W. P. Carey Inc.
Form 10-Q
November 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016
or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________ to __________

Commission File Number: 001-13779

W. P. CAREY INC.
(Exact name of registrant as specified in its charter)

Maryland	45-4549771
(State of incorporation)	(I.R.S. Employer Identification No.)

50 Rockefeller Plaza	
New York, New York	10020
(Address of principal executive offices)	(Zip Code)

Investor Relations (212) 492-8920
(212) 492-1100
(Registrant’s telephone numbers, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

Smaller reporting company o

(Do not check if a smaller reporting company)

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

Registrant has 106,280,575 shares of common stock, $0.001 par value, outstanding at October 28, 2016.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will b "will likely result," and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: capital markets; tenant credit quality; the general economic outlook; our expected range of Adjusted funds from operations, or AFFO; our corporate strategy; our capital structure; our portfolio lease terms; our international exposure and acquisition volume, including the effects of the United Kingdom's referendum to approve an exit from the European Union; our expectations about tenant bankruptcies and interest coverage; statements regarding estimated or future economic performance and results, including our underlying assumptions, occupancy rate, credit ratings, and possible new acquisitions and dispositions by us and our investment management programs; the Managed Programs discussed herein, including their earnings; statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT; the impact of a recently-issued pronouncement regarding accounting for leases; the amount and timing of any future dividends; our existing or future leverage and debt service obligations; our ability to sell shares under our "at the market" program and the use of proceeds from that program; our future prospects for growth; our projected assets under management; our future capital expenditure levels; our future financing transactions; our estimates of growth; and our plans to fund our future liquidity needs. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Item

1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016, or the 2015 Annual Report, and in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, as filed with the SEC on August 4, 2016. Moreover, because we operate in a very competitive and rapidly-changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1. Financial Statements (Unaudited).

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements.

W. P. CAREY INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Investments in real estate:		
Real estate, at cost	$5,221,986	$5,309,925
Operating real estate	81,665	82,749
Accumulated depreciation	(455,613)	(381,529)
Net investments in properties	4,848,038	5,011,145
Net investments in direct financing leases	740,745	756,353
Assets held for sale, net	128,462	59,046
Net investments in real estate	5,717,245	5,826,544
Equity investments in the Managed Programs and real estate	294,690	275,473
Cash and cash equivalents	209,483	157,227
Due from affiliates	51,508	62,218
In-place lease and tenant relationship intangible assets, net	817,151	902,848
Goodwill	640,305	681,809
Above-market rent intangible assets, net	406,245	475,072
Other assets, net	331,658	360,898
Total assets	$8,468,285	$8,742,089
Liabilities and Equity		
Liabilities:		
Non-recourse debt, net	$1,926,331	$2,269,421
Senior Unsecured Notes, net	1,837,216	1,476,084
Senior Unsecured Credit Facility - Revolver	378,358	485,021
Senior Unsecured Credit Facility - Term Loan, net	249,915	249,683
Accounts payable, accrued expenses and other liabilities	258,977	342,374
Below-market rent and other intangible liabilities, net	125,790	154,315
Deferred income taxes	72,107	86,104
Distributions payable	106,545	102,715
Total liabilities	4,955,239	5,165,717
Redeemable noncontrolling interest	965	14,944
Commitments and contingencies (Note 11)		
Equity:		
W. P. Carey stockholders’ equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, $0.001 par value, 450,000,000 shares authorized; 106,274,673 and 104,448,777 shares, respectively, issued and outstanding	106	104
Additional paid-in capital	4,389,363	4,282,042
Distributions in excess of accumulated earnings	(834,868)	(738,652)
Deferred compensation obligation	50,576	56,040
Accumulated other comprehensive loss	(221,326)	(172,291)
Total W. P. Carey stockholders’ equity	3,383,851	3,427,243
Noncontrolling interests	128,230	134,185

Total equity	3,512,081	3,561,428
Total liabilities and equity	$8,468,285	$8,742,089

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Owned Real Estate:				
Lease revenues	$163,786	$164,741	$506,358	$487,480
Operating property revenues	8,524	8,107	23,696	23,645
Reimbursable tenant costs	6,537	5,340	19,237	17,409
Lease termination income and other	1,224	2,988	34,603	9,319
	180,071	181,176	583,894	537,853
Investment Management:				
Asset management revenue	15,978	13,004	45,596	36,236
Reimbursable costs from affiliates	14,540	11,155	46,372	28,401
Structuring revenue	12,301	8,207	30,990	67,735
Dealer manager fees	1,835	1,124	5,379	2,704
Other advisory revenue	522	—	522	203
	45,176	33,490	128,859	135,279
	225,247	214,666	712,753	673,132
Operating Expenses				
Depreciation and amortization	62,802	75,512	213,835	206,079
Reimbursable tenant and affiliate costs	21,077	16,495	65,609	45,810
General and administrative	15,733	22,842	58,122	78,987
Impairment charges	14,441	19,438	49,870	22,711
Property expenses, excluding reimbursable tenant costs	10,193	11,120	38,475	31,504
Subadvisor fees	4,842	1,748	10,010	8,555
Stock-based compensation expense	4,356	3,966	14,964	16,063
Dealer manager fees and expenses	3,028	3,185	9,000	7,884
Property acquisition and other expenses	—	4,760	5,359	12,333
Restructuring and other compensation	—	—	11,925	—
	136,472	159,066	477,169	429,926
Other Income and Expenses				
Interest expense	(44,349)	(49,683)	(139,496)	(145,325)
Equity in earnings of equity method investments in the Managed Programs and real estate	16,803	12,635	48,243	38,630
Other income and (expenses)	5,101	6,608	9,398	9,944
	(22,445)	(30,440)	(81,855)	(96,751)
Income before income taxes and gain on sale of real estate	66,330	25,160	153,729	146,455
(Provision for) benefit from income taxes	(3,154)	(3,361)	4,538	(20,352)
Income before gain on sale of real estate	63,176	21,799	158,267	126,103
Gain on sale of real estate, net of tax	49,126	1,779	68,070	2,980
Net Income	112,302	23,578	226,337	129,083
Net income attributable to noncontrolling interests	(1,359)	(1,833)	(6,294)	(7,874)
Net Income Attributable to W. P. Carey	$110,943	$21,745	$220,043	$121,209
Basic Earnings Per Share	$1.03	$0.20	$2.06	$1.14
Diluted Earnings Per Share	$1.03	$0.20	$2.05	$1.13

Weighted-Average Shares Outstanding				
Basic	107,221,668	105,813,237	106,493,145	105,627,423
Diluted	107,468,029	106,337,040	106,853,174	106,457,495
Distributions Declared Per Share	$ 0.9850	$ 0.9550	$ 2.9392	$ 2.8615

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	$112,302	$23,578	$226,337	$129,083
Other Comprehensive Loss				
Foreign currency translation adjustments	(11,824)	(37,138)	(41,999)	(103,127)
Realized and unrealized (loss) gain on derivative instruments	(3,093)	1,289	(5,999)	18,488
Change in unrealized (loss) gain on marketable securities	(7)	—	(3)	14
	(14,924)	(35,849)	(48,001)	(84,625)
Comprehensive Income (Loss)	97,378	(12,271)	178,336	44,458
Amounts Attributable to Noncontrolling Interests				
Net income	(1,359)	(1,833)	(6,294)	(7,874)
Foreign currency translation adjustments	(218)	(43)	(1,051)	3,515
Realized and unrealized loss on derivative instruments	17	—	17	—
Comprehensive income attributable to noncontrolling interests	(1,560)	(1,876)	(7,328)	(4,359)
Comprehensive Income (Loss) Attributable to W. P. Carey	$95,818	$(14,147)	$171,008	$40,099

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
Nine Months Ended September 30, 2016 and 2015
(in thousands, except share and per share amounts)

	W. P. Carey Stockholders								
	Common Stock $0.001 Par Value		Additional Paid-in	Distributions in Excess of Accumulated	Deferred Compensation	Accumulated Other Comprehensive	Total W. P. Carey	Noncontrolling	
	Shares	Amount	Capital	Earnings	Obligation	Loss	Stockholders	Interests	Total
Balance at January 1, 2016	104,448,777	$104	$4,282,042	$(738,652)	$56,040	$(172,291)	$3,427,243	$134,185	$3,561,428
Shares issued under “at-the-market” offering, net	1,249,836	2	83,784				83,786		83,786
Shares issued to a third party in connection with the redemption of a redeemable noncontrolling interest	217,011	—	13,418				13,418		13,418
Contributions from noncontrolling interests (Note 2)							—	14,319	14,319
Shares issued upon delivery of vested restricted stock awards	326,176	—	(14,505)				(14,505)		(14,505)
Shares issued upon exercise of stock options and purchases under employee share purchase plan	32,873	—	(1,491)				(1,491)		(1,491)
Delivery of vested shares, net			5,712		(5,712)		—		—
Deconsolidation of affiliate (Note 2)							—	(14,184)	(14,184)
Amortization of stock-based compensation expense			18,170				18,170		18,170

Redemption value adjustment			561				561		561
Distributions to noncontrolling interests							—	(13,418)	(13,418)
Distributions declared ($2.9392 per share)			1,672	(316,259)	248		(314,339)		(314,339)
Net income				220,043			220,043	6,294	226,337
Other comprehensive loss:									
Foreign currency translation adjustments						(43,050)	(43,050)	1,051	(41,999)
Realized and unrealized loss on derivative instruments						(5,982)	(5,982)	(17)	(5,999)
Change in unrealized loss on marketable securities						(3)	(3)		(3)
Balance at September 30, 2016	106,274,673	$106	$4,389,363	$(834,868)	$50,576	$(221,326)	$3,383,851	$128,230	$3,512,081

