 11,382     | 26,582                    | 22,692     |
| Home improvement - U.K.   | 6,670                       | —          | 11,149                    | —          |
| Restaurants-casual dining   | 12,019                      | 11,431     | 23,725                    | 23,969     |
| Restaurants-quick service - U.S.  | 24,260                      | 18,820     | 47,762                    | 42,128     |
| Theaters - U.S.   | 19,540                      | 24,448     | 39,195                    | 49,014     |
| Transportation services   | 16,827                      | 15,975     | 33,259                    | 31,960     |
| Wholesale club  | 10,148                      | 9,588      | 20,090                    | 19,176     |
| Other non-reportable segments and contractually obligated reimbursements by our clients | 113,708                     | 100,510    | 217,157                   | 198,551    |
| ental (including reimbursable)  | 460,256                     | 410,201    | 899,621                   | 822,358    |
| ther  | 4,026                       | 4,435      | 7,465                     | 6,619      |
| otal revenue  | \$ 464,282                  | \$ 414,636 | \$ 907,086                | \$ 828,977 |

## 20. 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, to enable us to motivate, attract and retain the services of directors, employees and consultants, considered essential to our long-term success. The 2021 Plan offers our directors, employees and consultants an opportunity to own our stock and/or rights that will reflect our growth, development and financial success. Under the terms of the 2021 Plan, the aggregate number of shares of our common stock subject to options, stock purchase rights, or SPR, stock appreciation rights, or SAR, and other awards, will be no more 8,924,231 shares. The maximum number of shares that may be subject to options, SPR, SAR and other awards granted under the plan to any individual in any calendar year may not exceed 3,200,000, and the maximum aggregate amount of cash that may be paid in cash during any calendar year with respect to one or more shares payable in cash shall be \$10.0 million. The 2021 Plan replaced the Realty Income Corporation 2012 Incentive Award Plan, or the 2012 Plan, which was set to expire in March 2022. No further awards will be granted under the 2012 Plan. The disclosures below incorporate activity for both the 2012 Plan and the 2021 Plan.

The amount of share-based compensation costs recognized in general and administrative expense on our consolidated statements of income and comprehensive income was \$4.5 million during the three months ended June 30, 2021, \$4.9 million during the three months ended June 30, 2020, \$8.2 million during the six months ended June 30, 2021, and \$10.4 million during the six months ended June 30, 2020 (including \$1.8 million of accelerated share-based compensation costs for our former Chief Financial Officer ("CFO")). Upon the departure of our former CFO in March 2020, we incurred a severance charge of \$3.5 million, consisting of \$1.6 million of cash, \$1.8 million related to share-based compensation expense and \$58,000 of professional fees.

**A. Restricted Stock**

During the six months ended June 30, 2021, we granted 112,498 shares of common stock under the 2012 and 2021 Plans. This included 36,000 total shares of restricted stock granted to the independent members of our Board of Directors in connection with our annual awards in May 2021, 24,000 shares of which vested immediately and 12,000 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 June 30, 2021, the remaining unamortized share-based compensation expense related to restricted stock totaled \$11.0 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 six months ended June 30, 2021, we granted 157,341 performance shares, as well as dividend equivalent rights, to our executive officers, of which 9,621 shares were subsequently forfeited, leaving 147,720 of the 2021 grants outstanding at June 30, 2021. 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 six months ended June 30, 2021, we also granted 17,285 restricted stock units, all of which vest over a four-year service period. These restricted stock units have the same economic rights as shares of restricted stock.

As of June 30, 2021, the remaining share-based compensation expense related to the performance shares and restricted stock units totaled \$15.5 million. The fair value of the performance shares were estimated on the date of grant using a Monte Carlo Simulation model. The performance shares are being recognized on a tranche-by-tranche basis over the service period. The amount of share-based compensation for the restricted stock units is based on the fair value of our common stock at the grant date. The 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.

**21. 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.

In connection with the Mergers, we expect to incur merger-related costs and, if the transaction is consummated, certain success-based fees and additional merger-related costs. In addition, we have been subject to lawsuits associated with the Merger Agreement. For further details, please refer to Note 3, *Agreement and Plan of Merger*.

At June 30, 2021, we had commitments of \$9.4 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements. In addition, as of June 30, 2021, we had committed \$218.6 million under construction contracts related to development projects, which is expected to be paid in the next twelve months.

**22. Subsequent Events**

**A. Dividend Increases**

In July 2021, we declared a dividend of \$0.2355 per share to our common stockholders, which will be paid in August 2021.

**B. Capital Raising**

In July 2021, we raised \$594.1 million from the issuance of 9,200,000 shares of common stock in an underwritten public offering, inclusive of 1,200,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares. The company intends to use the net proceeds from this offering to repay borrowings under our commercial paper program, to fund potential investment opportunities and/or for other general corporate purposes.

In July 2021, we issued £400 million through the issuance of 1.125% senior unsecured notes due 2027 (the "2027 Notes") and £350 million through the issuance of 1.750% senior unsecured notes due 2033 (the "2033 Notes"). The public offering price for the 2027 Notes was 99.305% of the principal amount for an effective semi-annual yield to maturity of 1.242% and the public offering price for the 2033 Notes was 99.842% of the principal amount for an effective semi-annual yield to maturity of 1.757%. Combined, the new issues of the 2027 Notes and 2033 Notes have a weighted average term of 8.8 years and a weighted average effective semi-annual yield to maturity of 1.48%. The issuances represented our debut green bond offering.

**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 discussions of strategy, plans, or intentions of management. Forward-looking statements are subject to risks, uncertainties, and assumptions about Realty Income Corporation, including, among other things:

- Our 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, or the economy generally; and
- The structure, timing and completion of the announced mergers between us and VEREIT, Inc. (the "Mergers") and uncertainties regarding whether the anticipated benefits or results of the proposed Mergers, if consummated, will be achieved.

Future events and actual results, financial and otherwise, may differ materially from the results discussed 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 of properties, or the estimated or potential impact of the proposed Mergers are based upon numerous assumptions and estimates and are inherently subject to substantial uncertainties and actual results of operations, financial condition, property acquisitions and the impacts of the Mergers (if consummated) 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, 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 the announcement, pendency or potential completion of the proposed Mergers on us and uncertainties regarding whether the anticipated benefits or results of the proposed Mergers, if consummated, will be achieved.

Additional factors that may cause risks and uncertainties include those discussed in the sections entitled "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on [Form 10-K](#), for the fiscal year ended December 31, 2020 and those risks described in "Item 1A- Risk Factors" in Part II of this Quarterly Report on Form 10-Q, for the quarter ended June 30, 2021.

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

## THE COMPANY

Realty Income, The Monthly Dividend Company®, is an S&P 500 company 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, or REIT, requiring it annually to distribute at least 90% of its taxable income (excluding net capital gains) in the form of dividends to its stockholders. The monthly dividends are supported by the cash flow generated from real estate owned under long-term 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 52 years, Realty Income has been acquiring and managing freestanding commercial properties that generate rental revenue under long-term lease agreements with our commercial clients.

At June 30, 2021, we owned a diversified portfolio:

- Of 6,761 properties;
- With an occupancy rate of 98.5%, or 6,658 properties leased and 103 properties available for lease or sale;
- Doing business in 58 separate industries;
- Located in all 50 U.S. states, Puerto Rico and the United Kingdom (U.K.);
- With approximately 118.3 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 17,500 square feet; approximately 12,600 square feet per retail property and 258,400 square feet per industrial property.

Of the 6,761 properties in the portfolio at June 30, 2021, 6,715, or 99.3%, are single-client properties, of which 6,616 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 \$23.5 million and \$21.0 million for the three months ended June 30, 2021 and 2020, respectively, and \$45.2 million and \$41.3 million for the six months ended June 30, 2021 and 2020, respectively. In addition, references to reserves recorded as a reduction of rental revenue include amounts reserved for in the current period, as well as unrecognized contractual revenue and unrecognized straight-line rental revenue for leases accounted for on a cash basis.

## 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 in the consumer price index (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 June 30, 2021, consisted of 6,761 properties located in all 50 U.S. states, Puerto Rico and the U.K., and doing business in 58 industries. None of the 58 industries represented in our property portfolio accounted for more than 11.6% of our annualized contractual rental revenue as of June 30, 2021.

### **Investment Strategy**

When identifying new properties for investment, we generally focus on acquiring high-quality real estate that our clients consider important to the successful operation of their businesses. We generally seek to acquire real estate that has the following characteristics:

- Properties that are freestanding, commercially-zoned with a single client;
- Properties that are in significant markets or strategic locations critical to generating revenue for our clients (i.e. they need the property in which they operate in order to conduct their business);
- Properties that we deem to be profitable for the clients and/or can generally be characterized as important to the successful operations of our business;
- Properties that are located within attractive demographic areas relative to the business 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; and
- Properties that can be purchased with the simultaneous execution or assumption of long-term net lease agreements, offering both current income and the potential for future rent increases.

We seek to invest in 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 single-client 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 look for clients with the following attributes:

- Reliable and sustainable cash flow;
- 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. We believe these characteristics better position clients to operate in a variety of economic conditions and to compete more effectively with internet retailers. As a result of the execution of this strategy, approximately 95% of our annualized retail contractual rental revenue at June 30, 2021 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 that are primarily 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 June 30, 2021, approximately 50% of our total portfolio annualized contractual rent comes from properties leased to our investment grade clients, their subsidiaries or affiliated companies. At June 30, 2021, our top 20 clients (based on percentage of total portfolio annualized contractual rent) represented approximately 52% 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**

### **Agreement and Plan of Merger**

On April 29, 2021, we entered into an Agreement and Plan of Merger, as amended, or the Merger Agreement, with VEREIT, Inc., or VEREIT, its operating partnership, VEREIT Operating Partnership, L.P., or VEREIT OP, and two newly formed wholly-owned subsidiaries of us. Pursuant to the terms of the Merger Agreement, (i) one of the newly formed subsidiaries of us will merge with and into VEREIT OP, with VEREIT OP as the surviving entity, which we refer to as the Partnership Merger, and (ii) immediately thereafter, VEREIT will merge with and into the other newly formed subsidiary of us, with our subsidiary as the surviving corporation, which we refer to as the Merger and, together with the Partnership Merger, the Mergers.

Pursuant to the terms of the Merger Agreement and subject to the terms thereof, upon the consummation of the Mergers, (i) each outstanding share of VEREIT common stock, and each outstanding common partnership unit of VEREIT OP owned by any of its partners other than VEREIT, Realty Income or their respective affiliates, will automatically be converted into 0.705 of a newly issued share of our common stock, subject to possible adjustment as provided in the Merger Agreement, (ii) each outstanding Series F preferred partnership unit of VEREIT OP owned by a partner other than VEREIT shall be converted into the right to receive \$25.00, plus the accumulated and unpaid distributions described in the Merger Agreement, and (iii) each outstanding Series F preferred partnership unit of VEREIT OP owned by VEREIT will remain outstanding as a preferred partnership unit and each outstanding common partnership unit of VEREIT OP owned by VEREIT, Realty Income or their respective affiliates will remain outstanding as a common partnership unit in the surviving entity of VEREIT OP. Immediately prior to the Mergers, VEREIT will issue a redemption notice to redeem each share of issued and outstanding VEREIT Series F preferred stock at its redemption price in accordance with its terms.

In connection with the Mergers, we and VEREIT intend to contribute some or all of our office real estate properties to a newly formed, wholly owned subsidiary, which we refer to as OfficeCo, and, following the Mergers, for us to distribute the outstanding voting shares of common stock of OfficeCo to our stockholders (including former VEREIT stockholders who receive shares of our common stock in the Mergers) on a pro rata basis, which we refer to as the Spin-Off. Following the consummation of the Spin-Off, we and VEREIT intend for OfficeCo to operate as a separate, publicly-traded REIT. Subject to the terms and conditions of the Merger Agreement, we and VEREIT may also or alternatively seek to sell some or all of the office real estate properties in connection with the closing of the Mergers or choose to retain some or all of the OfficeCo properties.

The Merger Agreement contains customary covenants, representations, and warranties, as well as certain termination rights for VEREIT and us, in each case, as more fully described in the Merger Agreement. The consummation of the Mergers is also subject to certain customary closing conditions, including receipt of the approval by our stockholders and the stockholders of VEREIT. In addition, we will not be obligated to consummate the Mergers before January 29, 2022 unless the Spin-Off is ready, in all respects, to be consummated contemporaneously with the closing of the Mergers. If this condition is not satisfied or waived by us by January 29, 2022, and all other conditions to closing have been satisfied, the parties will be obligated to close the Mergers, regardless of whether the Spin-Off is ready to be consummated. Likewise, the Spin-Off is subject to various conditions and uncertainties and we and VEREIT may elect to sell some or all of the applicable office properties before the Spin-Off and we may elect not to proceed with the Spin-Off at all.

In connection with the Merger, we have filed a registration statement on Form S-4 (File No. 333-256772), declared effective by the SEC on June 29, 2021, that includes a joint proxy statement of Realty Income and VEREIT. Realty Income and VEREIT have each scheduled special meetings of their respective stockholders to be held on August 12, 2021 in connection with the Mergers and related transactions. Realty Income stockholders will be asked to

consider and vote on a proposal to approve the issuance of Realty Income common stock in the Mergers pursuant to the Merger Agreement. VEREIT stockholders will be asked to consider and vote on a proposal to approve the Merger, on the terms and subject to the conditions of the Merger Agreement and a proposal to approve, by advisory (non-binding) vote, the compensation that may be paid or become payable to the named executive officers of VEREIT in connection with the Merger.

#### **Merger-related Costs**

In conjunction with our proposed acquisition of VEREIT, we incurred approximately \$13.3 million of merger-related transaction costs during the three and six months ended June 30, 2021. The merger-related costs incurred to date primarily consist of advisory fees, attorney fees, accountant fees and SEC filing fees.

In addition, we have engaged service providers, including investment banks and advisors, to help us negotiate the terms of the Merger and to advise us on other merger-related matters. In connection with these services, we expect to be required to pay success-based fees to the extent that certain conditions, including the closing of the Merger and consummation of the Spin-Off and/or sale of OfficeCo business, are met. As of June 30, 2021, we expect to incur approximately \$18.0 million of such success fees. As closing of the Merger has not occurred, no such amounts have been paid or accrued through June 30, 2021. If closing of the Merger does not occur, we would not expect to be required to pay these fees.

#### **Litigation Related to the Mergers**

To date, purported stockholders of VEREIT filed 12 lawsuits challenging disclosures related to the Merger, and purported stockholders of Realty Income filed one lawsuit challenging the disclosures related to the Merger. Each lawsuit seeks, among other things, injunction relief enjoining the consummation of the Merger, if the Merger is consummated, rescission or rescissory damages and an award of the plaintiff's costs, including attorneys' and experts' fees. The defendants believe that all of the claims asserted are without merit and intend to defend against them vigorously. However, litigation is inherently uncertain and there can be no assurance regarding the likelihood that the defendants' defense of the actions will be successful. The outcome of these lawsuits can't be predicted and could have a significant impact on the timing or our ability to close the Merger. Additional lawsuits arising out of the Mergers may also be filed in the future.

#### **Theater Industry Update**

As of June 30, 2021, the theater industry represented 5.4% of annualized contractual rental revenue. As of June 30, 2021, we were fully reserved for the outstanding receivable balances for 37 theater properties. At June 30, 2021, the receivables outstanding for our 79 theater properties totaled \$77.9 million, inclusive of \$9.1 million of straight-line rent receivables, and net of \$40.0 million of reserves, inclusive of \$2.0 million of straight-line rent reserves. The following table summarizes reserves recorded as a reduction of rental revenue for theater properties (dollars in millions):

|                                      | <b>Three Months Ended</b> | <b>Six Months Ended</b> |  |
|--------------------------------------|---------------------------|-------------------------|--|
|                                      | <b>June 30, 2021</b>      | <b>June 30, 2021</b>    |  |
| Rental revenue reserves              | \$ 6.5                    | \$ 13.8                 |  |
| Straight-line rent reserves          | 0.1                       | 0.2                     |  |
| <b>Total rental revenue reserves</b> | <b>\$ 6.6</b>             | <b>\$ 14.0</b>          |  |

Additionally, we did not record any provisions for impairment on theater properties for the six months ended June 30, 2021. See "Item 1A—Risk Factors" in Part I of our Annual Report on [Form 10-K](#) for the year ended December 31, 2020 for more information regarding the actual and potential future impacts of the COVID-19 pandemic and the measures taken to limit its spread on our clients and our business, results of operations, financial condition and liquidity.

#### **Increases in Monthly Dividends to Common Stockholders**

We have continued our 52-year policy of paying monthly dividends. In addition, we increased the dividend three times during 2021. As of July 2021, we have paid 95 consecutive quarterly dividend increases and increased the dividend 111 times since our listing on the NYSE in 1994.

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The following table summarizes our dividend increases in 2021:

| 2021 Dividend increases | Month Declared | Month Paid | Dividend per share | Increase per share |
|-------------------------|----------------|------------|--------------------|--------------------|
| 1st increase            | Dec 2020       | Jan 2021   | \$ 0.2345          | \$ 0.0005          |
| 2nd increase            | Mar 2021       | Apr 2021   | \$ 0.2350          | \$ 0.0005          |
| 3rd increase            | Jun 2021       | Jul 2021   | \$ 0.2355          | \$ 0.0005          |

The dividends paid per share during the six months ended June 30, 2021 totaled approximately \$1.4085, as compared to approximately \$1.3915 during the six months ended June 30, 2020, an increase of \$0.0170, or 0.9%.

The monthly dividend of \$0.2355 per share represents a current annualized dividend of \$2.826 per share, and an annualized dividend yield of approximately 4.2% based on the last reported sale price of our common stock on the NYSE of \$66.74 on June 30, 2021. 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 Six Months Ended June 30, 2021

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

|   | Number of Properties | Leasable Square Feet | Investment (\$ in thousands) | Weighted Average Lease Term (Years) | Initial Average Cash Lease Yield <sup>(1)</sup> |
|---|----------------------|----------------------|------------------------------|-------------------------------------|---|
| <b>Three months ended June 30, 2021<sup>(2)</sup></b> |                      |                      |                              |                                     |   |
| Acquisitions - U.S. (in 24 states)                    | 96                   | 2,186,109            | \$ 485,424                   | 13.9                                | 5.3 %   |
| Acquisitions - U.K. <sup>(3)</sup>                    | 29                   | 2,200,493            | \$ 591,821                   | 9.3                                 | 6.1 %   |
| Total acquisitions                                    | 125                  | 4,386,602            | \$ 1,077,245                 | 11.2                                | 5.7 %   |
| Properties under development - U.S.                   | 31                   | 1,898,893            | \$ 56,867                    | 15.6                                | 5.9 %   |
| <b>Total<sup>(4)</sup></b>                            | <b>156</b>           | <b>6,285,495</b>     | <b>\$ 1,134,112</b>          | <b>11.5</b>                         | <b>5.7 %</b>                                    |
| <b>Six months ended June 30, 2021<sup>(2)</sup></b>   |                      |                      |                              |                                     |   |
| Acquisitions - U.S. (in 29 states)                    | 173                  | 4,484,715            | \$ 1,052,333                 | 13.7                                | 5.5 %   |
| Acquisitions - U.K. <sup>(3)</sup>                    | 41                   | 3,133,460            | \$ 994,783                   | 9.8                                 | 5.6 %   |
| Total acquisitions                                    | 214                  | 7,618,175            | \$ 2,047,116                 | 11.8                                | 5.5 %   |
| Properties under development - U.S.                   | 40                   | 2,015,992            | \$ 114,798                   | 15.6                                | 5.7 %   |
| <b>Total<sup>(5)</sup></b>                            | <b>254</b>           | <b>9,634,167</b>     | <b>\$ 2,161,914</b>          | <b>12.0</b>                         | <b>5.5 %</b>                                    |

<sup>(1)</sup> The initial 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 average cash yield for the three and six months ended June 30, 2021 includes approximately \$850,000 received as settlement credits for four properties acquired as reimbursement of free rent periods.

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.

<sup>(2)</sup> None of our investments during the three and six months ended June 30, 2021 caused any one client to be 10% or more of our total assets at June 30, 2021. All of our investments in acquired properties during the three and six months ended June 30, 2021 were 100% leased at the acquisition date.

<sup>(3)</sup> Represents investments of £424.9 million Sterling during the three months ended June 30, 2021 and £715.1 million Sterling during the six months ended June 30, 2021 converted at the applicable exchange rate on the date of acquisition.

<sup>(4)</sup> Our clients occupying the new properties operate in 19 industries and are 85.1% retail and 14.9% industrial, based on rental revenue. Approximately 54% of the rental revenue generated from acquisitions during the three months ended June 30, 2021 is from our investment grade rated clients, their subsidiaries or affiliated companies.

<sup>(5)</sup> Our clients occupying the new properties operate in 28 industries and are 75.8% retail and 24.2% industrial, based on rental revenue. Approximately 47% of the rental revenue generated from acquisitions during the six months ended June 30, 2021 is from our investment grade rated clients, their subsidiaries or affiliated companies.

**Portfolio Discussion****Leasing Results**

At June 30, 2021, we had 103 properties available for lease or sale out of 6,761 properties in our portfolio, which represents a 98.5% occupancy rate based on the number of properties in our portfolio.

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

**Three months ended June 30, 2021**

|  |      |
|--|------|
| Properties available for lease at March 31, 2021 | 131  |
| Lease expirations (1)                            | 66   |
| Re-leases to same client                         | (54) |
| Re-leases to new client                          | (2)  |
| Vacant dispositions                              | (38) |
| Properties available for lease at June 30, 2021  | 103  |

**Six months ended June 30, 2021**

|   |      |
|---|------|
| Properties available for lease at December 31, 2020 | 140  |
| Lease expirations (1)                               | 126  |
| Re-leases to same client                            | (91) |
| Re-leases to new client                             | (15) |
| Vacant dispositions                                 | (57) |
| Properties available for lease at June 30, 2021     | 103  |

(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 June 30, 2021, the annual new rent on re-leases was \$10.44 million, as compared to the previous annual rent of \$9.97 million on the same units, representing a rent recapture rate of 104.7% on the units re-leased. We re-leased one unit to a new client without a period of vacancy, and two units to new clients after a period of vacancy.

During the six months ended June 30, 2021, the annual new rent on re-leases was \$21.97 million, as compared to the previous annual rent of \$21.12 million on the same units, representing a rent recapture rate of 104.0% on the units re-leased. We re-leased three units to new clients without a period of vacancy, and 17 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 June 30, 2021, our average annualized contractual rent was approximately \$15.37 per square foot on the 6,658 leased properties in our portfolio. At June 30, 2021, we classified 33 properties, with a carrying amount of \$39.5 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 June 30, 2021, we capitalized costs of \$2.8 million on existing properties in our portfolio, consisting of \$121,000 for re-leasing costs, \$28,000 for recurring capital expenditures, and \$2.6 million for non-recurring building improvements. During the six months ended June 30, 2021, we capitalized costs of \$4.3 million on existing properties in our portfolio, consisting of \$827,000 for re-leasing costs, \$51,000 for recurring capital expenditures, and \$3.4 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.

#### **Capital Raising**

During the three months ended June 30, 2021, we raised \$457.5 million from the sale of common stock at a weighted average price of \$69.01 per share, primarily through our At-The-Market-Program.

During the six months ended June 30, 2021, we raised \$1.15 billion from the sale of common stock at a weighted average price of \$61.29, primarily from 12,075,000 shares issued in an overnight underwritten public offering during the three months ended March 31, 2021, where we raised \$669.6 million, including 1,575,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares, and from the sale of common stock through our At-The-Market-Program.

In July 2021, we raised \$594.1 million from the issuance of 9,200,000 shares of common stock in an underwritten public offering, inclusive of 1,200,000 shares purchased by the underwriters upon the exercise of their option to purchase additional shares.

In July 2021, we issued £400 million through the issuance of 1.125% senior unsecured notes due 2027 (the "2027 Notes") and £350 million through the issuance of 1.750% senior unsecured notes due 2033 (the "2033 Notes"). The public offering price for the 2027 Notes was 99.305% of the principal amount for an effective semi-annual yield to maturity of 1.242% and the public offering price for the 2033 Notes was 99.842% of the principal amount for an effective semi-annual yield to maturity of 1.757%. Combined, the new issues of the 2027 Notes and 2033 Notes have a weighted average term of 8.8 years and a weighted average effective semi-annual yield to maturity of 1.48%. The issuances represented our debut green bond offering of Sterling-denominated notes.

#### **Early Redemption of 3.250% Notes Due October 2022**

In January 2021, we completed the early redemption on 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 during the three months ended March 31, 2021. Loss on extinguishment of debt is excluded in our calculation of AFFO.

#### **Impact of COVID-19**

We continue to work diligently with our clients most affected by the pandemic to understand their business operations and financial liquidity and their ability to satisfy their contractual obligations to us. As we carefully navigate this difficult economic period with our clients, our focus is on finding resolutions that preserve the long-term relationships we have built with many of our clients. See "Item 1A—Risk Factors" in Part I of our Annual Report on [Form 10-K](#) for year ended December 31, 2020 for more information regarding the actual and potential future impacts of the COVID-19 pandemic and the measures taken to limit its spread on our clients and our business, results of operations, financial condition and liquidity.