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(Continued)
Nine Months Ended September 30, 2016 and 2015
(in thousands, except share and per share amounts)

	W. P. Carey Stockholders								
	Common Stock $0.001 Par Value Shares	Amount	Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Loss	Total W. P. Carey Stockholders	Noncontrolling Interests	Total
Balance at January 1, 2015	104,040,653	$104	$4,293,450	$(497,730)	$30,624	$(75,559)	$3,750,889	$139,846	$3,890,735
Contributions from noncontrolling interests							—	586	586
Shares issued upon delivery of vested restricted stock awards	308,146	—	(14,695)				(14,695)		(14,695)
Shares issued upon exercise of stock options and purchases under employee share purchase plan	53,412	—	(1,388)				(1,388)		(1,388)
Deferral of vested shares, net			(24,935)		24,935		—		—
Windfall tax benefits - share incentive plans			7,028				7,028		7,028
Amortization of stock-based compensation expense			16,063				16,063		16,063
Redemption value adjustment			(8,551)				(8,551)		(8,551)
Distributions to noncontrolling interests							—	(10,116)	(10,116)
Distributions declared ($2.8615 per share)			5,064	(310,698)	1,836		(303,798)		(303,798)

Net income				121,209			121,209	7,874	129,083
Other comprehensive loss:									
Foreign currency translation adjustments						(99,612)	(99,612)	(3,515)	(103,127)
Realized and unrealized gain on derivative instruments						18,488	18,488		18,488
Change in unrealized gain on marketable securities						14	14		14
Balance at September 30, 2015	104,402,211	$104	$4,272,036	$(687,219)	$57,395	$(156,669)	$3,485,647	$134,675	$3,620,322

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows — Operating Activities		
Net income	$226,337	$129,083
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	216,002	212,273
Gain on sale of real estate	(68,070)	(2,980)
Impairment charges	49,870	22,711
Distributions of earnings from equity investments	48,303	35,854
Equity in earnings of equity method investments in the Managed Programs and real estate	(48,243)	(38,630)
Management income received in shares of Managed REITs and other	(22,088)	(16,808)
Straight-line rent, amortization of rent-related intangibles, and deferred rental revenue	(20,934)	27,980
Deferred income taxes	(19,094)	(4,537)
Stock-based compensation expense	18,170	16,063
Allowance for credit losses	7,064	—
Realized and unrealized gain on foreign currency transactions, derivatives, extinguishment of debt, and other	(6,921)	(3,368)
Changes in assets and liabilities:		
Deferred acquisition revenue received	18,161	20,105
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(15,943)	(16,443)
Increase in structuring revenue receivable	(5,310)	(21,574)
Net changes in other operating assets and liabilities	(15,771)	(28,826)
Net Cash Provided by Operating Activities	361,533	330,903
Cash Flows — Investing Activities		
Proceeds from sale of real estate	392,867	28,949
Purchases of real estate	(385,835)	(529,812)
Funding for real estate construction and expansion	(41,874)	(27,976)
Proceeds from repayment of short-term loans to affiliates	37,053	50,000
Funding of short-term loans to affiliates	(20,000)	(155,447)
Deconsolidation of affiliate (Note 2)	(15,408)	—
Investment in assets of affiliate (Note 2)	(14,861)	—
Proceeds from limited partnership units issued by affiliate (Note 2)	14,184	—
Change in investing restricted cash	7,775	24,607
Capital expenditures on owned real estate	(7,104)	(3,416)
Return of capital from equity investments	3,522	5,798
Other investing activities, net	2,223	1,486
Value added taxes refunded in connection with acquisition of real estate	1,037	—
Value added taxes paid in connection with acquisition and construction of real estate	(1,004)	(10,263)
Capital expenditures on corporate assets	(846)	(3,482)
Proceeds from repayments of note receivable	293	10,258
Capital contributions to equity investments in real estate	(6)	(15,903)
Net Cash Used in Investing Activities	(27,984)	(625,201)
Cash Flows — Financing Activities		
Repayments of Senior Unsecured Credit Facility	(837,575)	(1,104,522)

Proceeds from Senior Unsecured Credit Facility	720,568	758,665
Proceeds from issuance of Senior Unsecured Notes	348,887	1,022,303
Distributions paid	(310,509)	(302,205)
Prepayments of mortgage principal	(193,030)	(9,678)
Scheduled payments of mortgage principal	(113,420)	(54,422)
Proceeds from shares issued under “at-the-market” offering, net of selling costs	84,093	—
Proceeds from mortgage financing	33,935	22,667
Distributions paid to noncontrolling interests	(13,418)	(10,116)
Payment of financing costs	(2,949)	(10,878)
Change in financing restricted cash	1,051	(10,406)
Proceeds from exercise of stock options and employee purchases under the employee share purchase plan	204	360
Contributions from noncontrolling interests	135	586
Other financing activities, net	(125)	—
Windfall tax benefit associated with stock-based compensation awards	—	7,028
Net Cash (Used in) Provided by Financing Activities	(282,153)	309,382
Change in Cash and Cash Equivalents During the Period		
Effect of exchange rate changes on cash	860	(22,449)
Net increase in cash and cash equivalents	52,256	(7,365)
Cash and cash equivalents, beginning of period	157,227	198,683
Cash and cash equivalents, end of period	$209,483	$191,318

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

W. P. Carey Inc., or W. P. Carey, is, together with its consolidated subsidiaries, a REIT that provides long-term financing via sale-leaseback and build-to-suit transactions for companies worldwide and manages a global investment portfolio. We invest primarily in commercial properties domestically and internationally. We earn revenue principally by leasing the properties we own to single corporate tenants, primarily on a triple-net lease basis, which generally requires each tenant to pay substantially all of the costs associated with operating and maintaining the property.

Originally founded in 1973, we reorganized as a REIT in September 2012 in connection with our merger with Corporate Property Associates 15 Incorporated. We refer to that merger as the CPA®:15 Merger. On January 31, 2014, Corporate Property Associates 16 – Global Incorporated, or CPA®:16 – Global, merged with and into us, which we refer to as the CPA®:16 Merger. Our shares of common stock are listed on the New York Stock Exchange under the symbol "WPC."

We have elected to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code. As a REIT, we are not generally subject to United States federal income taxation other than from our taxable REIT subsidiaries, or TRSs, as long as we satisfy certain requirements, principally relating to the nature of our income and the level of our distributions, as well as other factors. We hold all of our real estate assets attributable to our Owned Real Estate segment under the REIT structure, while the activities conducted by our Investment Management segment subsidiaries have been organized under TRSs.

Through our TRSs, we also earn revenue as the advisor to publicly owned, non-listed REITs, which are sponsored by us under the Corporate Property Associates, or CPA®, brand name and invest in similar properties. At September 30, 2016, we were the advisor to Corporate Property Associates 17 – Global Incorporated, or CPA®:17 – Global, and Corporate Property Associates 18 – Global Incorporated, or CPA®:18 – Global. We refer to CPA®:17 – Global and CPA®:18 – Global together as the CPA® REITs. At September 30, 2016, we were also the advisor to Carey Watermark Investors Incorporated, or CWI 1, and Carey Watermark Investors 2 Incorporated, or CWI 2, two publicly owned, non-listed REITs that invest in lodging and lodging-related properties. We refer to CWI 1 and CWI 2 together as the CWI REITs and, together with the CPA® REITs, as the Managed REITs (Note 3). At September 30, 2016, we also served as the advisor to Carey Credit Income Fund, or CCIF, a business development company, or BDC, and three feeder funds of CCIF, or the CCIF Feeder Funds, which are also BDCs (Note 6). In May 2016, one of the CCIF Feeder Funds, Carey Credit Income Fund 2017 T, filed a registration statement on Form N-2 with the SEC to sell up to 106,382,978 shares of its beneficial interest in an initial public offering, with the proceeds to be invested in shares of CCIF. The registration statement was declared effective by the SEC in October 2016 but fundraising has not yet commenced. We refer to CCIF and the CCIF Feeder Funds collectively as the Managed BDCs. At September 30, 2016, we were also the advisor to Carey European Student Housing Fund I, L.P., or CESH I, a limited partnership we formed for the purpose of developing, owning, and operating student housing properties and similar investments in Europe. We refer to the Managed REITs, Managed BDCs, and CESH I collectively as the Managed Programs.

On May 4, 2016, we filed a registration statement with the SEC for Corporate Property Associates 19 – Global Incorporated, or CPA®:19 – Global, a diversified non-traded REIT, for a capital raise of up to $2.0 billion, which includes $500.0 million of shares allocated to CPA®:19 – Global's distribution reinvestment plan. CPA®:19 – Global's registration statement remains subject to review by the SEC and state securities regulators, so there can be no assurances as to whether or when the related offering will commence. Through September 30, 2016, the financial activity of CPA®:19 – Global, which has no significant assets, liabilities, or operations, was included in our consolidated financial statements. We will continue to consolidate the financial activity of CPA®:19 – Global until the

point at which it has sufficient equity to finance its operations.