The majority of lease concessions granted to our clients during 2020 and the six months ended June 30, 2021 as a result of the COVID-19 pandemic have been rent deferrals with the original lease term unchanged. In these cases, we have determined that the collection of deferred rent is probable (within the meaning applicable under GAAP), although we cannot assure you that this determination will not change in the future. In addition, as we believe to be the case with many retail landlords, we have received many short-term rent relief requests, most often in the form of rent deferral requests, or requests for further discussion from clients. We believe that not all client requests will ultimately result in lease modification agreements, nor have we relinquished our contractual rights under our lease agreements where rent concessions have not yet been granted. Our rent collections for the periods below and rent relief requests to-date may not be indicative of collections, concessions or requests in any future period.

**Percentages of Contractual Rent Collected as of June 30, 2021**

|  | Month Ended<br>April 30, 2021 | Month Ended<br>May 31, 2021 | Month Ended<br>June 30, 2021 | Quarter Ended<br>June 30, 2021 |
|--|-------------------------------|-----------------------------|------------------------------|--------------------------------|
| Contractual rent collected <sup>(1)</sup> across total portfolio                           | 95.5%                         | 95.5%                       | 96.7%                        | <b>95.9%</b>                   |
| Contractual rent collected <sup>(1)</sup> from our top 20 clients <sup>(2)</sup>           | 92.7%                         | 92.7%                       | 94.8%                        | <b>93.4%</b>                   |
| Contractual rent collected <sup>(1)</sup> from our investment grade clients <sup>(3)</sup> | 100.0%                        | 100.0%                      | 100.0%                       | <b>100.0%</b>                  |
| Contractual rent collected from our theater clients  | 32.3%                         | 31.5%                       | 51.0%                        | <b>38.3%</b>                   |
| Contractual rent collected from our health and fitness clients                             | 94.8%                         | 94.5%                       | 93.9%                        | <b>94.4%</b>                   |

<sup>(1)</sup> Collection rates are calculated as the aggregate contractual rent collected for the applicable period from the beginning of that applicable period through June 30, 2021, divided by the contractual rent charged for the applicable period. Rent collection percentages are calculated based on contractual rents (excluding percentage rents and contractually obligated reimbursements by our clients). Charged amounts have not been adjusted for any COVID-19 related rent relief granted and include contractual rents from any clients in bankruptcy. Due to differences in applicable foreign currency conversion rates and rent conventions, the percentages above may differ from percentages calculated utilizing our total portfolio annualized contractual rent.

<sup>(2)</sup> We define our top 20 clients as our 20 largest clients based on percentage of total portfolio annualized contractual rent as of June 30, 2021 for all periods.

<sup>(3)</sup> We define investment grade clients as clients with a credit rating, and our clients that are subsidiaries or affiliates of companies with a credit rating, as of the balance sheet date, of Baa3/BBB- or higher from one of the three major rating agencies (Moody's/S&P/Fitch).

As the adverse impacts of the COVID-19 pandemic and the measures taken to limit its spread continue to evolve, the ability of our clients to continue to pay rent to us may further diminish, and therefore we cannot assure you that our historical rental collections are indicative of our rental collections in the future. As a result of the impacts of the COVID-19 pandemic and the measures taken to limit its spread, our revenues in the foreseeable future may decline, and that decline may continue or increase in subsequent periods as long as such impacts continue to exist.

**Select Financial Results**

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

|  |                             |          |                           |          | % Increase (Decrease) |            |
|--|-----------------------------|----------|---------------------------|----------|-----------------------|------------|
|  | Three months ended June 30, |          | Six months ended June 30, |          | Three months          | Six months |
|  | 2021                        | 2020     | 2021                      | 2020     |                       |            |
| Total revenue  | \$ 464.3                    | \$ 414.6 | \$ 907.1                  | \$ 829.0 | 12.0 %                | 9.4 %      |
| Net income available to common stockholders <sup>(1)</sup>                         | \$ 124.5                    | \$ 107.8 | \$ 220.4                  | \$ 254.7 | 15.5 %                | (13.5)%    |
| Net income per share <sup>(2)</sup>  | \$ 0.33                     | \$ 0.31  | \$ 0.59                   | \$ 0.75  | 6.5 %                 | (21.3)%    |
| Funds from operations available to common stockholders (FFO)                       | \$ 314.4                    | \$ 288.3 | \$ 582.1                  | \$ 565.4 | 9.1 %                 | 3.0 %      |
| FFO per share <sup>(2)</sup>   | \$ 0.84                     | \$ 0.84  | \$ 1.56                   | \$ 1.66  | — %                   | (6.0)%     |
| Normalized funds from operations available to common stockholders (Normalized FFO) | \$ 327.7                    | \$ 288.3 | \$ 595.4                  | \$ 565.4 | 13.7 %                | 5.3 %      |
| Normalized FFO per share <sup>(2)</sup>  | \$ 0.88                     | \$ 0.84  | \$ 1.60                   | \$ 1.66  | 4.8 %                 | (3.6)%     |
| Adjusted funds from operations available to common stockholders (AFFO)             | \$ 327.6                    | \$ 295.2 | \$ 645.9                  | \$ 592.5 | 11.0 %                | 9.0 %      |
| AFFO per share <sup>(2)</sup>  | \$ 0.88                     | \$ 0.86  | \$ 1.73                   | \$ 1.74  | 2.3 %                 | (0.6)%     |

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

<sup>(2)</sup> All per share amounts are presented on a diluted per common share basis.

Our financial results in the six months ended June 30, 2021 were impacted by a \$46.5 million loss on extinguishment of debt due to the January 2021 early redemption of our 3.250% notes due October 2022 and \$13.3 million of merger-related costs related to our proposed merger with VEREIT. Our financial results in the six months ended June 30, 2020 were impacted by a \$9.8 million loss on extinguishment of debt due to the January

2020 early redemption of the 5.750% notes due 2021, and a \$3.5 million executive severance charge for our former chief financial officer.

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, 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 program, 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 program and through public securities offerings.

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 June 30, 2021, our total outstanding borrowings of senior unsecured notes and bonds, term loan, mortgages payable, credit facility borrowings and commercial paper were \$9.2 billion, or approximately 26.6% of our total market capitalization of \$34.6 billion.

We define our total market capitalization at June 30, 2021 as the sum of:

- Shares of our common stock outstanding of 380,174,042, plus total common units outstanding of 463,119, multiplied by the last reported sales price of our common stock on the NYSE of \$66.74 per share on June 30, 2021, or \$25.4 billion;
- Outstanding borrowings of \$635.3 million on our revolving credit facility, consisting entirely of Sterling-denominated borrowings of £460.0 million;
- Outstanding borrowings of \$650.0 million on our commercial paper program;
- Outstanding mortgages payable of \$299.9 million, excluding net mortgage premiums of \$1.6 million and deferred financing costs of \$942,000;
- Outstanding borrowings of \$250.0 million on our term loan, excluding deferred financing costs of \$543,000; and
- Outstanding senior unsecured notes and bonds of \$7.36 billion, including Sterling-denominated notes of £715.0 million, and excluding unamortized net original issuance premiums of \$11.7 million and deferred financing costs of \$44.1 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) depositary shares representing fractional interests in shares of preferred stock, (5) warrants to purchase debt securities,

common stock, preferred stock, or depositary shares, and (6) any combination of these securities. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

#### **At-the-Market (ATM) Program**

Under our "at-the-market" equity distribution plan, or our ATM program, up to 33,402,405 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. During the three and six months ended June 30, 2021, we issued 6,589,598 shares and raised approximately \$454.8 million under the ATM program. At June 30, 2021, we had 9,088,433 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.

#### **Issuance of Common Stock**

In January 2021, we issued 12,075,000 shares of common stock in an overnight underwritten public offering, inclusive of 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 and for general corporate purposes, and working capital.

In July 2021, we issued 9,200,000 shares of common stock in an overnight underwritten public offering, inclusive of 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 company intends to use the net proceeds of \$594.1 million to repay borrowings under our \$1.0 billion commercial paper program, to fund potential investment opportunities and/or for other general corporate purposes.

#### **Dividend Reinvestment and Stock Purchase Plan**

Our Dividend Reinvestment and Stock Purchase Plan, or our DRSPP, provides our common stockholders, as well as new investors, with a convenient and economical method of purchasing our common stock and reinvesting their distributions. Our DRSPP also allows our current stockholders to buy additional shares of common stock by reinvesting all or a portion of their distributions. Our DRSPP authorizes up to 26,000,000 common shares to be issued. Our DRSPP includes a waiver approval process, allowing larger investors or institutions, per a formal approval process, to purchase shares at a small discount, if approved by us. We did not issue shares under the waiver approval process during the six months ended June 30, 2021. During the three months ended June 30, 2021, we issued 39,423 shares and raised approximately \$2.7 million under our DRSPP. During the six months ended June 30, 2021, we issued 82,817 shares and raised approximately \$5.3 million under our DRSPP. At June 30, 2021, we had 11,420,562 shares remaining for future issuance under our DRSPP program.

#### **Revolving Credit Facility and Commercial Paper Program**

We have a \$3.0 billion unsecured revolving credit facility with an initial term that expires in March 2023 and includes, at our option, two six-month extensions. The multicurrency revolving facility allows us to borrow in up to 14 currencies, including U.S. dollars. Our revolving credit facility has a \$1.0 billion expansion option, which is subject to obtaining lender commitments. Under our revolving credit facility, our investment grade credit ratings as of June 30, 2021 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.775% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.90% over LIBOR.

The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

As of June 30, 2021, we had a borrowing capacity of \$2.4 billion available on our revolving credit facility and an outstanding balance of \$635.3 million, consisting entirely of Sterling-denominated borrowings of £460.0 million. The weighted average interest rate on borrowings under our revolving credit facility during the six months ended June 30, 2021 was 0.9% per annum. We must comply with various financial and other covenants in our credit facility. At June 30, 2021, 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.

In August 2020, we established a U.S. dollar-denominated unsecured commercial paper program. Under the terms of the program, we may issue from time to time unsecured commercial paper notes up to a maximum aggregate amount outstanding of \$1.0 billion. Borrowings under this program generally mature in one year or less. At June 30, 2021, we had an outstanding balance of \$650.0 million. The weighted average interest rate on borrowings under our commercial paper program was 0.3% for the six months ended June 30, 2021. We use our \$3.0 billion revolving credit facility as a liquidity backstop for the repayment of the notes issued under the commercial paper program.

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 program and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

#### **Term Loan**

In October 2018, in conjunction with entering into our revolving credit facility, we entered into a \$250.0 million senior unsecured term loan, which matures in March 2024, and is governed by the credit agreement that governs our revolving credit facility. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.85%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest on this term loan at 3.89%.

#### **Mortgage Debt**

As of June 30, 2021, we had \$299.9 million of mortgages payable, all of which were assumed in connection with our property acquisitions, including a Sterling-denominated mortgage payable of £31.0 million assumed during the three months ended June 30, 2021. Additionally, at June 30, 2021, we had net premiums totaling \$1.6 million on these mortgages and deferred financing costs of \$942,000. 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 six months ended June 30, 2021, we made \$42.6 million in principal payments, including the repayment of five mortgages in full for \$40.9 million.

#### **Notes Outstanding**

Our senior unsecured note and bond obligations consist of the following as of June 30, 2021, sorted by maturity date (dollars in millions):

|   |                 |
|---|-----------------|
| 4.650% notes, issued in July 2013 and due in August 2023  | \$ 750          |
| 3.875% notes, issued in June 2014 and due in July 2024  | 350             |
| 3.875% notes, issued in April 2018 and due in April 2025  | 500             |
| 0.750% notes, issued December 2020 and due in March 2026  | 325             |
| 4.125% notes, \$250 issued in September 2014 and \$400 issued in March 2017, both due in October 2026 | 650             |
| 3.000% notes, issued in October 2016 and due in January 2027  | 600             |
| 3.650% notes, issued in December 2017 and due in January 2028   | 550             |
| 3.250% notes, issued in June 2019 and due in June 2029  | 500             |
| 1.625% notes, issued in October 2020 and due December 2030 <sup>(1)</sup>                             | 552             |
| 3.250% notes, \$600 issued in May 2020 and \$350 issued in July 2020, both due in January 2031        | 950             |
| 1.800% notes, issued in December 2020 and due in March 2033   | 400             |
| 2.730% notes, issued in May 2019 and due in May 2034 <sup>(1)</sup>                                   | 435             |
| 5.875% bonds, \$100 issued in March 2005 and \$150 issued in June 2011, both due in March 2035        | 250             |
| 4.650% notes, \$300 issued in March 2017 and \$250 issued in December 2017, both due in March 2047    | 550             |
| <b>Total principal amount</b>   | <b>\$ 7,362</b> |
| <b>Unamortized net original issuance premiums and deferred financing costs</b>                        | <b>(32)</b>     |
|   | <b>\$ 7,330</b> |

<sup>(1)</sup> Represents the principal balance (in U.S. dollars) of the October 2020 Sterling-denominated note offering and May 2019 Sterling-denominated private placement of £400.0 million and £315.0 million, respectively, converted at the applicable exchange rate on June 30, 2021.

In July 2021, we issued £400 million of 1.125% senior unsecured notes due July 2027 (the "2027" Notes) and £350 million of 1.750% senior unsecured notes due July 2033 (the "2033" Notes). The public offering price for the 2027 Notes was 99.305% of the principal amount for an effective semi-annual yield to maturity of 1.242% and the public

offering price for the 2033 Notes was 99.842% of the principal amount for an effective semi-annual yield to maturity of 1.757%. Combined, the new issues of the 2027 Notes and 2033 Notes have a weighted average term of 8.8 years and a weighted average effective semi-annual yield to maturity of 1.48%. The issuances represented our debut green bond offering.

All of our outstanding notes and bonds have fixed interest rates and contain various covenants, with which we remained in compliance as of June 30, 2021. Additionally, with the exception of our £400 million of 1.625% senior unsecured notes issued in October 2020, our 2027 Notes, and our 2033 Notes, in each case where interest 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. GAAP measurements, are presented to investors to show our ability to incur additional debt under the terms of our senior notes and bonds as well as to disclose our current compliance with such covenants, and are not measures of our liquidity or performance. The actual amounts as of June 30, 2021 are:

| Note Covenants  | Required                 | Actual  |
|---|--------------------------|---------|
| Limitation on incurrence of total debt                    | ≤ 60% of adjusted assets | 39.1 %  |
| Limitation on incurrence of secured debt                  | ≤ 40% of adjusted assets | 1.3 %   |
| Debt service coverage (trailing 12 months) <sup>(1)</sup> | ≥ 1.5x                   | 6.0     |
| Maintenance of total unencumbered assets                  | ≥ 150% of unsecured debt | 259.6 % |

<sup>(1)</sup> Our debt service coverage ratio is calculated on a pro forma basis for the preceding four-quarter period on the assumptions that: (i) the incurrence of any debt (as defined in the covenants) incurred by us since the first day of such four-quarter period and the application of the proceeds therefrom (including to refinance other debt since the first day of such four-quarter period), (ii) the repayment or retirement of any of our debt since the first day of such four-quarter period, and (iii) any acquisition or disposition by us of any asset or group since the first day of such four quarters had in each case occurred on July 1, 2020 and subject to certain additional adjustments. Such pro forma ratio has been prepared on the basis required by that debt service covenant, reflects various estimates and assumptions and is subject to other uncertainties, and therefore does not purport to reflect what our actual debt service coverage ratio would have been had transactions referred to in clauses (i), (ii) and (iii) of the preceding sentence occurred as of July 1, 2020, 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 June 30, 2021 (in thousands, for trailing twelve months):

|  |    |           |
|--|----|-----------|
| Net income available to common stockholders                                    | \$ | 361,254   |
| Plus: interest expense, excluding the amortization of deferred financing costs |    | 292,963   |
| Plus: loss on extinguishment of debt   |    | 46,473    |
| Plus: provision for taxes  |    | 24,542    |
| Plus: depreciation and amortization  |    | 709,899   |
| Plus: provisions for impairment  |    | 148,851   |
| Plus: pro forma adjustments  |    | 114,442   |
| Less: gain on sales of real estate   |    | (59,705)  |
| Income available for debt service, as defined                                  | \$ | 1,638,719 |
| Total pro forma debt service charge  | \$ | 273,687   |
| Debt service and fixed charge coverage ratio                                   |    | 6.0       |

### Cash Reserves

We are organized to operate as an equity REIT that acquires and leases properties and distributes to stockholders, in the form of monthly cash distributions, a substantial portion of our net cash flow generated from leases on our properties. We intend to retain an appropriate amount of cash as working capital. At June 30, 2021, we had cash and cash equivalents totaling \$231.2 million, inclusive of £49.8 million Sterling.

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 program.

## Credit Agency Ratings

The borrowing interest rates under our revolving credit facility are based upon our ratings assigned by credit rating agencies. As of June 30, 2021, 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 June 30, 2021: 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 ratings as of June 30, 2021, the facility interest rate was LIBOR, plus 0.775% with a facility commitment fee of 0.125%, for all-in drawn pricing of 0.90% over LIBOR. Our credit facility provides that the interest rate can range between: (i) LIBOR, plus 1.45% if our credit rating is lower than BBB-/Baa3 or our senior unsecured debt is unrated and (ii) LIBOR, plus 0.75% 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 June 30, 2021 (dollars in millions):

| Year of Maturity | Credit Facility and Commercial Paper Program <sup>(1)</sup> | Senior Unsecured Notes and Bonds <sup>(2)</sup> | Term Loan <sup>(3)</sup> | Mortgages Payable <sup>(4)</sup> | Interest <sup>(5)</sup> | Ground Leases Paid by Realty Income <sup>(6)</sup> | Ground Leases Paid by Our Clients <sup>(7)</sup> | Other <sup>(8)</sup> | Totals      |
|------------------|---|---|--------------------------|----------------------------------|-------------------------|--|--|----------------------|-------------|
| 2021             | \$ 650.0  | \$ —  | \$ —                     | \$ 1.9                           | \$ 144.2                | \$ 0.8   | \$ 6.9   | \$ 202.1             | \$ 1,005.9  |
| 2022             | —   | —   | —                        | 112.1                            | 278.5                   | 1.6  | 13.8   | 43.9                 | 449.9       |
| 2023             | 635.3   | 750.0   | —                        | 20.9                             | 269.8                   | 1.6  | 13.8   | —                    | 1,691.4     |
| 2024             | —   | 350.0   | 250.0                    | 112.5                            | 224.8                   | 1.6  | 13.9   | —                    | 952.8       |
| 2025             | —   | 500.0   | —                        | 42.4                             | 193.4                   | 1.4  | 13.6   | —                    | 750.8       |
| Thereafter       | —   | 5,762.5   | —                        | 10.1                             | 1,224.0                 | 18.8   | 56.0   | —                    | 7,071.4     |
| Totals           | \$ 1,285.3  | \$ 7,362.5                                      | \$ 250.0                 | \$ 299.9                         | \$ 2,334.7              | \$ 25.8  | \$ 118.0   | \$ 246.0             | \$ 11,922.2 |

<sup>(1)</sup> The initial term of the credit facility expires in March 2023 and includes, at our option, two six-month extensions. Borrowings of \$650.0 million under the commercial paper program were due in July 2021.

<sup>(2)</sup> Excludes non-cash original issuance discounts and premiums recorded on notes payable of \$11.7 million and deferred financing costs of \$44.1 million. The table of obligations also excludes the July 2021 issuances of £400 million of senior unsecured notes due July 2027 and £350 million of senior unsecured notes due July 2033.

<sup>(3)</sup> Excludes deferred financing costs of \$543,000.

<sup>(4)</sup> Excludes both non-cash net premiums recorded on the mortgages payable of \$1.6 million and deferred financing costs of \$942,000.

<sup>(5)</sup> Interest on the term loan, notes, bonds, mortgages payable, and commercial paper program has been calculated based on outstanding balances at period end through their respective maturity dates. Excludes interest from the July 2021 issuances of £400 million of 1.125% senior unsecured notes due July 2027 and £350 million of 1.750% senior unsecured notes due July 2033.

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

<sup>(7)</sup> 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.

<sup>(8)</sup> "Other" consists of \$218.6 million of commitments under construction contracts, \$9.4 million for re-leasing costs, recurring capital expenditures, and non-recurring building improvements and \$18.0 million of success fees related to our proposed merger with VEREIT. If closing of the Merger does not occur, we would not expect to be required to pay these success fees.

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

## No Unconsolidated Investments

We have no unconsolidated investments, nor do we engage in trading activities involving energy or commodity contracts.

## **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. 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 2020, our cash distributions to common stockholders totaled \$964.2 million, or approximately 119.8% of our estimated taxable income of \$804.9 million. Our estimated taxable income reflects non-cash deductions for depreciation and amortization. Our estimated 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 six months ended June 30, 2021 totaled \$524.1 million, representing 81.1% of our adjusted funds from operations available to common stockholders of \$645.9 million. In comparison, our 2020 cash distributions to common stockholders totaled \$964.2 million, representing 82.2% of our adjusted funds from operations available to common stockholders of \$1.173 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, or the Code, 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 17.6% of the distributions to our common stockholders, made or deemed to have been made in 2020, 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, 2020.

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.

When assessing the collectability of future lease payments, one of the key factors we have considered during 2020 and the six months ended June 30, 2021 has been the COVID-19 pandemic. We generally assess collectability based on an analysis of creditworthiness, economic trends, and other facts and circumstances related to our applicable clients. If the collection of substantially all of the future lease payments is less than probable, we will write-off the receivable balances associated with the lease and cease to recognize lease income, including straight-line rent, unless cash is received when due. Unless otherwise specified, references to reserves recorded as a reduction of rental revenue include amounts reserved for in the current period, as well as unrecognized contractual rental revenue and unrecognized straight-line rental revenue for leases accounted for on a cash basis. As of June 30, 2021, other than the information related to the reserves we have recorded to such 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, there may be impacts in future periods that could change this assessment as the situation continues to evolve and as more information becomes available.

The COVID-19 pandemic and the measures taken to limit its spread are negatively impacting the economy across many industries, including the industries in which some of our clients operate. These impacts may continue and increase in severity as the duration or extent of the pandemic increases, which may, in turn, adversely impact the fair value estimates of our real estate and require the recording of impairments on our properties. As a result, we evaluated certain key assumptions involving fair value estimates of our real estate, recording of impairments on our properties and collectability of our accounts receivable. We continue to evaluate the potential impacts of the COVID-19 pandemic and the measures taken to limit its spread on our business and industry segments, as the situation continues to evolve and more information becomes available.

**The following is a comparison of our results of operations for the three and six months ended June 30, 2021, to the three and six months ended June 30, 2020.**

**Total Revenue**

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

|                                 | Three months ended June 30, |                   | Six months ended June 30, |                   | Increase/ (Decrease) |                  |
|---------------------------------|-----------------------------|-------------------|---------------------------|-------------------|----------------------|------------------|
|                                 | 2021                        | 2020              | 2021                      | 2020              | Three Months         | Six Months       |
| <b>REVENUE</b>                  |                             |                   |                           |                   |                      |                  |
| Rental (excluding reimbursable) | \$ 436,735                  | \$ 389,237        | \$ 854,422                | \$ 781,028        | \$ 47,498            | \$ 73,394        |
| Rental (reimbursable)           | 23,521                      | 20,964            | 45,199                    | 41,330            | 2,557                | 3,869            |
| Other                           | 4,026                       | 4,435             | 7,465                     | 6,619             | (409)                | 846              |
| <b>Total revenue</b>            | <b>\$ 464,282</b>           | <b>\$ 414,636</b> | <b>\$ 907,086</b>         | <b>\$ 828,977</b> | <b>\$ 49,646</b>     | <b>\$ 78,109</b> |

**Rental Revenue (excluding reimbursable)**

The table below summarizes the increase in rental revenue (excluding reimbursable) in the three months ended June 30, 2021 compared to the three months ended June 30, 2020 (dollars in thousands):

|   | Number of Properties | Square Footage (1) | Three Months Ended June 30, |                   | Increase/(Decrease) |               |
|---|----------------------|--------------------|-----------------------------|-------------------|---------------------|---------------|
|   |                      |                    | 2021                        | 2020              | \$ Change           | % Change      |
| Properties acquired subsequent to December 31, 2019 | 473                  | 15,360,676         | \$ 52,279                   | \$ 9,287          | \$ 42,992           | 462.9 %       |
| Same store rental revenue                           | 6,114                | 96,554,182         | 373,783                     | 371,768           | 2,015               | 0.5 %         |
| Constant currency adjustment (2)                    | N/A                  | N/A                | 421                         | (1,384)           | 1,805               | (130.4) %     |
| Properties sold subsequent to December 31, 2019     | 197                  | 4,407,860          | 411                         | 3,312             | (2,901)             | (87.6) %      |
| Straight-line rent and other non-cash adjustments   | N/A                  | N/A                | 4,298                       | (1,518)           | 5,816               | (383.1) %     |
| Vacant rents, development and other (3)             | 174                  | 3,157,499          | 5,543                       | 7,772             | (2,229)             | (28.7) %      |
| <b>Totals</b>                                       |                      |                    | <b>\$ 436,735</b>           | <b>\$ 389,237</b> | <b>\$ 47,498</b>    | <b>12.2 %</b> |

(1) Excludes 3,231,790 square feet from properties ground leased to clients.

(2) For purposes of comparability, same store rental revenue is presented on a constant currency basis using the exchange rate as of June 30, 2021 of 1.38 GBP/USD.