Reportable Segments

Owned Real Estate — We own and invest in commercial properties principally in the United States, Europe, Australia, and Asia that are then leased to companies, primarily on a triple-net lease basis. We have also invested in several operating properties, such as lodging and self-storage properties. We earn lease revenues from our wholly-owned and co-owned real estate investments that we control. In addition, we generate equity income through co-owned real estate investments that we do not control and through our ownership of shares of the Managed Programs (Note 6). Through our special member interests in the operating partnerships of the Managed REITs, we also participate in their cash flows (Note 3). At September 30, 2016, our owned portfolio was comprised of our full or partial ownership interests in 910 properties, totaling approximately 91.8 million square feet, substantially all of which were net leased to 222 tenants, with an occupancy rate of 99.1%.

Notes to Consolidated Financial Statements (Unaudited)

Investment Management — Through TRSs, we structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset management revenue. We earn asset management revenue from CCIF based on the average of its gross assets at fair value. We also earn asset management revenue from CESH I based on gross assets at fair value as determined on the last day of each calendar quarter. We may earn disposition revenue when we negotiate and structure the sale of properties on behalf of the Managed REITs, and we may also earn incentive revenue and receive other compensation through our advisory agreements with certain of the Managed Programs, including in connection with providing liquidity events for the Managed REITs' stockholders. At September 30, 2016, CPA®:17 – Global and CPA®:18 – Global collectively owned all or a portion of 439 properties, including certain properties in which we have an ownership interest. Substantially all of these properties, totaling approximately 50.1 million square feet, were net leased to 210 tenants, with an average occupancy rate of approximately 99.7%. The Managed REITs and CESH I also had interests in 156 operating properties, totaling approximately 19.6 million square feet, in the aggregate. We continue to explore alternatives for expanding our investment management operations beyond advising the existing Managed Programs. Any such expansion could involve the purchase of properties or other investments as principal, either for our owned portfolio or with the intention of transferring such investments to a newly-created fund. These new funds could invest primarily in assets other than net-lease real estate and could include funds raised through private placements, such as CESH I, or publicly traded vehicles, either in the United States or internationally.

Note 2. Basis of Presentation

Basis of Presentation

Our interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations, and cash flows in accordance with generally accepted accounting principles in the United States, or GAAP.

In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair statement of financial position, results of operations, and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2015, which are included in the 2015 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation

Our consolidated financial statements reflect all of our accounts, including those of our controlled subsidiaries and our tenancy-in-common interest as described below. The portions of equity in consolidated subsidiaries that are not attributable, directly or indirectly, to us are presented as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

On January 1, 2016, we adopted the Financial Accounting Standards Board's, or FASB's, Accounting Standards Update, or ASU, 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, as described in the

Recent Accounting Pronouncements section below, which amends the current consolidation guidance, including introducing a separate consolidation analysis specific to limited partnerships and other similar entities. When we obtain an economic interest in an entity, we evaluate the entity to determine if it should be deemed a variable interest entity, or VIE, and, if so, whether we are the primary beneficiary and are therefore required to consolidate the entity. We apply accounting guidance for consolidation of VIEs to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Fixed price purchase and renewal options within a lease, as well as certain decision-making rights within a loan or joint-venture agreement, can cause us to consider an entity a VIE. Limited partnerships and other similar entities that operate as a partnership will be considered a VIE unless the limited partners hold substantive kick-out rights or participation rights. Significant judgment is required to determine whether a VIE should be consolidated. We review the contractual arrangements provided for in the partnership agreement or other related contracts to determine whether the entity is considered a VIE, and to

Notes to Consolidated Financial Statements (Unaudited)

establish whether we have any variable interests in the VIE. We then compare our variable interests, if any, to those of the other variable interest holders to determine which party is the primary beneficiary of the VIE based on whether the entity (i) has the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. We performed this analysis on all of our subsidiary entities following the guidance in ASU 2015-02 to determine whether they qualify as VIEs and whether they should be consolidated or accounted for as equity investments in an unconsolidated venture. As a result of this change in guidance, we determined that 13 entities that were previously classified as voting interest entities should now be classified as VIEs as of January 1, 2016 and therefore included in our VIE disclosures. However, there was no change in determining whether or not we consolidate these entities as a result of the new guidance. We elected to retrospectively adopt ASU 2015-02, which resulted in changes to our VIE disclosures within the consolidated balance sheets. There were no other changes to our consolidated balance sheets or results of operations for the periods presented. The liabilities of these VIEs are non-recourse to us and can only be satisfied from each VIE's respective assets.

At September 30, 2016, we considered 33 entities VIEs, 26 of which we consolidated as we are considered the primary beneficiary. The following table presents a summary of selected financial data of the consolidated VIEs included in the consolidated balance sheets (in thousands):

	September 30, 2016	December 31, 2015
Net investments in properties	$ 874,736	$ 890,454
Net investments in direct financing leases	61,672	61,454
In-place lease and tenant relationship intangible assets, net	206,908	214,924
Above-market rent intangible assets, net	75,570	80,901
Total assets	1,268,451	1,297,276
Non-recourse debt, net	$ 425,706	$ 439,285
Total liabilities	570,170	590,596

At September 30, 2016 and December 31, 2015, our seven unconsolidated VIEs included our interests in six unconsolidated real estate investments and one unconsolidated entity among our interests in the Managed Programs, all of which we account for under the equity method of accounting. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities allows us to exercise significant influence but does not give us power over decisions that significantly affect the economic performance of these entities. As of September 30, 2016 and December 31, 2015, the net carrying amount of our investments in these entities was $153.6 million and $154.8 million, respectively, and our maximum exposure to loss in these entities was limited to our investments.

At September 30, 2016, we had an investment in a tenancy-in-common interest in various underlying international properties. Consolidation of this investment is not required as such interest does not qualify as a VIE and does not meet the control requirement for consolidation. Accordingly, we account for this investment using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenancy-in-common interest investment provides us with significant influence on the operating and financial decisions of this investment.

At times, the carrying value of our equity investments may fall below zero for certain investments. We intend to fund our share of the jointly-owned investments' future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments nor do we have any legal obligation to fund operating deficits. At September 30, 2016, none of our equity investments had carrying values below zero.

On April 20, 2016, we formed a limited partnership, CESH I, for the purpose of developing, owning, and operating student housing properties and similar investments in Europe. CESH I commenced fundraising in July 2016 through a private placement with an initial offering of $100.0 million and a maximum offering of $150.0 million. Through August 30, 2016, the financial results and balances of CESH I were included in our consolidated financial statements, and we had collected $14.2 million of net proceeds from limited partnership units issued in the private placement offering primarily to independent investors. On August 31, 2016, we determined that CESH I had sufficient equity to finance its operations, and as a result we deconsolidated CESH I and began to account for our interest in it at fair value by electing the equity method fair value option available under U.S. GAAP. As of August 31, 2016, CESH I had assets totaling $30.3 million on our consolidated balance sheet, including $14.9 million in Other assets, net and $15.4 million in Cash and cash equivalents. In connection with the deconsolidation, we recorded offsetting amounts of $14.2 million for the nine months ended September 30, 2016 in

Notes to Consolidated Financial Statements (Unaudited)

Contributions from noncontrolling interests and Deconsolidation of affiliate in the consolidated statements of equity, and in Proceeds from limited partnership units issued by affiliates and Deconsolidation of affiliate in the consolidated statements of cash flows. We recognized a gain on deconsolidation of $1.9 million, which is included in Other income and (expenses) in the consolidated statements of income for the three and nine months ended September 30, 2016. The deconsolidation did not have a material impact on our financial position or results of operations. Following the deconsolidation, we continued to serve as advisor to CESH I (Note 3).

As of September 30, 2016, CPA®:19 – Global had not yet commenced fundraising through its offering. Therefore, we included the financial activity of CPA®:19 – Global in our consolidated financial statements and eliminated all intercompany accounts and transactions in consolidation. For the three and nine months ended September 30, 2016, the consolidated results of operations from CPA®:19 – Global were insignificant. All assets and liabilities of CPA®:19 – Global were insignificant as of September 30, 2016.

Out-of-Period Adjustments

During the second quarter of 2016, we identified and recorded out-of-period adjustments related to adjustments to prior period income tax returns. We concluded that these adjustments were not material to our consolidated financial statements for any of the current or prior periods presented. The net adjustment is reflected as a $3.0 million reduction of our Benefit from income taxes in the consolidated statements of income for the nine months ended September 30, 2016, with a net increase to Accounts payable, accrued expenses and other liabilities and Accumulated other comprehensive loss in the consolidated balance sheet as of September 30, 2016.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

During the year ended December 31, 2015, we determined that our presentation of common shares repurchased should be classified as a reduction to Common stock, for the par amount of the common shares repurchased, Additional paid-in capital, and Distributions in excess of accumulated earnings, and included as shares unissued within the consolidated financial statements. We previously classified common shares repurchased as Treasury stock in the consolidated financial statements. We evaluated the impact of this correction on previously-issued financial statements and concluded that they were not materially misstated. In order to conform previously-issued financial statements to the current period, we elected to revise previously-issued financial statements the next time such financial statements are filed to include the elimination of Treasury stock of $60.9 million, with corresponding reductions of Common stock and Additional paid-in capital of $28.8 million, and Distributions in excess of accumulated earnings of $32.1 million as of September 30, 2015. These revisions resulted in no change in Total equity within the consolidated balance sheet as of September 30, 2015 and the consolidated statement of equity for the nine months ended September 30, 2015. The accompanying consolidated statement of equity for the nine months ended September 30, 2015 has been revised accordingly. The misclassification had no impact on the previously-reported consolidated statements of income, consolidated statements of comprehensive income, or consolidated statements of cash flows.

On January 1, 2016, we adopted ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) as described in the Recent Accounting Pronouncements section below. ASU 2015-03 changes the presentation of debt issuance costs, which were previously recognized as an asset and requires that they be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. As a result of adopting this guidance, we reclassified $12.6 million of deferred financing costs, net from Other assets, net to Non-recourse debt, net, Senior Unsecured Notes, net, and Senior Unsecured Credit Facility - Term Loan, net as of December 31, 2015.

Notes to Consolidated Financial Statements (Unaudited)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to our lease revenues, but will apply to reimbursed tenant costs and revenues generated from our operating properties and our Investment Management business. Additionally, this guidance modifies disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year, beginning in 2018, with early adoption permitted but not before 2017, the original public company effective date. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810). ASU 2015-02 amends the current consolidation guidance, including modification of the guidance for evaluating whether limited partnerships and similar legal entities are VIEs or voting interest entities. The guidance does not amend the existing disclosure requirements for VIEs or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, ASU 2015-02 requires an entity to classify a limited liability company or a limited partnership as a VIE unless the partnership provides partners with either substantive kick-out rights or substantive participating rights over the managing member or general partner. Please refer to the discussion in the Basis of Consolidation section above.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30). ASU 2015-03 changes the presentation of debt issuance costs, which were previously recognized as an asset, and requires that they be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for periods beginning after December 15, 2015, and retrospective application is required. We adopted ASU 2015-03 on January 1, 2016 and have disclosed the reclassification of our debt issuance costs in the Reclassifications section above.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively. Instead, an acquirer will recognize a measurement period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, early adoption is permitted and prospective application is required for adjustments that are identified after the effective date of this update. We elected to early adopt ASU 2015-16 and implemented the standard prospectively beginning July 1, 2015. The adoption and implementation of the standard did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 outlines a new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, would be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely unchanged from the current model, with the distinction between operating and financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The new standard also replaces existing sale-leaseback guidance with a new model applicable to both lessees and lessors. Additionally, the new standard requires extensive quantitative and qualitative disclosures. ASU 2016-02 is effective for U.S. GAAP public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; for all other

entities, the final lease standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all entities. The new standard must be adopted using a modified retrospective transition of the new guidance and provides for certain practical expedients. Transition will require application of the new model at the beginning of the earliest comparative period presented. We are evaluating the impact of the new standard and have not yet determined if it will have a material impact on our business or our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. ASU 2016-05 clarifies that a change in counterparty to a derivative contract, in and of itself, does not require the dedesignation of a hedging relationship. ASU 2016-05 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted and entities have the option of adopting this guidance on a prospective basis to new derivative contracts or on a modified retrospective basis. We elected to

Notes to Consolidated Financial Statements (Unaudited)

early adopt ASU 2016-05 on January 1, 2016 on a prospective basis, and there was no impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323). ASU 2016-07 simplifies the transition to the equity method of accounting. ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Instead the equity method of accounting will be applied prospectively from the date significant influence is obtained. The new standard should be applied prospectively for investments that qualify for the equity method of accounting in interim and annual periods beginning after December 15, 2016. Early adoption is permitted, and we elected to early adopt this standard as of January 1, 2016. The adoption of this standard had no impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 amends Accounting Standards Codification Topic 718, Compensation-Stock Based Compensation to simplify various aspects of how share-based payments are accounted for and presented in the financial statements including (i) reflecting income tax effects of share-based payments through the income statement, (ii) allowing statutory tax withholding requirements at the employees' maximum individual tax rate without requiring awards to be classified as liabilities and (iii) permitting an entity to make an accounting policy election for the impact of forfeitures on the recognition of expense. ASU 2016-09 is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period, with early adoption permitted. We are in the process of evaluating the impact of adopting ASU 2016-09 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses. ASU 2016-13 introduces a new model for estimating credit losses for certain types of financial instruments, including loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for losses. ASU 2016-13 will be effective for public business entities in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early application of the guidance permitted. We are in the process of evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 intends to reduce diversity in practice for certain cash flow classifications, including, but not limited to (i) debt prepayment or debt extinguishment costs, (ii) contingent consideration payments made after a business combination, (iii) proceeds from the settlement of insurance claims, and (iv) distributions received from equity method investees. ASU 2016-15 will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early application of the guidance permitted. We are in the process of evaluating the impact of adopting ASU 2016-15 on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. ASU 2016-17 changes how a reporting entity that is a decision maker should consider indirect interests in a VIE held through an entity under common control. If a decision maker must evaluate whether it is the primary beneficiary of a VIE, it will only need to consider its proportionate indirect interest in the VIE held through a common control party. ASU 2016-17 amends ASU 2015-02, which we adopted on January 1, 2016, and which currently directs the decision maker to treat the common control party's interest in the VIE as if the decision maker held the interest itself. ASU 2016-17 will be effective for public business entities in fiscal years

beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. We are in the process of evaluating the impact of adopting ASU 2016-17 on our consolidated financial statements.

Note 3. Agreements and Transactions with Related Parties

Advisory Agreements with the Managed Programs

We have advisory agreements with each of the Managed Programs, pursuant to which we earn fees and are entitled to receive reimbursement for fund management expenses, as well as cash distributions. We also earn fees for serving as the dealer-manager of the offerings of the Managed Programs. The advisory agreements with each of the Managed REITs have terms of one year, may be renewed for successive one-year periods, and are scheduled to expire on December 31, 2016, unless otherwise renewed. The advisory agreement with CCIF, which commenced February 27, 2015, is subject to renewal on or before February 26, 2017. The advisory agreement with CESH I, which commenced June 3, 2016, will continue until terminated pursuant to its terms.

Notes to Consolidated Financial Statements (Unaudited)

The following tables present a summary of revenue earned and/or cash received from the Managed Programs for the periods indicated, included in the consolidated financial statements. Asset management revenue excludes amounts received from third parties (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Asset management revenue	$15,955	$12,981	$45,535	$36,167
Reimbursable costs from affiliates	14,540	11,155	46,372	28,401
Structuring revenue	12,301	8,207	30,990	67,735
Distributions of Available Cash	10,876	10,182	32,018	28,244
Dealer manager fees	1,835	1,124	5,379	2,704
Other advisory revenue	522	—	522	203
Interest income on deferred acquisition fees and loans to affiliates	130	576	492	1,172
	$56,159	$44,225	$161,308	$164,626

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
CPA®:17 – Global	$16,616	$17,654	$51,820	$59,815
CPA®:18 – Global	5,259	12,725	22,851	56,392
CWI 1	7,771	7,581	26,453	36,735
CWI 2	19,924	6,265	49,233	11,684
CCIF	3,388	—	7,750	—
CESH I	3,201	—	3,201	—
	$56,159	$44,225	$161,308	$164,626

The following table presents a summary of amounts included in Due from affiliates in the consolidated financial statements (in thousands):

	September 30, 2016	December 31, 2015
Accounts receivable	$ 21,903	$ 15,711
Deferred acquisition fees receivable	20,599	33,386
Reimbursable costs	3,840	5,579
Asset management fees receivable	2,529	2,172
Organization and offering costs	1,809	461
Current acquisition fees receivable	828	4,909
	$ 51,508	$ 62,218

Notes to Consolidated Financial Statements (Unaudited)

Asset Management Revenue

Under the advisory agreements with the Managed Programs, we earn asset management revenue for managing their investment portfolios. The following table presents a summary of our asset management fee arrangements with the Managed Programs:

Managed Program	Rate	Payable	Description
CPA®:17 – Global	0.5% - 1.75%	50% in cash and 50% in shares of its common stock	Rate depends on the type of investment and is based on the average market or average equity value, as applicable
CPA®:18 – Global	0.5% - 1.5%	In shares of its class A common stock	Rate depends on the type of investment and is based on the average market or average equity value, as applicable
CWI 1	0.5%	In cash	Rate is based on the average market value of the investment; we are required to pay 20% of the asset management revenue we receive to the subadvisor
CWI 2	0.55%	In shares of its class A common stock	Rate is based on the average market value of the investment; we are required to pay 25% of the asset management revenue we receive to the subadvisor
CCIF	1.75% - 2.00%	In cash	Based on the average of gross assets at fair value; we are required to pay 50% of the asset management revenue we receive to the subadvisor
CESH I	1.0%	In cash	Based on gross assets at fair value

Incentive Fees

We are entitled to receive a quarterly incentive fee on income from CCIF equal to 100% of quarterly net investment income, before incentive fee payments, in excess of 1.875% of CCIF's average adjusted capital up to a limit of 2.344%, plus 20% of net investment income, before incentive fee payments, in excess of 2.344% of average adjusted capital. We are also entitled to receive from CCIF an incentive fee on realized capital gains of 20%, net of (i) all realized capital losses and unrealized depreciation on a cumulative basis, and (ii) the aggregate amount, if any, of previously paid incentive fees on capital gains since inception.