(3) Relates to the aggregate of (i) rental revenue from properties (166 properties comprising 2,802,043 square feet) that were available for lease during part of 2021 or 2020, (ii) rental revenue for properties (eight properties comprising 335,456 square feet) under development, and (iii) rental revenue that is not contractual base rent such as lease termination settlements.

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The table below summarizes the increase in rental revenue (excluding reimbursable) in the six months ended June 30, 2021 compared to the six months ended June 30, 2020 (dollars in thousands):

|   | Number of Properties | Square Footage (1) | Six Months Ended June 30, |                   | Increase/(Decrease) |              |
|---|----------------------|--------------------|---------------------------|-------------------|---------------------|--------------|
|   |                      |                    | 2021                      | 2020              | \$ Change           | % Change     |
| Properties acquired subsequent to December 31, 2019 | 473                  | 15,360,676         | \$ 90,797                 | \$ 12,575         | \$ 78,222           | 622.0 %      |
| Same store rental revenue                           | 6,114                | 96,554,182         | 747,698                   | 747,045           | 653                 | 0.1 %        |
| Constant currency adjustment (2)                    | N/A                  | N/A                | 380                       | (2,232)           | 2,612               | (117.0) %    |
| Properties sold subsequent to December 31, 2019     | 197                  | 4,407,860          | 1,214                     | 8,600             | (7,386)             | (85.9) %     |
| Straight-line rent and other non-cash adjustments   | N/A                  | N/A                | 2,883                     | (1,782)           | 4,665               | (261.8) %    |
| Vacant rents, development and other (3)             | 174                  | 3,157,499          | 11,450                    | 16,822            | (5,372)             | (31.9) %     |
| <b>Totals</b>                                       |                      |                    | <b>\$ 854,422</b>         | <b>\$ 781,028</b> | <b>\$ 73,394</b>    | <b>9.4 %</b> |

(1) Excludes 3,231,790 square feet from properties ground leased to clients.

(2) For purposes of comparability, same store rental revenue is presented on a constant currency basis using the exchange rate as of June 30, 2021 of 1.38 GBP/USD.

(3) Relates to the aggregate of (i) rental revenue from properties (166 properties comprising 2,802,043 square feet) that were available for lease during part of 2021 or 2020, (ii) rental revenue for properties (eight properties comprising 335,456 square feet) under development, and (iii) lease termination settlements.

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. 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). Same store rental income was negatively impacted by reserves recorded as reductions of rental revenue of \$5.7 million for the three months ended June 30, 2021 compared to \$3.7 million for the three months ended June 30, 2020, and \$13.0 million for the six months ended June 30, 2021 compared to \$3.8 million for the six months ended June 30, 2020. 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 six months ended June 30, 2021 relative to the comparable periods for 2020 would have been 16.3% and 4.9%, respectively.

Rental revenue was negatively impacted by rent reserves for the three and six months ended June 30, 2021 and 2020, primarily due to the COVID-19 pandemic, particularly with respect to the ongoing disruption to the theater industry. As the COVID-19 pandemic did not affect our rent collections until April 2020, there was no related impact for the three months ended March 31, 2020. The following table summarizes reserves recorded as a reduction of rental revenue (dollars in millions):

|                                      | Three Months Ended June 30, |               | Six Months Ended June 30, |                |
|--------------------------------------|-----------------------------|---------------|---------------------------|----------------|
|                                      | 2021                        | 2020          | 2021                      | 2020           |
| Rental revenue reserves              | \$ 7.5                      | \$ 6.4        | \$ 15.8                   | \$ 7.4         |
| Straight-line rent reserves          | 0.7                         | 2.1           | 1.2                       | 2.8            |
| <b>Total rental revenue reserves</b> | <b>\$ 8.2</b>               | <b>\$ 8.5</b> | <b>\$ 17.0</b>            | <b>\$ 10.2</b> |

Of the 6,761 properties in the portfolio at June 30, 2021, 6,715, or 99.3%, are single-client properties and the remaining are multi-client properties. Of the 6,715 single-client properties, 6,616, or 98.5%, were net leased at June 30, 2021.

Of the 6,779 in-place leases in the portfolio, which excludes 127 vacant units, 5,773 or 85.2% were under leases that provide for increases in rents through:

- Base rent increases tied to a consumer price index (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.

Percentage rent, which is included in rental revenue, was \$596,000 in the three months ended June 30, 2021, \$547,000 in the three months ended June 30, 2020, \$1.6 million in the six months ended June 30, 2021 and \$1.8 million in the six months ended June 30, 2020. We anticipate percentage rent to be less than 1% of rental revenue for 2021.

At June 30, 2021, our portfolio of 6,761 properties was 98.5% leased with 103 properties available for lease, as compared to 97.9% leased, with 140 properties available for lease at December 31, 2020, and 98.5% leased with 101 properties available for lease at June 30, 2020. It has been our experience that approximately 1% to 4% of our property portfolio will be unleased 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 ongoing COVID-19 pandemic and the measures taken to limit its spread.

#### **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 and interest earned on cash and cash equivalents.

#### **Total Expenses**

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

|  | Three months ended June 30, |                   |                   | Six months ended June 30, <span style="font-size: small;">\$ Increase/ (Decrease)</span> |                  |                  |
|--|-----------------------------|-------------------|-------------------|--|------------------|------------------|
|  | 2021                        | 2020              | 2021              | 2020   | Three months     | Six Months       |
| <b>EXPENSES</b>  |                             |                   |                   |  |                  |                  |
| Depreciation and amortization  | \$ 187,789                  | \$ 168,328        | \$ 365,774        | \$ 332,913   | \$ 19,461        | \$ 32,861        |
| Interest   | 73,674                      | 77,841            | 146,749           | 153,766  | (4,167)          | (7,017)          |
| Property (excluding reimbursable)  | 8,213                       | 5,488             | 15,034            | 10,728   | 2,725            | 4,306            |
| Property (reimbursable)  | 23,521                      | 20,964            | 45,199            | 41,330   | 2,557            | 3,869            |
| General and administrative <sup>(1)</sup>  | 21,849                      | 19,063            | 42,645            | 40,027   | 2,786            | 2,618            |
| Provisions for impairment  | 17,246                      | 13,869            | 19,966            | 18,347   | 3,377            | 1,619            |
| Merger-related costs   | 13,298                      | —                 | 13,298            | —  | 13,298           | 13,298           |
| <b>Total expenses</b>  | <b>\$ 345,590</b>           | <b>\$ 305,553</b> | <b>\$ 648,665</b> | <b>\$ 597,111</b>  | <b>\$ 40,037</b> | <b>\$ 51,554</b> |
| <b>Total revenue <sup>(2)</sup></b>  | <b>\$ 440,761</b>           | <b>\$ 393,672</b> | <b>\$ 861,887</b> | <b>\$ 787,647</b>  |                  |                  |
| General and administrative expenses as a percentage of total revenue <sup>(1)(2)</sup>     | 5.0 %                       | 4.8 %             | 4.9 %             | 4.6 %  |                  |                  |
| Property expenses (excluding reimbursable) as a percentage of total revenue <sup>(2)</sup> | 1.9 %                       | 1.4 %             | 1.7 %             | 1.4 %  |                  |                  |

<sup>(1)</sup> General and administrative expenses for the six months ended June 30, 2020 included an executive severance charge related to the departure of our former CFO in March 2020. The total value of cash, stock compensation and professional fees incurred as a result of this severance was \$3,463 and was recorded to general and administrative expense. In order to present a normalized calculation of our general and administrative expenses as a percentage of total revenue for the six months ended June 30, 2020, we have excluded this executive severance charge to arrive at a normalized general and administrative amount of \$36,564, which was used for our calculation.

<sup>(2)</sup> Excludes rental revenue (reimbursable).

### Depreciation and Amortization

The increase in depreciation and amortization for the three and six months ended June 30, 2021 was primarily due to the acquisition of properties in 2020 and for the six months ended June 30, 2021, which was partially offset by property sales in those same periods. 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 June 30,<br>2021 |           | Six months ended June 30,<br>2021 |            | Six months ended June 30,<br>2020 |  |
|--|-------------------------------------|-----------|-----------------------------------|------------|-----------------------------------|--|
| Interest on our credit facility, commercial paper, term loan, notes, mortgages and interest rate swaps | \$ 70,203                           | \$ 73,622 | \$ 139,731                        | \$ 145,817 |                                   |  |
| Credit facility commitment fees  | 948                                 | 948       | 1,885                             | 1,896      |                                   |  |
| Amortization of debt origination and deferred financing costs  | 2,675                               | 2,420     | 5,336                             | 5,168      |                                   |  |
| Loss on interest rate swaps  | 724                                 | 1,306     | 1,447                             | 1,993      |                                   |  |
| Amortization of net mortgage premiums  | (205)                               | (356)     | (485)                             | (710)      |                                   |  |
| Amortization of net note premiums  | (53)                                | (162)     | (138)                             | (406)      |                                   |  |
| Interest capitalized   | (696)                               | (15)      | (1,181)                           | (148)      |                                   |  |
| Capital lease obligation   | 78                                  | 78        | 154                               | 156        |                                   |  |
| Interest expense   | \$ 73,674                           | \$ 77,841 | \$ 146,749                        | \$ 153,766 |                                   |  |

### Credit facility, commercial paper, term loan, mortgages and notes

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Average outstanding balances (dollars in thousands) | \$ 9,025,470 | \$ 8,534,969 | \$ 8,662,893 | \$ 8,195,899 |
| Average interest rates                              | 3.02 %       | 3.33 %       | 3.14 %       | 3.46 %       |

The decrease in interest expense for the three and six months ended June 30, 2021 is primarily due to lower average balances and interest rates on our credit facility, the January 2021 early redemption on all \$950.0 million in principal of the 3.250% notes due October 2022, the June 2020 repayment of our previous \$250.0 million term loan, repayments of outstanding mortgages and higher capitalized interest related to our development projects, partially offset by our 2020 issuances of notes.

During the six months ended June 30, 2021, the weighted average interest rate on our:

- Revolving credit facility outstanding borrowings of \$635.3 million, consisting entirely of Sterling-denominated borrowings of £460.0 million, was 0.9%;
- Commercial paper outstanding borrowings of \$650.0 million was 0.3%;
- Term loan outstanding of \$250.0 million (excluding deferred financing costs of \$543,000) was swapped to fixed at 3.9%;
- Mortgages payable of \$299.9 million (excluding net premiums totaling \$1.6 million and deferred financing costs of \$942,000 on these mortgages) was 4.8%;
- Notes and bonds payable of \$7.36 billion (excluding net unamortized original issue premiums of \$11.7 million and deferred financing costs of \$44.1 million) was 3.4%; and
- Combined outstanding notes, bonds, mortgages, term loan, revolving credit facility borrowings, and commercial paper borrowings of \$9.20 billion (excluding all net premiums and deferred financing costs) was 3.1%.

### **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 June 30, 2021, 103 properties were available for lease or sale, as compared to 140 at December 31, 2020, and 101 at June 30, 2020.

The increase in property expenses (excluding reimbursable) for the three and six months ended June 30, 2021 is primarily due to the increase in portfolio size, resulting in higher utilities, property-related legal expenses, property taxes, and reserves for contractually obligated reimbursements by our clients.

### **Property Expenses (reimbursable)**

The increase in property expenses (reimbursable) for the three and six months ended June 30, 2021 was primarily attributable to decreased vacancies, increase in property taxes paid on behalf of clients, and the increased portfolio size, which contributed to higher operating expenses primarily due to our acquisitions in 2020 and the six months ended June 30, 2021.

### **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.

General and administrative expenses for the six months ended June 30, 2020 included a severance charge of \$3.5 million for our former CFO. Excluding this severance charge, general administrative expenses for the six months ended June 30, 2021 increased by \$6.1 million. The increase in general and administrative expenses for the three and six months ended June 30, 2021 is primarily due to higher payroll-related costs and higher corporate-level professional fees, partially offset by lower costs for travel.

### **Provisions for Impairment**

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

|                                   | Three months ended June 30, |         | Six months ended June 30, |         |
|-----------------------------------|-----------------------------|---------|---------------------------|---------|
|                                   | 2021                        | 2020    | 2021                      | 2020    |
| Total provisions for impairment   | \$ 17.2                     | \$ 13.9 | \$ 20.0                   | \$ 18.3 |
| Number of properties:             |                             |         |                           |         |
| Classified as held for sale       | 14                          | 1       | 14                        | 1       |
| Classified as held for investment | 5                           | 7       | 9                         | 7       |
| Sold                              | 18                          | 17      | 28                        | 28      |

### **Merger-related Costs**

In conjunction with our proposed merger with VEREIT, we incurred approximately \$13.3 million of merger-related transaction costs during the six months ended June 30, 2021. The merger-related costs incurred to date primarily consist of advisory fees, attorney fees, accountant fees and SEC filing fees.

### **Gain on Sales of Real Estate**

The following table summarizes our properties sold during the periods indicated below (dollars in millions):

|                              | Three months ended June 30, |        | Six months ended June 30, |          |
|------------------------------|-----------------------------|--------|---------------------------|----------|
|                              | 2021                        | 2020   | 2021                      | 2020     |
| Number of properties sold    | 42                          | 12     | 69                        | 29       |
| Net sales proceeds           | \$ 56.9                     | \$ 7.4 | \$ 91.6                   | \$ 133.6 |
| Gain on sales of real estate | \$ 14.9                     | \$ 1.3 | \$ 23.3                   | \$ 39.8  |

### **Foreign Currency and Derivative Gains/Losses, Net**

We borrow in the functional currencies of the countries in which we invest. Foreign currency gains and losses are primarily a result of intercompany debt and certain remeasurement transactions.

### **Loss on Extinguishment of Debt**

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 six months ended June 30, 2021.

In January 2020, we completed the early redemption on all \$250.0 million in principal amount of outstanding 5.750% notes due January 2021, plus accrued and unpaid interest. As a result of the early redemption, we recognized a \$9.8 million loss on extinguishment of debt for the six months ended June 30, 2020.

### **Income Taxes**

Income taxes are for city and state income and franchise taxes, and for U.K. income taxes accrued or paid by us and our subsidiaries. The increase in income taxes for the three and six months ended June 30, 2021 was primarily attributable to our increased volume of U.K. investments, which contributed to higher U.K. income taxes as compared to the same periods in 2020.

### **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 June 30, |          | Six months ended June 30, |          | % Increase / (Decrease) |            |
|---|-----------------------------|----------|---------------------------|----------|-------------------------|------------|
|   | 2021                        | 2020     | 2021                      | 2020     | Three months            | Six months |
| Net income available to common stockholders | \$ 124.5                    | \$ 107.8 | \$ 220.4                  | \$ 254.7 | 15.5 %                  | (13.5)%    |
| Net income per share <sup>(1)</sup>         | \$ 0.33                     | \$ 0.31  | \$ 0.59                   | \$ 0.75  | 6.5 %                   | (21.3)%    |

<sup>(1)</sup> 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, gains from the sale of properties, and foreign currency gains and losses, which can vary from period to period based on timing and significantly impact net income available to the Company and available to common stockholders.

Net income available to common stockholders for the six months ended June 30, 2021 was negatively impacted by a \$46.5 million loss on extinguishment of debt due to the January 2021 early redemption of the 3.250% notes due October 2022 and \$13.3 million of merger-related costs related to our proposed merger with VEREIT. Net income available to common stockholders for the six months ended June 30, 2020 was negatively impacted by a \$9.8 million loss on extinguishment of debt due to the January 2020 early redemption of the 5.750% Notes due January 2021.

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

The National Association of Real Estate Investment Trusts (Nareit) came to the conclusion that a Nareit-defined EBITDA metric for real estate companies (i.e., EBITDA for real estate, or EBITDAre) 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 gains and losses and executive severance charges (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) real estate depreciation and amortization, (iv) provisions for impairment, (v) merger-related costs, (vi) gain on sales of real estate, and (vii) foreign currency and derivative gains and losses, net (as described in the Adjusted Funds from Operations section). 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 is widely followed by industry analysts, lenders and investors.

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 the Company's 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

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define Annualized Pro Forma Adjusted EBITDAre as Annualized Adjusted EBITDAre, subject to certain adjustments to incorporate operating income from properties we acquired or stabilized during the applicable quarter and to remove operating income 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 applicable period. 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. Our ratios of net debt-to-Annualized Adjusted EBITDAre and net debt-to-Annualized Pro Forma Adjusted EBITDAre, which are used by management as a measure of leverage, are calculated as net debt (which we define as total debt per the consolidated balance sheet, less cash and cash equivalents), divided by annualized quarterly Adjusted EBITDAre and annualized Pro Forma Adjusted EBITDAre, respectively.

The following table summarizes our Annualized Adjusted EBITDAre and Annualized Pro Forma Adjusted EBITDAre calculations for the periods indicated below (dollars in thousands):

|   | Three months ended June 30, |              |
|---|-----------------------------|--------------|
|   | 2021                        | 2020         |
| Net income <sup>(1)</sup>                           | \$ 124,768                  | \$ 108,070   |
| Interest  | 73,674                      | 77,841       |
| Income taxes  | 9,225                       | 2,838        |
| Depreciation and amortization                       | 187,789                     | 168,328      |
| Provisions for impairment                           | 17,246                      | 13,869       |
| Merger-related costs                                | 13,298                      | —            |
| Gain on sales of real estate                        | (14,901)                    | (1,323)      |
| Foreign currency and derivative (gains) losses, net | (400)                       | (502)        |
| Quarterly Adjusted EBITDAre                         | \$ 410,699                  | \$ 369,121   |
| Annualized Adjusted EBITDAre <sup>(2)</sup>         | \$ 1,642,796                | \$ 1,476,484 |
| Annualized Pro forma Adjustments                    | 42,118                      | 1,396        |
| Annualized Pro forma Adjusted EBITDAre              | \$ 1,684,914                | \$ 1,477,880 |
| Net Debt <sup>(3)</sup>                             | \$ 8,934,223                | \$ 7,539,432 |
| Net Debt/Annualized Adjusted EBITDAre               | 5.4                         | 5.1          |
| Net Debt/Annualized Pro forma Adjusted EBITDAre     | 5.3                         | 5.1          |

<sup>(1)</sup> Net income for the three months ended June 30, 2021 was negatively impacted by \$8.2 million of rent reserves recorded as reductions of rental revenue, of which \$723,000 relates to straight-line rent receivables. Net income for the three months ended June 30, 2020 was negatively impacted by \$8.5 million of rent reserves recorded as reductions of rental revenue, of which \$2.1 million relates to straight-line rent receivables.

<sup>(2)</sup> We calculate Annualized Adjusted EBITDAre by multiplying the Quarterly Adjusted EBITDAre by four.

<sup>(3)</sup> Net Debt is total debt per the consolidated balance sheet, less cash and cash equivalents.

The Annualized Pro Forma Adjustments consist of adjustments to incorporate operating income from properties we acquired or stabilized during the applicable quarter and to remove operating income 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 applicable quarter. The Annualized Pro Forma Adjustments are consistent with the debt service coverage ratio calculated under financial covenants for our senior unsecured notes and bonds. The following table summarizes our Annualized Pro forma Adjusted EBITDAre calculation for the periods indicated below:

|   | Three months ended June 30, |          |
|---|-----------------------------|----------|
|   | 2021                        | 2020     |
| Dollars in thousands  |                             |          |
| Annualized pro forma adjustments from properties acquired or stabilized | \$ 42,120                   | \$ 2,579 |
| Annualized pro forma adjustments from properties disposed               | (2)                         | (1,183)  |
| Annualized Pro forma Adjustments  | \$ 42,118                   | \$ 1,396 |

**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):

|   | Three months ended June 30, |          | Six months ended June 30, |          | % Increase / (Decrease) |            |
|---|-----------------------------|----------|---------------------------|----------|-------------------------|------------|
|   | 2021                        | 2020     | 2021                      | 2020     | Three months            | Six months |
| FFO available to common stockholders            | \$ 314.4                    | \$ 288.3 | \$ 582.1                  | \$ 565.4 | 9.1 %                   | 3.0 %      |
| FFO per share <sup>(1)</sup>                    | \$ 0.84                     | \$ 0.84  | \$ 1.56                   | \$ 1.66  | — %                     | (6.0) %    |
| Normalized FFO available to common stockholders | \$ 327.7                    | \$ 288.3 | \$ 595.4                  | \$ 565.4 | 13.7 %                  | 5.3 %      |
| Normalized FFO per share <sup>(1)</sup>         | \$ 0.88                     | \$ 0.84  | \$ 1.60                   | \$ 1.66  | 4.8 %                   | (3.6) %    |

<sup>(1)</sup> All per share amounts are presented on a diluted per common share basis.

FFO and Normalized FFO in the six months ended June 30, 2021 were impacted by reserves recorded as a reduction of rental revenue related to the COVID-19 pandemic, a loss on extinguishment of debt due to the early redemption of the 3.250% notes due 2022 in January 2021, and \$13.3 million of merger-related costs related to our proposed merger with VEREIT.

FFO and Normalized FFO in the six months ended June 30, 2020 were impacted by a loss on extinguishment of debt due to the early redemption of the 5.750% notes due 2021 in January 2020 and an executive severance charge for our former CFO in March 2020.

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):

|  | Three months ended June 30,<br>2021 |             | Six months ended June 30,<br>2021 |             |
|--|-------------------------------------|-------------|-----------------------------------|-------------|
|  | 2021                                | 2020        | 2021                              | 2020        |
| Net income available to common stockholders  | \$ 124,479                          | \$ 107,824  | \$ 220,419                        | \$ 254,651  |
| Depreciation and amortization  | 187,789                             | 168,328     | 365,774                           | 332,913     |
| Depreciation of furniture, fixtures and equipment  | (73)                                | (152)       | (444)                             | (278)       |
| Provisions for impairment  | 17,246                              | 13,869      | 19,966                            | 18,347      |
| Gain on sales of real estate   | (14,901)                            | (1,323)     | (23,302)                          | (39,829)    |
| FFO adjustments allocable to noncontrolling interests  | (165)                               | (208)       | (331)                             | (363)       |
| FFO available to common stockholders   | \$ 314,375                          | \$ 288,338  | \$ 582,082                        | \$ 565,441  |
| FFO allocable to dilutive noncontrolling interests   | 348                                 | 348         | 705                               | 717         |
| Diluted FFO  | \$ 314,723                          | \$ 288,686  | \$ 582,787                        | \$ 566,158  |
|  |                                     |             |                                   |             |
| FFO available to common stockholders   | \$ 314,375                          | \$ 288,338  | \$ 582,082                        | \$ 565,441  |
| Merger-related costs   | 13,298                              | —           | 13,298                            | —           |
| Normalized FFO available to common stockholders  | \$ 327,673                          | \$ 288,338  | \$ 595,380                        | \$ 565,441  |
| Normalized FFO allocable to dilutive noncontrolling interests  | 348                                 | 348         | 705                               | 717         |
| Diluted Normalized FFO   | \$ 328,021                          | \$ 288,686  | \$ 596,085                        | \$ 566,158  |
|  |                                     |             |                                   |             |
| FFO per common share, basic and diluted  | \$ 0.84                             | \$ 0.84     | \$ 1.56                           | \$ 1.66     |
| Normalized FFO per common share, basic and diluted   | \$ 0.88                             | \$ 0.84     | \$ 1.60                           | \$ 1.66     |
| Distributions paid to common stockholders  | \$ 263,358                          | \$ 240,470  | \$ 524,056                        | \$ 474,294  |
| FFO available to common stockholders in excess of distributions paid to common stockholders            | \$ 51,017                           | \$ 47,868   | \$ 58,026                         | \$ 91,147   |
| Normalized FFO available to common stockholders in excess of distributions paid to common stockholders | \$ 64,315                           | \$ 47,868   | \$ 71,324                         | \$ 91,147   |
| Weighted average number of common shares used for FFO and normalized FFO:                              |                                     |             |                                   |             |
| Basic  | 374,236,424                         | 343,515,406 | 372,879,165                       | 340,061,487 |
| Diluted  | 374,804,142                         | 344,148,378 | 373,434,863                       | 340,744,384 |

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 gains on property sales. We define Normalized FFO, a non-GAAP financial measure, is FFO excluding merger-related costs related to our proposed merger with VEREIT.

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-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):

|                                       | Three months ended June 30, |          | Six months ended June 30, |          | % Increase / (Decrease) |            |
|---------------------------------------|-----------------------------|----------|---------------------------|----------|-------------------------|------------|
|                                       | 2021                        | 2020     | 2021                      | 2020     | Three months            | Six months |
| AFFO available to common stockholders | \$ 327.6                    | \$ 295.2 | \$ 645.9                  | \$ 592.5 | 11.0 %                  | 9.0 %      |
| AFFO per share <sup>(1)</sup>         | \$ 0.88                     | \$ 0.86  | \$ 1.73                   | \$ 1.74  | 2.3 %                   | (0.6) %    |

<sup>(1)</sup> All per share amounts are presented on a diluted per common share basis.

AFFO in the three and six months ended June 30, 2021 was impacted by reserves recorded as a reduction of rental revenue related to the COVID-19 pandemic.