Notes to Consolidated Financial Statements (Unaudited)

Structuring Revenue

Under the terms of the advisory agreements with the Managed REITs and CESH I, we earn revenue for structuring and negotiating investments and related financing. We do not earn any structuring revenue from the Managed BDCs. The following table presents a summary of our structuring fee arrangements with the Managed REITs and CESH I:

Managed Program	Rate	Payable	Description
CPA®:17 – Global	1% - 1.75%, 4.5%	In cash; for non net-lease investments, 1% - 1.75% upon completion; for net-lease investments, 2.5% upon completion, with 2% deferred and payable in three interest-bearing annual installments	Based on the total aggregate cost of the net-lease investments made; also based on the total aggregate cost of the non net-lease investments made; total limited to 6% of the contract prices in aggregate
CPA®:18 – Global	4.5%	In cash; for all investments, other than readily marketable real estate securities for which we will not receive any acquisition fees, 2.5% upon completion, with 2% deferred and payable in three interest-bearing annual installments	Based on the total aggregate cost of the investments made; total limited to 6% of the contract prices in aggregate
CWI REITs	2.5%	In cash upon completion	Based on the total aggregate cost of the lodging investments made; loan refinancing transactions up to 1% of the principal amount; we are required to pay 20% and 25% to the subadvisor of CWI 1 and CWI 2, respectively; total for each CWI REIT limited to 6% of the contract prices in aggregate
CESH I	2.0%	In cash upon completion	Based on the total aggregate cost of investments made, including the acquisition, development, construction, or re-development of the investments

Reimbursable Costs from Affiliates

The Managed Programs reimburse us for certain costs that we incur on their behalf, which consist primarily of broker-dealer commissions, marketing costs, an annual distribution and shareholder servicing fee, or Shareholder Servicing Fee, and certain personnel and overhead costs, as applicable. The following tables present summaries of such fee arrangements:

Broker-Dealer Selling Commissions

Managed Program	Rate	Payable	Description
CWI 2 Class A Shares	$0.70	In cash upon share settlement; 100% re-allowed to broker-dealers	Per share sold
CPA®:18 – Global Class C Shares	$0.14	In cash upon share settlement; 100% re-allowed to broker-dealers	Per share sold; this offering closed in April 2015
CWI 2 Class T Shares	$0.19	In cash upon share settlement; 100% re-allowed to broker-dealers	Per share sold
CCIF Feeder Funds	0% - 3%	In cash upon share settlement; 100% re-allowed to broker-dealers	Based on the selling price of each share sold
CESH I	Up to 7.0% of gross offering proceeds	In cash upon limited partnership unit settlement; 100% re-allowed to broker-dealers	Based on the selling price of each limited partnership unit sold

Notes to Consolidated Financial Statements (Unaudited)

Dealer Manager Fees

Managed Program	Rate	Payable	Description
CWI 2 Class A Shares	\$0.30	Per share sold	In cash upon share settlement; a portion may be re-allowed to broker-dealers
CPA®:18 – Global Class C Shares	\$0.21	Per share sold	In cash upon share settlement; a portion may be re-allowed to broker-dealers; this offering closed in April 2015
CWI 2 Class T Shares	\$0.26	Per share sold	In cash upon share settlement; a portion may be re-allowed to broker-dealers
CCIF Feeder Funds	2.75% - 3.0%	Based on the selling price of each share sold	In cash upon share settlement; a portion may be re-allowed to broker-dealers
CESH I	Up to 3.0% of gross offering proceeds	Per limited partnership unit sold	In cash upon limited partnership unit settlement; a portion may be re-allowed to broker-dealers

Annual Distribution and Shareholder Servicing Fee

Managed Program	Rate	Payable	Description
CPA®:18 – Global Class C Shares	1.0%	Accrued daily and payable quarterly in arrears in cash; a portion may be re-allowed to selected dealers	Based on the purchase price per share sold or, once it was reported, the net asset value per share; cease paying when underwriting compensation from all sources equals 10% of gross offering proceeds
CWI 2 Class T Shares	1.0%	Accrued daily and payable quarterly in arrears in cash; a portion may be re-allowed to selected dealers	Based on the purchase price per share sold or, once it was reported, the net asset value per share; cease paying on the earlier of six years or when underwriting compensation from all sources equals 10% of gross offering proceeds

Personnel and Overhead Costs

Managed Program	Payable	Description
CPA®:17 – Global and CPA®:18 – Global	In cash	Personnel and overhead costs, excluding those related to our legal transactions group, our senior management, and our investments team, are charged to the CPA® REITs based on the average of the trailing 12-month aggregate reported revenues of the Managed Programs and us, and are capped at 2.2% and 2.4% of each CPA® REIT's pro rata lease revenues for 2016 and 2015, respectively; for the legal transactions group, costs are charged according to a fee schedule
CWI 1	In cash	Actual expenses incurred; allocated between the CWI REITs based on the percentage of their total pro rata hotel revenues for the most recently completed quarter
CWI 2	In cash	Actual expenses incurred; allocated between the CWI REITs based on the percentage of their total pro rata hotel revenues for the most recently completed quarter
CCIF and CCIF Feeder Funds	In cash	Actual expenses incurred
CESH I	In cash	Actual expenses incurred

Notes to Consolidated Financial Statements (Unaudited)

Organization and Offering Costs

Managed Program	Payable	Description
CWI 2	In cash; within 60 days after the end of the quarter in which the offering terminates	Actual costs incurred from 1.5% through 4.0% of the gross offering proceeds, depending on the amount raised
CCIF and CCIF Feeder Funds	In cash; payable monthly	Up to 1.5% of the gross offering proceeds
CESH I	N/A	In lieu of reimbursing us for organization and offering costs, CESH I will pay us limited partnership units, as described below under Other Advisory Revenue

For CCIF, total reimbursements to us for personnel and overhead costs and organization and offering costs may not exceed 18% of total Front End Fees, as defined in its Declaration of Trust, so that total funds available for investment may not be lower than 82% of total gross proceeds.

Other Advisory Revenue

Under the limited partnership agreement we have with CESH I, we pay all organization and offering costs regarding CESH I, and instead of being reimbursed by CESH I on a dollar-for-dollar basis for those costs, we receive limited partnership units of CESH I equal to 2.5% of its gross offering proceeds. This revenue is included in Other advisory revenue in the consolidated statements of income and totaled $0.5 million for both the three and nine months ended September 30, 2016, representing activity following the deconsolidation of CESH I on August 31, 2016 (Note 2).

Expense Support and Conditional Reimbursements

Under the expense support and conditional reimbursement agreement we have with each of the CCIF Feeder Funds, we and the CCIF subadvisor are obligated to reimburse the CCIF Feeder Funds for 50% of the excess of the cumulative distributions paid to the CCIF Feeder Funds' shareholders over the available operating funds on a monthly basis. Following any month in which the available operating funds exceed the cumulative distributions paid to its shareholders, the excess operating funds are used to reimburse us and the CCIF subadvisor for any expense payment we made within three years prior to the last business day of such months that have not been previously reimbursed by the CCIF Feeder Fund, up to the lesser of (i) 1.75% of each CCIF Feeder Fund's average net assets or (ii) the percentage of each CCIF Feeder Fund's average net assets attributable to its common shares represented by other operating expenses during the fiscal year in which such expense support payment from us and the CCIF's subadvisor was made, provided that the effective rate of distributions per share at the time of reimbursement is not less than such rate at the time of expense payment.

Distributions of Available Cash

We are entitled to receive distributions of up to 10% of the Available Cash (as defined in the respective advisory agreements) from the operating partnerships of each of the Managed REITs, as described in their respective operating partnership agreements, payable quarterly in arrears.

Other Transactions with Affiliates

Loans to Affiliates

During 2015 and 2014, our board of directors approved unsecured loans from us to CPA®:17 – Global of up to $75.0 million, CPA®:18 – Global of up to $100.0 million, CWI 1 and CWI 2 of up to $110.0 million in the aggregate, and CCIF of up to $50.0 million, at our sole discretion, with each loan at a rate equal to the rate at which we are able to borrow funds under our senior credit facility (Note 10), for the purpose of facilitating acquisitions approved by their respective investment committees that they would not otherwise have had sufficient available funds to complete. In April 2016, our board of directors approved unsecured loans from us to CESH I of up to $35.0 million, under the same terms and for the same purpose.

Notes to Consolidated Financial Statements (Unaudited)

During 2015, various loans aggregating $185.4 million were made to the Managed Programs, all of which were repaid during 2015. All of the loans were made at an interest rate equal to the London Interbank Offered Rate, or LIBOR, as of the issue date, plus 1.1%. During 2015, we arranged credit agreements for each of CPA®:17 – Global, CWI 1, and CCIF, and our board of directors terminated its previous authorizations to provide loans to CPA®:17 – Global and CWI 1. In January 2016, our board of directors terminated its previous authorizations to provide loans to CPA®:18 – Global and CCIF. However, in July 2016, our board of directors approved unsecured loans from us to CPA®:18 – Global of up to $50.0 million, at our sole discretion, with a rate equal to the rate at which we are able to borrow funds under our senior credit facility (Note 10), for the purpose of facilitating investments approved by CPA®:18 – Global's investment committee. See Note 17, Subsequent Events.

On January 20, 2016, we made a $20.0 million loan to CWI 2, which was repaid in full on February 20, 2016.

In May 2016, we made a total of $17.1 million in loans to CESH I, at an annual interest rate of LIBOR plus 1.1%, which were repaid in full in September 2016, subsequent to the commencement of CESH I's private placement offering (Note 2).

Other

On February 2, 2016, an entity in which we, one of our employees, and third parties owned 38.3%, 0.5%, and 61.2%, respectively, and which we consolidated, sold a self-storage property (Note 15). In connection with the sale, we made a distribution of $0.1 million to the employee, representing the employee's share of the net proceeds from the sale.

At September 30, 2016, we owned interests ranging from 3% to 90% in jointly-owned investments, including a jointly-controlled tenancy-in-common interest in several properties, with the remaining interests generally held by affiliates, stock of each of the Managed REITs and CCIF, and limited partnership units of CESH I. We consolidate certain of these investments and account for the remainder either (i) under the equity method of accounting or (ii) at fair value by electing the equity method fair value option available under U.S. GAAP (Note 6).