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):

|  |             | Three months ended June 30,<br>2021 | 2020        | Six months ended June 30,<br>2021 | 2020 |
|--|-------------|-------------------------------------|-------------|-----------------------------------|------|
| Net income available to common stockholders <sup>(1)</sup>                                   | \$ 124,479  | \$ 107,824                          | \$ 220,419  | \$ 254,651                        |      |
| Cumulative adjustments to calculate Normalized FFO <sup>(2)</sup>                            | 203,194     | 180,514                             | 374,961     | 310,790                           |      |
| Normalized FFO available to common stockholders  | 327,673     | 288,338                             | 595,380     | 565,441                           |      |
| Executive severance charge <sup>(3)</sup>  | —           | —                                   | —           | 3,463                             |      |
| Loss on extinguishment of debt   | —           | —                                   | 46,473      | 9,819                             |      |
| Amortization of share-based compensation   | 4,472       | 4,882                               | 8,169       | 8,624                             |      |
| Amortization of deferred financing costs <sup>(4)</sup>                                      | 1,710       | 1,476                               | 3,375       | 2,836                             |      |
| Amortization of net mortgage premiums  | (205)       | (356)                               | (485)       | (710)                             |      |
| Loss on interest rate swaps  | 724         | 1,306                               | 1,446       | 1,992                             |      |
| Straight-line payments from cross-currency swaps <sup>(5)</sup>                              | 584         | 623                                 | 1,202       | 1,346                             |      |
| Leasing costs and commissions  | (121)       | (973)                               | (827)       | (1,111)                           |      |
| Recurring capital expenditures   | (27)        | (21)                                | (50)        | (21)                              |      |
| Straight-line rent   | (11,004)    | (6,242)                             | (21,467)    | (14,024)                          |      |
| Amortization of above and below-market leases, net   | 3,934       | 6,087                               | 13,234      | 12,517                            |      |
| Other adjustments <sup>(6)</sup>   | (93)        | 121                                 | (581)       | 2,291                             |      |
| AFFO available to common stockholders  | \$ 327,647  | \$ 295,241                          | \$ 645,869  | \$ 592,463                        |      |
| AFFO allocable to dilutive noncontrolling interests  | 344         | 356                                 | 695         | 732                               |      |
| Diluted AFFO   | \$ 327,991  | \$ 295,597                          | \$ 646,564  | \$ 593,195                        |      |
| <br>AFFO per common share, basic and diluted   | <br>\$ 0.88 | <br>\$ 0.86                         | <br>\$ 1.73 | <br>\$ 1.74                       |      |
| Distributions paid to common stockholders  | \$ 263,358  | \$ 240,470                          | \$ 524,056  | \$ 474,294                        |      |
| AFFO available to common stockholders in excess of distributions paid to common stockholders | \$ 64,289   | \$ 54,771                           | \$ 121,813  | \$ 118,169                        |      |
| Weighted average number of common shares used for computation per share:                     |             |                                     |             |                                   |      |
| Basic  | 374,236,424 | 343,515,406                         | 372,879,165 | 340,061,487                       |      |
| Diluted  | 374,804,142 | 344,148,378                         | 373,434,863 | 340,744,384                       |      |

<sup>(1)</sup> As of June 30, 2021, there was \$40.5 million of uncollected rent deferred 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) and \$61.2 million of uncollected rent for which we have not granted a lease concession.

<sup>(2)</sup> 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)."

<sup>(3)</sup> The executive severance charge represents the incremental costs incurred upon our former CFO's departure in March 2020, consisting of \$1.6 million of cash, \$1.8 million of share-based compensation expense and \$58,000 of professional fees.

<sup>(4)</sup> Includes the amortization of costs incurred and capitalized upon issuance of our notes payable, assumption of our mortgages payable and upon issuance of our current and previous term loans. The deferred financing costs are being amortized over the lives of the respective notes payable, mortgages and term loan. No costs associated with our credit facility agreements or annual fees paid to credit rating agencies have been included.

<sup>(5)</sup> 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. These USD payments are fixed and determinable for the duration of the associated hedging transaction.

<sup>(6)</sup> Includes adjustments allocable to noncontrolling interests, obligations related to financing lease liabilities, and foreign currency gains and losses 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 June 30, 2021, we owned a diversified portfolio:

- Of 6,761 properties;
- With an occupancy rate of 98.5%, or 6,658 properties leased and 103 properties available for lease or sale;
- Doing business in 58 separate industries;
- Located in all 50 U.S. states, Puerto Rico and the U.K.;
- With approximately 118.3 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 17,500 square feet; approximately 12,600 square feet per retail property and 258,400 square feet per industrial property.

At June 30, 2021, 6,658 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, our clients are typically subject to future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the client's gross sales above a specified level, or fixed increases.

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 recorded as reductions to GAAP rental revenue in the periods presented.

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## Industry Diversification

The following table sets forth 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:



### Property Type Composition

The following table sets forth certain property type information regarding our property portfolio as of June 30, 2021 (dollars in thousands):

| Property Type | Number of Properties | Approximate Leasable Square Feet <sup>(1)</sup> | Total Portfolio Annualized Contractual Rent as of June 30, 2021 | Percentage of Total Portfolio Annualized Contractual Rent |
|---------------|----------------------|---|---|---|
| Retail        | 6,579                | 82,932,000 \$                                   | 1,506,930   | 84.1 %  |
| Industrial    | 124                  | 32,039,800                                      | 206,077   | 11.5  |
| Office        | 42                   | 3,141,100                                       | 49,627  | 2.8   |
| Agriculture   | 16                   | 191,200   | 28,269  | 1.6   |
| <b>Totals</b> | <b>6,761</b>         | <b>118,304,100 \$</b>                           | <b>1,790,903</b>  | <b>100.0 %</b>  |

<sup>(1)</sup> Includes leasable building square footage. Excludes 3,600 acres of leased land categorized as agriculture at June 30, 2021.

### 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 June 30, 2021:

| Client                     | Number of Leases | Percentage of Total Portfolio Annualized Contractual Rent <sup>(1)</sup> |
|----------------------------|------------------|--|
| 7-Eleven                   | 592              | 6.0 %  |
| Walgreens                  | 245              | 5.2 %  |
| Dollar General             | 831              | 4.3 %  |
| FedEx                      | 41               | 3.5 %  |
| Sainsbury's                | 23               | 3.4 %  |
| Dollar Tree/ Family Dollar | 552              | 3.1 %  |
| LA Fitness                 | 56               | 2.9 %  |
| AMC Theaters               | 34               | 2.7 %  |
| Regal Cinemas (Cineworld)  | 41               | 2.5 %  |
| Walmart / Sam's Club       | 57               | 2.5 %  |
| Life Time Fitness          | 16               | 2.3 %  |
| B&Q (Kingfisher)           | 15               | 1.8 %  |
| BJ's Wholesale Clubs       | 17               | 1.8 %  |
| Tesco                      | 12               | 1.8 %  |
| Circle K (Couche-Tard)     | 237              | 1.5 %  |
| Treasury Wine Estates      | 17               | 1.5 %  |
| CVS Pharmacy               | 88               | 1.5 %  |
| Home Depot                 | 23               | 1.4 %  |
| Kroger                     | 22               | 1.4 %  |
| Fas Mart (GPM Investments) | 199              | 1.2 %  |
| <b>Total</b>               | <b>3,118</b>     | <b>52.1 %</b>  |

<sup>(1)</sup> 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 June 30, 2021 (dollars in thousands):

| Year        | Expiring Leases |            | Approximate Leasable Square Feet | Total Portfolio Annualized Contractual Rent as of June 30, 2021 | Percentage of Total Portfolio Annualized Contractual Rent |
|-------------|-----------------|------------|----------------------------------|---|---|
|             | Retail          | Non-Retail |                                  |   |   |
| 2021        | 89              | 7          | 780,000                          | \$ 15,481   | 1.0 %   |
| 2022        | 350             | 22         | 8,143,800                        | 75,173  | 4.2   |
| 2023        | 545             | 23         | 9,711,700                        | 120,666   | 6.7   |
| 2024        | 420             | 18         | 7,553,100                        | 97,351  | 5.4   |
| 2025        | 513             | 22         | 8,750,300                        | 131,491   | 7.3   |
| 2026        | 428             | 9          | 7,266,300                        | 98,533  | 5.5   |
| 2027        | 460             | 4          | 7,065,500                        | 99,230  | 5.5   |
| 2028        | 596             | 14         | 12,191,200                       | 147,576   | 8.2   |
| 2029        | 548             | 6          | 9,612,200                        | 137,698   | 7.7   |
| 2030        | 256             | 12         | 7,406,900                        | 85,892  | 4.8   |
| 2031        | 279             | 21         | 9,134,600                        | 136,770   | 7.6   |
| 2032        | 320             | 12         | 5,367,200                        | 111,492   | 6.2   |
| 2033        | 297             | 5          | 4,054,700                        | 72,892  | 4.1   |
| 2034        | 320             | 3          | 5,561,900                        | 131,730   | 7.5   |
| 2035        | 272             | 1          | 2,695,200                        | 68,525  | 3.8   |
| 2036 - 2047 | 897             | 10         | 11,235,000                       | 260,403   | 14.5  |
| Totals      | 6,590           | 189        | 116,529,600                      | \$ 1,790,903  | 100.0 %   |

<sup>(1)</sup> Leases on our multi-client properties are counted separately in the table above. This table excludes 127 vacant units.

### Geographic Diversification

The following table sets forth certain state-by-state information regarding our property portfolio as of June 30, 2021 (dollars in thousands):

| Location              | Number of Properties | Percent Leased | Approximate Leasable Square Feet | Total Portfolio Annualized Contractual Rent as of June 30, 2021 | Percentage of Total Portfolio Annualized Contractual Rent |
|-----------------------|----------------------|----------------|----------------------------------|---|---|
| Alabama               | 226                  | 96 %           | 2,149,000 \$                     | 31,260  | 1.7 %   |
| Alaska                | 3                    | 100            | 274,600                          | 2,148   | 0.1   |
| Arizona               | 149                  | 97             | 2,067,900                        | 30,293  | 1.7   |
| Arkansas              | 98                   | 99             | 1,171,200                        | 14,500  | 0.8   |
| California            | 241                  | 98             | 7,853,800                        | 151,722   | 8.6   |
| Colorado              | 96                   | 97             | 1,554,100                        | 23,951  | 1.3   |
| Connecticut           | 18                   | 89             | 1,274,100                        | 12,338  | 0.7   |
| Delaware              | 19                   | 100            | 101,400                          | 3,136   | 0.2   |
| Florida               | 431                  | 98             | 5,062,100                        | 90,077  | 5.0   |
| Georgia               | 300                  | 99             | 4,547,800                        | 59,856  | 3.3   |
| Hawaii                | 22                   | 100            | 47,800                           | 6,926   | 0.4   |
| Idaho                 | 14                   | 93             | 103,200                          | 1,713   | 0.1   |
| Illinois              | 308                  | 96             | 7,650,200                        | 99,425  | 5.6   |
| Indiana               | 207                  | 100            | 2,621,400                        | 41,197  | 2.3   |
| Iowa                  | 45                   | 93             | 2,525,700                        | 18,236  | 1.0   |
| Kansas                | 116                  | 100            | 2,200,600                        | 24,955  | 1.4   |
| Kentucky              | 96                   | 99             | 1,848,400                        | 22,715  | 1.3   |
| Louisiana             | 137                  | 97             | 1,951,900                        | 25,673  | 1.4   |
| Maine                 | 27                   | 100            | 277,800                          | 5,721   | 0.3   |
| Maryland              | 37                   | 100            | 1,459,400                        | 24,636  | 1.4   |
| Massachusetts         | 60                   | 97             | 1,000,200                        | 18,852  | 1.1   |
| Michigan              | 247                  | 100            | 2,790,900                        | 43,311  | 2.4   |
| Minnesota             | 176                  | 99             | 2,357,400                        | 47,074  | 2.6   |
| Mississippi           | 195                  | 98             | 2,114,300                        | 24,351  | 1.4   |
| Missouri              | 186                  | 96             | 3,023,900                        | 40,095  | 2.2   |
| Montana               | 12                   | 100            | 89,100                           | 2,240   | 0.1   |
| Nebraska              | 59                   | 100            | 835,300                          | 8,769   | 0.5   |
| Nevada                | 26                   | 100            | 1,701,500                        | 16,310  | 0.9   |
| New Hampshire         | 15                   | 100            | 329,000                          | 6,274   | 0.4   |
| New Jersey            | 81                   | 98             | 1,382,300                        | 31,098  | 1.7   |
| New Mexico            | 58                   | 100            | 495,500                          | 8,709   | 0.5   |
| New York              | 154                  | 100            | 3,388,600                        | 72,922  | 4.1   |
| North Carolina        | 215                  | 99             | 3,980,800                        | 54,020  | 3.0   |
| North Dakota          | 8                    | 75             | 126,900                          | 1,327   | 0.1   |
| Ohio                  | 373                  | 99             | 6,863,900                        | 73,591  | 4.1   |
| Oklahoma              | 192                  | 100            | 2,553,600                        | 33,815  | 1.9   |
| Oregon                | 31                   | 100            | 665,100                          | 11,977  | 0.7   |
| Pennsylvania          | 214                  | 99             | 2,386,600                        | 46,033  | 2.6   |
| Rhode Island          | 3                    | 100            | 158,000                          | 2,584   | 0.1   |
| South Carolina        | 180                  | 99             | 1,816,300                        | 36,172  | 2.0   |
| South Dakota          | 19                   | 89             | 249,900                          | 2,587   | 0.1   |
| Tennessee             | 263                  | 98             | 3,900,300                        | 50,663  | 2.8   |
| Texas                 | 842                  | 100            | 13,373,600                       | 186,765   | 10.5  |
| Utah                  | 23                   | 100            | 949,700                          | 10,068  | 0.6   |
| Vermont               | 2                    | 100            | 84,600                           | 1,467   | 0.1   |
| Virginia              | 219                  | 100            | 3,425,000                        | 45,317  | 2.5   |
| Washington            | 52                   | 98             | 1,075,500                        | 18,163  | 1.0   |
| West Virginia         | 41                   | 98             | 571,300                          | 7,554   | 0.4   |
| Wisconsin             | 129                  | 100            | 2,955,000                        | 35,255  | 2.0   |
| Wyoming               | 9                    | 100            | 63,900                           | 1,534   | 0.1   |
| Puerto Rico           | 4                    | 100            | 28,300                           | 859   | *   |
| U.K.                  | 83                   | 100            | 6,825,400                        | 160,669   | 8.9   |
| <b>Totals/Average</b> | <b>6,761</b>         | <b>98 %</b>    | <b>118,304,100 \$</b>            | <b>1,790,903</b>  | <b>100.0 %</b>  |

\* Less than 0.1%

## **IMPACT OF INFLATION**

Leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index (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 newly adopted 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 1.125% 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 central index key number is 726728.