Note 4. Net Investments in Properties

Real Estate

Real estate, which consists of land and buildings leased to others, at cost, and which are subject to operating leases, and real estate under construction, is summarized as follows (in thousands):

	September 30, 2016	December 31, 2015
Land	$ 1,119,158	$ 1,160,567
Buildings	4,065,395	4,147,644
Real estate under construction	37,433	1,714
Less: Accumulated depreciation	(444,538)	(372,735)
	$ 4,777,448	$ 4,937,190

During the nine months ended September 30, 2016, the U.S. dollar strengthened against the British pound sterling, as the end-of-period rate for the U.S. dollar in relation to the British pound sterling at September 30, 2016 decreased by 12.6% to $1.2962 from $1.4833 at December 31, 2015. Additionally, during the same period the U.S. dollar weakened against the euro, as the end-of-period rate for the U.S. dollar in relation to the euro increased by 2.5% to $1.1161 from $1.0887. As a result of these fluctuations in foreign exchange rates, the carrying value of our real estate decreased by $1.5 million from December 31, 2015 to September 30, 2016, with the impact of the U.S. dollar strengthening against

the British pound sterling more than offsetting the impact of the weakening of the U.S. dollar against the euro.

Depreciation expense for Net investments in properties was $36.5 million and $35.7 million for the three months ended September 30, 2016 and 2015, respectively, and $110.5 million and $105.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (Unaudited)

Acquisitions of Real Estate

During the nine months ended September 30, 2016, we entered into the following investments, which were deemed to be real estate asset acquisitions because we acquired the sellers' properties and simultaneously entered into new leases in connection with the acquisitions, at a total cost of $385.8 million, including land of $103.7 million, buildings of $213.1 million (including acquisition-related costs of $1.8 million, which were capitalized), and net lease intangibles of $69.0 million (Note 7):

- an investment of $167.7 million for three private school campuses in Coconut Creek, Florida on April 1, 2016 and in Windermere, Florida and Houston, Texas on May 31, 2016. We also committed to fund an additional $128.1 million of build-to-suit financing over the next four years in order to fund expansions of the existing facilities; and
- an investment of $218.2 million for 43 manufacturing facilities in various locations in the United States and six manufacturing facilities in various locations in Canada on April 5 and 14, 2016.

Real Estate Under Construction

During the nine months ended September 30, 2016, we capitalized real estate under construction totaling $46.4 million, including accrued costs of $8.6 million, primarily related to construction projects on our properties. Of this total, $14.3 million related to an expansion of one of the three private school campuses that we acquired during the nine months ended September 30, 2016. As of September 30, 2016, we had three construction projects in progress. As of December 31, 2015, we had an outstanding commitment related to a tenant expansion allowance, for which construction had not yet commenced, and no other open construction projects. Aggregate unfunded commitments totaled approximately $119.2 million and $12.2 million as of September 30, 2016 and December 31, 2015, respectively.

Dispositions of Real Estate

During the nine months ended September 30, 2016, we sold eight properties and a parcel of vacant land, excluding the sale of one property that was classified as held for sale as of December 31, 2015, transferred ownership of another property to the related mortgage lender, and disposed of another property through foreclosure (Note 15). As a result, the carrying value of our real estate decreased by $280.5 million from December 31, 2015 to September 30, 2016.

Future Dispositions of Real Estate

During the nine months ended September 30, 2016, two tenants each exercised an option to repurchase their respective properties during 2017 for an aggregate of $21.6 million. At September 30, 2016, the properties had an aggregate asset carrying value of $16.6 million. There is no accounting impact during 2016 related to the exercise of these options.

Operating Real Estate

At September 30, 2016, Operating real estate consisted of our investments in two hotels. At December 31, 2015, Operating real estate consisted of our investments in two hotels and one self-storage property. During the first quarter of 2016, we sold our remaining self-storage property, and as a result, the carrying value of our Operating real estate decreased by $2.3 million from December 31, 2015 to September 30, 2016 (Note 15). Below is a summary of our Operating real estate (in thousands):

	September 30, 2016	December 31, 2015
Land	$ 6,041	$ 6,578
Buildings	75,624	76,171
Less: Accumulated depreciation	(11,075)	(8,794)
	$ 70,590	$ 73,955

Notes to Consolidated Financial Statements (Unaudited)

Assets Held for Sale, Net

Below is a summary of our properties held for sale (in thousands):

	September 30, 2016	December 31, 2015
Real estate, net	$ 117,504	$ 59,046
Intangible assets and liabilities, net	9,938	—
Goodwill	1,020	—
Assets held for sale, net	$ 128,462	$ 59,046

At September 30, 2016, we had 16 properties classified as Assets held for sale, net, including:

- a portfolio of 14 international properties with a carrying value of $115.4 million. These properties were disposed of subsequent to September 30, 2016 (Note 17); and
- two international properties with an aggregate carrying value of $13.1 million. These properties were disposed of subsequent to September 30, 2016 (Note 17).

At December 31, 2015, we had two properties classified as Assets held for sale, net, one of which was sold during the nine months ended September 30, 2016 (Note 15).

Note 5. Finance Receivables

Assets representing rights to receive money on demand or at fixed or determinable dates are referred to as finance receivables. Our finance receivables portfolio consists of our Net investments in direct financing leases, notes receivable, and deferred acquisition fees. Operating leases are not included in finance receivables as such amounts are not recognized as an asset in the consolidated financial statements.

Net Investments in Direct Financing Leases

Interest income from direct financing leases, which was included in Lease revenues in the consolidated financial statements, was $17.6 million and $18.7 million for the three months ended September 30, 2016 and 2015, respectively, and $53.9 million and $56.1 million for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016, the U.S. dollar weakened against the euro and strengthened against the British pound sterling, resulting in a $3.1 million increase in the carrying value of Net investments in direct financing leases from December 31, 2015 to September 30, 2016, with the impact of the weakening of the U.S. dollar against the euro more than offsetting the impact of the U.S. dollar strengthening against the British pound sterling. During the nine months ended September 30, 2016, we reclassified 31 properties with a carrying value of $9.7 million from Net investments in direct financing leases to Real estate, at cost, in connection with the extensions of the underlying leases.

Note Receivable

At September 30, 2016 and December 31, 2015, we had a note receivable with an outstanding balance of $10.4 million and $10.7 million, respectively, representing the expected future payments under a sales type lease, which was included in Other assets, net in the consolidated financial statements. Earnings from our note receivable are included in Lease termination income and other in the consolidated financial statements.

Deferred Acquisition Fees Receivable

As described in Note 3, we earn revenue in connection with structuring and negotiating investments and related mortgage financing for the CPA® REITs. A portion of this revenue is due in equal annual installments over three years, provided the CPA® REITs meet their respective performance criteria. Unpaid deferred installments, including accrued interest, from the CPA® REITs were included in Due from affiliates in the consolidated financial statements.

Credit Quality of Finance Receivables

We generally seek investments in facilities that we believe are critical to a tenant's business and that we believe have a low risk of tenant default. As of September 30, 2016 and December 31, 2015, we had allowances for credit losses of $15.8 million and

Notes to Consolidated Financial Statements (Unaudited)

$8.7 million, respectively, on a single direct financing lease. During the nine months ended September 30, 2016, we increased the allowance by $7.1 million, which was recorded in Property expenses, excluding reimbursable tenant costs in the consolidated financial statements, due to a decline in the estimated amount of future payments we will receive from the tenant, including the possible early termination of the direct financing lease. At both September 30, 2016 and December 31, 2015, none of the balances of our finance receivables were past due. Other than the lease extensions noted under Net Investments in Direct Financing Leases above and the allowance for credit losses discussed above, there were no modifications of finance receivables during the nine months ended September 30, 2016 or the year ended December 31, 2015. We evaluate the credit quality of our finance receivables utilizing an internal five-point credit rating scale, with one representing the highest credit quality and five representing the lowest. A credit quality of one through three indicates a range of investment grade to stable. A credit quality of four through five indicates a range of watch list to risk of default. The credit quality evaluation of our finance receivables was last updated in the third quarter of 2016. We believe the credit quality of our deferred acquisition fees receivable falls under category one, as the CPA® REITs are expected to have the available cash to make such payments.

A summary of our finance receivables by internal credit quality rating, excluding our deferred acquisition fees receivable, is as follows (dollars in thousands):

Internal Credit Quality Indicator	Number of Tenants / Obligors at		Carrying Value at	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
1 - 3	27	28	$640,359	$ 657,034
4	6	6	109,092	110,002
5	1	—	1,731	—
			$751,182	$ 767,036

Note 6. Equity Investments in the Managed Programs and Real Estate

We own interests in certain unconsolidated real estate investments with the Managed Programs and also own interests in the Managed Programs. We account for our interests in these investments under the equity method of accounting (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus contributions and other adjustments required by equity method accounting, such as basis differences).