We maintain a corporate website at [www.realtyincome.com](http://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 interest rate changes primarily as a result of our credit facility and commercial paper program, 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 June 30, 2021. This information is presented to evaluate the expected cash flows and sensitivity to interest rate changes (dollars in millions):

**Expected Maturity Data**

| Year of Maturity             | Fixed rate debt   | Weighted average rate on fixed rate debt | Variable rate debt | Weighted average rate on variable rate debt |
|------------------------------|-------------------|--|--------------------|---|
| 2021                         | \$ 1.9            | 4.91 %                                   | \$ 650.0           | 0.25 %                                      |
| 2022                         | 112.1             | 4.97                                     | —                  | —   |
| 2023                         | 770.9             | 4.64                                     | 635.3              | 0.86  |
| 2024                         | 712.5             | 3.97                                     | —                  | —   |
| 2025                         | 542.4             | 3.81                                     | —                  | —   |
| Thereafter                   | 5,772.6           | 3.18                                     | —                  | —   |
| <b>Totals <sup>(1)</sup></b> | <b>\$ 7,912.4</b> | <b>3.46 %</b>                            | <b>\$ 1,285.3</b>  | <b>0.55 %</b>                               |
| Fair Value <sup>(2)</sup>    | \$ 8,610.2        |  | \$ 1,285.3         |   |

<sup>(1)</sup> Excludes net premiums recorded on mortgages payable, net original issuance premiums recorded on notes payable and deferred financing costs on mortgages payable, notes payable, and our term loan. At June 30, 2021, the unamortized balance of net premiums on mortgages payable is \$1.6 million, the unamortized balance of net original issuance premiums on notes payable is \$11.7 million, and the balance of deferred financing costs on mortgages payable is \$942,000, on notes payable is \$44.1 million, and on the term loan is \$543,000.

<sup>(2)</sup> We base the estimated fair value of the publicly-traded fixed rate senior notes and bonds at June 30, 2021 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 June 30, 2021 on the relevant forward interest rate curve, plus an applicable credit-adjusted spread. We believe that the carrying values of the commercial paper borrowings and term loan balance reasonably approximate their estimated fair values at June 30, 2021.

The table above incorporates only those exposures that exist as of June 30, 2021. 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 June 30, 2021, our outstanding notes, bonds and mortgages payable had fixed interest rates. Interest on our revolving credit facility, 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 \$635.3 million at June 30, 2021, a 1% change in interest rates would change our interest rate costs by \$6.4 million per year.

During 2019, we commenced foreign operations and acquired real property in the U.K. and have continued to acquire U.K. properties through June 30, 2021. As a result, we are subject to currency fluctuations that may, from time to time, affect our financial condition and results of operations. Increases or decreases in the value of Sterling relative to the U.S. dollar impact the amount of net income we earn from our investments in the U.K. We mitigate these foreign currency exposures with non-U.S. denominated borrowings, cross-currency swaps, currency exchange swaps and foreign currency forwards. If we increase our international presence through investments in properties outside the U.S., we may also decide to transact additional business or borrow funds in currencies other than U.S. dollars.

**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 SEC'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 June 30, 2021, 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 our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

**Changes in Internal Controls**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2021 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, 2020, and any amendments thereto filed with the SEC, and the risk factors related to the Mergers described and referred in Exhibit 99.4 to, and under the captions "Supplemental Risk Factors" and "Forward-Looking Statements" in, the June 4, 2021 [Form 8-K](#), as well as the information in Exhibits 99.1 and 99.2 to the June 4, 2021 [Form 8-K](#), and the information in our Current Report on [Form 8-K](#) filed with the SEC on June 29, 2021, including Exhibit 99.1 thereto, as our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described therein.

**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 2012 and 2021 Incentive Award Plans of Realty Income Corporation:

- 523 shares of stock, at a weighted average price of \$67.45, in April 2021;
- 1,424 shares of stock, at a weighted average price of \$66.71, in May 2021; and
- 6,245 shares of stock, at a weighted average price of \$67.03, in June 2021.

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### Item 6: Exhibits

#### Exhibit No. Description

##### Articles of Incorporation and Bylaws

2. [Agreement and Plan of Merger, dated as of September 6, 2012 \(File No. 001-13374\), by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. \(filed as exhibit 2.1 to the Company's Form 8-K, filed on September 6, 2012 and incorporated herein by reference\).](#)
2. [First Amendment to Agreement and Plan of Merger, dated as of January 6, 2013, by and among Realty Income Corporation, Tau Acquisition LLC and American Realty Capital Trust, Inc. \(filed as exhibit 2.1 to the Company's Form 8-K, filed on January 7, 2013 \(File No. 001-13374\) and incorporated herein by reference\).](#)
2. [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 \(filed as exhibit 2.1 to the Company's Form 8-K, filed on April 30, 2021 and incorporated herein by reference\).](#)
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 \(filed as exhibit 2.1 to the Company's Form 8-K, filed on June 25, 2021 and incorporated herein by reference\).](#)
3. [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 \(File No. 033-69410\) and incorporated herein by reference\).](#)
3. [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. [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. [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. [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, 2018 \(File No. 001-13374\) and incorporated herein by reference\).](#)
3. [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. [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. [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. [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. [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\).](#)
- 3.1 [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\).](#)
- 3.12 [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\).](#)
- 3.13 [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\).](#)

##### Indebtedness defining the rights of security holders, including indentures

4. [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. [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. [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. [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. [Form of 4.650% Note due 2023 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on July 16, 2013 \(File No. 001-13374\) and incorporated herein by reference\).](#)
4. [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 "4.650% Notes due 2023" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on July 16, 2013 \(File No. 001-13374\) and incorporated herein by reference\).](#)
4. [Form of 3.875% Note due 2024 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on June 25, 2014 and incorporated herein by reference\).](#)
4. [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" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on June 25, 2014 and incorporated herein by reference\).](#)

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- 4.[Form of 4.125% Note due 2026 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on September 23, 2014 and incorporated herein by reference\).](#)
- 4.10[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" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on September 23, 2014 and incorporated herein by reference\).](#)
- 4.1[Form of 3.000% Note due 2027 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on October 12, 2016 and incorporated herein by reference\).](#)
- 4.12[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 "3.000% Notes due 2027" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on October 12, 2016 and incorporated herein by reference\).](#)
- 4.13[Form of 4.650% Note due 2047 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on March 15, 2017 and incorporated herein by reference\).](#)
- 4.14[Form of 4.125% Note due 2026 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on March 15, 2017 and incorporated herein by reference\).](#)
- 4.15[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" \(filed as exhibit 4.4 to the Company's Form 8-K, filed on March 15, 2017 and incorporated herein by reference\).](#)
- 4.16[Form of 3.650% Note due 2028 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on December 6, 2017 and incorporated herein by reference\).](#)
- 4.17[Form of 4.650% Note due 2047 \(filed as exhibit 4.4 to the Company's Form 8-K, filed on December 6, 2017 and incorporated herein by reference\).](#)
- 4.18[Form of 3.875% Note due 2025 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on April 4, 2018 and incorporated herein by reference\).](#)
- 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 "3.875% Notes due 2025" and re-opening a series of securities entitled "4.125% Notes due 2026" \(filed as exhibit 4.3 to the Company's Form 8-K, filed on April 4, 2018 and incorporated herein by reference\).](#)
- 4.20[Form of 3.250% Note due 2029 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on June 16, 2019 and incorporated herein by reference\).](#)
- 4.21[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." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on June 16, 2019 and incorporated herein by reference\).](#)
- 4.22[Description of Securities \(filed as exhibit 4.22 to the Company's 10-K, filed on February 23, 2021 and incorporated herein by reference\).](#)
- 4.23[Form of 3.250% Note due 2031 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on May 8, 2020 and incorporated herein by reference\).](#)
- 4.24[Form of 3.250% Note due 2031 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on July 16, 2020 and incorporated herein by reference\).](#)
- 4.25[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." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on May 8, 2020, and incorporated herein by reference\).](#)
- 4.26[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." \(filed as exhibit 4.3 to the Company's Form 8-K, filed on July 16, 2020, and incorporated herein by reference\).](#)
- 4.27[Form of 1.625% Note due 2030 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on October 1, 2020 and incorporated herein by reference\).](#)
- 4.28[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" \(filed as an Exhibit 4.3 to the Company's Form 8-K, filed on October 1, 2020 and incorporated herein by reference\).](#)
- 4.29[Form of 0.750% Note due 2026 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on December 14, 2020 and incorporated herein by reference\).](#)
- 4.30[Form of 1.800% Note due 2033 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on December 14, 2020 and incorporated herein by reference\).](#)
- 4.31[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" \(filed as an Exhibit 4.4 to the Company's Form 8-K, filed on December 14, 2020 and incorporated herein by reference\).](#)
- 4.32[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." \(filed as Exhibit 4.4 to the Company's Form 8-K, filed on July 13, 2021 and incorporated herein by reference\).](#)
- 4.33[Form of 1.125% Notes due 2027 \(filed as exhibit 4.2 to the Company's Form 8-K, filed on July 13, 2021 and incorporated herein by reference\)](#)
- 4.34[Form of 1.750% Notes due 2033 \(filed as exhibit 4.3 to the Company's Form 8-K, filed on July 13, 2021 and incorporated herein by reference\)](#)

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### Material Contracts

10. [Realty Income Corporation 2021 Incentive Award Plan \(Filed as Appendix B to the Company's Proxy Statement on Schedule 14A filed on April 01, 2021 and incorporated herein by reference\).](#)

### Certifications

\*31. [Rule 13a-14\(a\) Certifications as filed by the Chief Executive Officer pursuant to SEC release No. 33-8212 and 34-47551.](#)

\*31. [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 SEC release No. 33-8212 and 34-47551.](#)

### Interactive Data Files

\*101 The following materials from Realty Income Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2021 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 June 30, 2021, formatted in Inline Extensible Business Reporting Language.

led herewith.

**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: August 3, 2021

/s/ SEAN P. NUGENT

Sean P. Nugent  
Senior Vice President, Controller  
(Principal Accounting Officer)

**Certification of Chief Executive Officer**

I, Sumit Roy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Realty Income Corporation for the quarter ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

e: August 3, 2021

/s/ SUMIT ROY

Sumit Roy

President, Chief Executive Officer

**Certification of Chief Financial Officer**

I, Christie B. Kelly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Realty Income Corporation for the quarter ended June 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2021

/s/ CHRISTIE B. KELLY

Christie B. Kelly

Executive Vice President, Chief Financial Officer and Treasurer

**Certification of Chief Executive Officer and Chief Financial Officer  
Pursuant to 18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Realty Income Corporation, a Maryland corporation (the "Company"), hereby certify, to his best knowledge, that:

- (i) the accompanying quarterly report on Form 10-Q of the Company for the quarter ended June 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Act"); and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SUMIT ROY

Sumit Roy

President, Chief Executive Officer

/s/ CHRISTIE B. KELLY

Christie B. Kelly

Executive Vice President, Chief Financial Officer and Treasurer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Act, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.