The following table presents Equity in earnings of equity method investments in the Managed Programs and real estate, which represents our proportionate share of the income or losses of these investments, as well as certain adjustments related to amortization of basis differences related to purchase accounting adjustments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Distributions of Available Cash (Note 3)	$10,876	$10,182	$32,018	$28,244
Proportionate share of earnings (losses) from equity investments in the Managed Programs	2,962	(431)	7,396	565
Amortization of basis differences on equity investments in the Managed Programs	(265)	(208)	(756)	(582)
Total equity earnings from the Managed Programs	13,573	9,543	38,658	28,227
Equity earnings from other equity investments	4,197	4,034	12,456	13,188
Amortization of basis differences on other equity investments	(967)	(942)	(2,871)	(2,785)
Equity in earnings of equity method investments in the Managed Programs and real estate	$16,803	$12,635	$48,243	$38,630

Managed Programs

We own interests in the Managed Programs and account for these interests under the equity method because, as their advisor and through our ownership of their common stock, we do not exert control over, but we do have the ability to exercise significant influence on, the Managed Programs. Operating results of the Managed REITs and CESH I are included in the Owned Real Estate segment and operating results of CCIF are included in the Investment Management segment.

Notes to Consolidated Financial Statements (Unaudited)

The following table sets forth certain information about our investments in the Managed Programs (dollars in thousands):

Fund	% of Outstanding Interests Owned at				Carrying Amount of Investment at	
	September 30, 2016		December 31, 2015		September 30, 2016	December 31, 2015
CPA®:17 – Global	3.358	%	3.087	%	$ 98,702	$ 87,912
CPA®:17 – Global operating partnership	0.009	%	0.009	%	—	—
CPA®:18 – Global	1.384	%	0.735	%	16,007	9,279
CPA®:18 – Global operating partnership	0.034	%	0.034	%	209	209
CWI 1	1.114	%	1.131	%	11,731	12,619
CWI 1 operating partnership	0.015	%	0.015	%	—	—
CWI 2	0.633	%	0.379	%	3,771	949
CWI 2 operating partnership	0.015	%	0.015	%	300	300
CCIF	16.514	%	47.882	%	23,083	22,214
CESH I [(a)]	2.121	%	—	%	908	—
					$ 154,711	$ 133,482

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(a) Investment is accounted for at fair value.

CPA®:17 – Global — The carrying value of our investment in CPA®:17 – Global at September 30, 2016 includes asset management fees receivable, for which 119,368 shares of CPA®:17 – Global common stock were issued during the fourth quarter of 2016. We received distributions from this investment during the nine months ended September 30, 2016 and 2015 of $5.5 million and $4.5 million, respectively. We received distributions from our investment in the CPA®:17 – Global operating partnership during the nine months ended September 30, 2016 and 2015 of $17.8 million and $17.7 million, respectively.

CPA®:18 – Global — The carrying value of our investment in CPA®:18 – Global at September 30, 2016 includes asset management fees receivable, for which 107,154 shares of CPA®:18 – Global class A common stock were issued during the fourth quarter of 2016. We received distributions from this investment during the nine months ended September 30, 2016 and 2015 of $0.6 million and $0.1 million, respectively. We received distributions from our investment in the CPA®:18 – Global operating partnership during the nine months ended September 30, 2016 and 2015 of $5.3 million and $2.3 million, respectively.

CWI 1 — We received distributions from this investment during both the nine months ended September 30, 2016 and 2015 of $0.6 million. We received distributions from our investment in the CWI 1 operating partnership during the nine months ended September 30, 2016 and 2015 of $6.9 million and $6.4 million, respectively.

CWI 2 — The carrying value of our investment in CWI 2 at September 30, 2016 includes asset management fees receivable, for which 46,042 shares of CWI 2 class A common stock were issued during the fourth quarter of 2016. We received distributions from this investment during the nine months ended September 30, 2016 of less than $0.1 million. We did not receive distributions from this investment during the nine months ended September 30, 2015. On March 27, 2015, we purchased a 0.015% special general partnership interest in the CWI 2 operating partnership for $0.3 million. This special general partnership interest entitles us to receive distributions of our proportionate share of earnings up to 10% of the Available Cash from the CWI 2 operating partnership (Note 3). We received distributions from our investment in the CWI 2 operating partnership during the nine months ended September 30, 2016 and 2015 of $2.0 million and $0.2 million, respectively.

CCIF — We received $0.6 million of distributions from our investment in CCIF during the nine months ended September 30, 2016. We did not receive distributions from this investment during the nine months ended September 30, 2015.

CESH I — Under the limited partnership agreement we have with CESH I, we pay all organization and offering costs regarding CESH I, and instead of being reimbursed by CESH I on a dollar-for-dollar basis for those costs, we receive limited partnership units of CESH I equal to 2.5% of its gross offering proceeds (Note 3). We have elected to account for our investment in CESH I at fair value by selecting the equity method fair value option available under U.S. GAAP. We did not receive distributions from this investment during the nine months ended September 30, 2016 or 2015.

Notes to Consolidated Financial Statements (Unaudited)

At September 30, 2016 and December 31, 2015, the aggregate unamortized basis differences on our equity investments in the Managed Programs were $30.7 million and $27.4 million, respectively.

Interests in Other Unconsolidated Real Estate Investments

We own equity interests in single-tenant net-leased properties that are generally leased to companies through noncontrolling interests (i) in partnerships and limited liability companies that we do not control but over which we exercise significant influence or (ii) as tenants-in-common subject to common control. Generally, the underlying investments are jointly-owned with affiliates. We account for these investments under the equity method of accounting. Earnings for each investment are recognized in accordance with each respective investment agreement.

The following table sets forth our ownership interests in our equity investments in real estate, excluding the Managed Programs, and their respective carrying values (dollars in thousands):

Lessee	Co-owner	Ownership Interest	Carrying Value at September 30, 2016	December 31, 2015
The New York Times Company	CPA®:17 – Global	45%	$69,772	$ 70,976
Frontier Spinning Mills, Inc.	CPA®:17 – Global	40%	24,149	24,288
Beach House JV, LLC (a)	Third Party	N/A	15,105	15,318
Actebis Peacock GmbH (b)	CPA®:17 – Global	30%	11,981	12,186
C1000 Logistiek Vastgoed B.V. (b) (c)	CPA®:17 – Global	15%	9,481	9,381
Waldaschaff Automotive GmbH and Wagon Automotive Nagold GmbH (b)	CPA®:17 – Global	33%	9,113	9,507
Wanbishi Archives Co. Ltd. (d)	CPA®:17 – Global	3%	378	335
			$139,979	$ 141,991

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(a) This investment is a preferred equity position.

(b) The carrying value of this investment is affected by fluctuations in the exchange rate of the euro.

(c) This investment represents a tenancy-in-common interest, whereby the property is encumbered by the debt for which we are jointly and severally liable. The co-obligor is CPA®:17 – Global and the amount due under the arrangement was approximately $72.8 million at September 30, 2016. Of this amount, $10.9 million represents the amount we agreed to pay and is included within the carrying value of the investment at September 30, 2016.

(d) The carrying value of this investment is affected by fluctuations in the exchange rate of the yen.

We received aggregate distributions of $12.4 million and $9.7 million from our other unconsolidated real estate investments for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016 and December 31, 2015, the aggregate unamortized basis differences on our unconsolidated real estate investments were $6.6 million and $6.7 million, respectively.

Note 7. Goodwill and Other Intangibles

We have recorded net lease and internal-use software development intangibles that are being amortized over periods ranging from one year to 40 years. In addition, we have several ground lease intangibles that are being amortized over

periods of up to 99 years. In-place lease and tenant relationship intangibles are included in In-place lease and tenant relationship intangible assets, net in the consolidated financial statements. Above-market rent intangibles are included in Above-market rent intangible assets, net in the consolidated financial statements. Below-market ground lease (as lessee), trade name, management contracts, and internal-use software development intangibles are included in Other assets, net in the consolidated financial statements. Below-market rent, above-market ground lease (as lessee), and below-market purchase option intangibles are included in Below-market rent and other intangible liabilities, net in the consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

In connection with our investment activity during the nine months ended September 30, 2016, we recorded net lease intangibles comprised as follows (life in years, dollars in thousands):

	Weighted-Average Life	Amount
Amortizable Intangible Assets		
In-place lease	22.2	$68,996

The following table presents a reconciliation of our goodwill (in thousands):

	Owned Real Estate	Investment Management	Total
Balance at January 1, 2016	$618,202	$ 63,607	$681,809
Allocation of goodwill to the cost basis of properties sold or classified as held for sale	(33,981)	—	(33,981)
Impairment charges (Note 8)	(10,191)	—	(10,191)
Foreign currency translation adjustments	2,668	—	2,668
Balance at September 30, 2016	$576,698	$ 63,607	$640,305

Intangible assets, intangible liabilities, and goodwill are summarized as follows (in thousands):

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable Intangible Assets						
Management contracts	$—	$—	$—	$32,765	$(32,765)	$—
Internal-use software development costs	18,517	(4,285)	14,232	18,188	(2,038)	16,150
	18,517	(4,285)	14,232	50,953	(34,803)	16,150
Lease Intangibles:						
In-place lease and tenant relationship	1,121,337	(304,186)	817,151	1,205,585	(302,737)	902,848
Above-market rent	603,900	(197,655)	406,245	649,035	(173,963)	475,072
Below-market ground lease	24,597	(1,321)	23,276	25,403	(889)	24,514
	1,749,834	(503,162)	1,246,672	1,880,023	(477,589)	1,402,434
Unamortizable Goodwill and Indefinite-Lived Intangible Assets						
Goodwill	640,305	—	640,305	681,809	—	681,809
Trade name	3,975	—	3,975	3,975	—	3,975
Below-market ground lease	917	—	917	895	—	895
	645,197	—	645,197	686,679	—	686,679
Total intangible assets	$2,413,548	$(507,447)	$1,906,101	$2,617,655	$(512,392)	$2,105,263
Amortizable Intangible Liabilities						
Below-market rent	$(134,210)	$35,982	$(98,228)	$(171,199)	$44,873	$(126,326)
Above-market ground lease	(13,075)	2,224	(10,851)	(13,052)	1,774	(11,278)
	(147,285)	38,206	(109,079)	(184,251)	46,647	(137,604)
Unamortizable Intangible Liabilities						
Below-market purchase option	(16,711)	—	(16,711)	(16,711)	—	(16,711)

Total intangible liabilities	$(163,996)	$ 38,206	$(125,790)	$(200,962)	$ 46,647	$(154,315)

Notes to Consolidated Financial Statements (Unaudited)

Net amortization of intangibles, including the effect of foreign currency translation, was $38.1 million and $50.1 million for the three months ended September 30, 2016 and 2015, respectively, and $125.6 million and $136.4 million for the nine months ended September 30, 2016 and 2015, respectively. Amortization of below-market rent and above-market rent intangibles is recorded as an adjustment to Lease revenues; amortization of internal-use software development and in-place lease and tenant relationship intangibles is included in Depreciation and amortization; and amortization of above-market ground lease and below-market ground lease intangibles is included in Property expenses, excluding reimbursable tenant costs.

Note 8. Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities, and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps, interest rate swaps, foreign currency forward contracts, and foreign currency collars; and Level 3, for securities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring us to develop our own assumptions.

Items Measured at Fair Value on a Recurring Basis

The methods and assumptions described below were used to estimate the fair value of each class of financial instrument. For significant Level 3 items, we have also provided the unobservable inputs along with their weighted-average ranges.

Money Market Funds — Our money market funds, which are included in Cash and cash equivalents in the consolidated financial statements, are comprised of government securities and U.S. Treasury bills. These funds were classified as Level 1 as we used quoted prices from active markets to determine their fair values.

Derivative Assets — Our derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate caps, stock warrants, foreign currency forward contracts, and foreign currency collars (Note 9). The interest rate caps, foreign currency forward contracts, and foreign currency collars were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. The stock warrants were measured at fair value using valuation models that incorporate market inputs and our own assumptions about future cash flows. We classified these assets as Level 3 because these assets are not traded in an active market.

Derivative Liabilities — Our derivative liabilities, which are included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements, are comprised of interest rate swaps and foreign currency collars (Note 9). These derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 because they are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

Redeemable Noncontrolling Interest — We account for the noncontrolling interest in W. P. Carey International, LLC, or WPCI, held by a third party as a redeemable noncontrolling interest (Note 13). We determined the valuation of redeemable noncontrolling interest using widely accepted valuation techniques, including comparable transaction

analysis, comparable public company analysis, and discounted cash flow analysis. We classified this liability as Level 3.

We did not have any transfers into or out of Level 1, Level 2, and Level 3 category of measurements during either the three or nine months ended September 30, 2016 or 2015.

Our other financial instruments had the following carrying values and fair values as of the dates shown (dollars in thousands):

		September 30, 2016		December 31, 2015	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-recourse debt, net [(a)] [(b)] [(c)]	3	$1,926,331	$1,962,315	$2,269,421	$2,293,542
Senior Unsecured Notes, net [(a)] [(b)] [(d)]	2	1,837,216	1,901,954	1,476,084	1,459,544
Note receivable [(c)]	3	10,437	10,135	10,689	10,610

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Notes to Consolidated Financial Statements (Unaudited)

(a) In accordance with ASU 2015-03, we reclassified deferred financing costs from Other assets, net to Non-recourse debt, net and Senior Unsecured Notes, net as of December 31, 2015 (Note 2). The carrying value of Non-recourse debt, net includes unamortized deferred financing costs of $1.2 million and $1.8 million at September 30, 2016 and December 31, 2015, respectively. The carrying value of Senior Unsecured Notes, net includes unamortized deferred financing costs of $12.6 million and $10.5 million at September 30, 2016 and December 31, 2015, respectively.

(b) The carrying value of Non-recourse debt, net includes unamortized premium of $0.1 million and $3.8 million at September 30, 2016 and December 31, 2015, respectively. The carrying value of Senior Unsecured Notes, net includes unamortized discount of $8.2 million and $7.8 million at September 30, 2016 and December 31, 2015, respectively.

(c) We determined the estimated fair value of these financial instruments using a discounted cash flow model that estimates the present value of the future loan payments by discounting such payments at current estimated market interest rates. The estimated market interest rates take into account interest rate risk and the value of the underlying collateral, which includes quality of the collateral, the credit quality of the tenant/obligor, and the time until maturity.

(d) We determined the estimated fair value of the Senior Unsecured Notes (Note 10) using quoted market prices in an open market with limited trading volume where available. In cases where there was no trading volume, we determined the estimated fair value using a discounted cash flow model using a rate that reflects the average yield of similar market participants.

We estimated that our other financial assets and liabilities (excluding net investments in direct financing leases) had fair values that approximated their carrying values at both September 30, 2016 and December 31, 2015.

Items Measured at Fair Value on a Non-Recurring Basis (Including Impairment Charges)

We periodically assess whether there are any indicators that the value of our real estate investments may be impaired or that their carrying value may not be recoverable. For investments in real estate held for use for which an impairment indicator is identified, we follow a two-step process to determine whether the investment is impaired and to determine the amount of the charge. First, we compare the carrying value of the property's asset group to the future undiscounted net cash flows that we expect the property's asset group will generate, including any estimated proceeds from the eventual sale of the property's asset group. If this amount is less than the carrying value, the property's asset group is considered to be not recoverable. We then measure the impairment charge as the excess of the carrying value of the property's asset group over the estimated fair value of the property's asset group, which is primarily determined using market information such as recent comparable sales, broker quotes, or third-party appraisals. If relevant market information is not available or is not deemed appropriate, we perform a future net cash flow analysis, discounted for inherent risk associated with each investment. We determined that the significant inputs used to value these investments fall within Level 3 for fair value reporting. As a result of our assessments, we calculated impairment charges based on market conditions and assumptions that existed at the time. The valuation of real estate is subject to significant judgment and actual results may differ materially if market conditions or the underlying assumptions change.

The following table presents information about our assets for which we recorded an impairment charge that were measured at fair value on a non-recurring basis (in thousands):

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
	Fair Value Measurements	Total Impairment Charges	Fair Value Measurements	Total Impairment Charges

Impairment Charges				
Real estate	$158,803	$ 14,441	$46,608	$ 19,438
		$ 14,441		$ 19,438

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Fair Value Measurements	Total Impairment Charges	Fair Value Measurements	Total Impairment Charges
Impairment Charges				
Real estate	$279,093	$ 49,870	$52,684	$ 22,711
		$ 49,870		$ 22,711

Notes to Consolidated Financial Statements (Unaudited)

During the three months ended September 30, 2016, we recognized impairment charges totaling $14.4 million, inclusive of an amount attributable to a noncontrolling interest of $0.6 million, on 18 properties, including a portfolio of 14 properties, in order to reduce the carrying values of the properties to their estimated fair values. The impairment charges recognized on the portfolio of 14 properties were in addition to charges recognized on the portfolio during the six months ended June 30, 2016, as described below, based on the purchase and sale agreement for the portfolio received during the current period. The fair value measurements for the properties approximated their estimated selling prices, less estimated costs to sell. We used available information, including third-party broker information and internal discounted cash flow models (Level 3 inputs), in determining the fair value of these properties. At September 30, 2016, the portfolio of 14 properties was classified as held for sale, and all were sold subsequent to September 30, 2016 (Note 4, Note 17).

During the nine months ended September 30, 2016, we recognized impairment charges totaling $49.9 million, inclusive of an amount attributable to a noncontrolling interest of $0.6 million, on 18 properties in order to reduce the carrying values of the properties to their estimated fair values. In addition to the impairment charges of $14.4 million recognized during the three months ended September 30, 2016, we had recognized impairment charges totaling $35.4 million, including $10.2 million allocated to goodwill, on the portfolio of 14 properties during the six months ended June 30, 2016 in order to reduce the carrying values of the properties to their estimated fair values, at that time. The fair value measurements for the properties approximated their estimated selling prices, less estimated costs to sell. We used available information, including third-party broker information and internal discounted cash flow models (Level 3 inputs), in determining the fair value of these properties.

During the three months ended September 30, 2015, we recognized impairment charges totaling $19.4 million on four properties in order to reduce the carrying values of the properties to their estimated fair values. The fair value measurements for two of the properties approximated their estimated selling prices; therefore, we recognized impairment charges totaling $3.8 million on these properties. At September 30, 2016, one of these properties was classified as held for sale and disposed of subsequent to September 30, 2016 (Note 4, Note 17). We reduced the estimated holding period for another property due to the expected termination of its related lease within one year after September 30, 2015 and recognized an impairment charge of $8.7 million on the property. The fair value measurement related to the impairment charge was determined by estimating discounted cash flows using three significant unobservable inputs: the cash flow discount rate of 9.25%, the residual discount rate of 9.75%, and the residual capitalization rate 8.5%. Significant increases or decreases to these inputs in isolation would result in a significant change in the fair value measurement. The building located on the remaining property was demolished in connection with the redevelopment of the property, which commenced in December 2015, and the fair value of the building was reduced to zero. We recognized an impairment charge of $6.9 million on this property.

During the nine months ended September 30, 2015, we recognized impairment charges totaling $22.7 million on six properties and a parcel of vacant land in order to reduce the carrying values of the properties to their estimated fair values. In addition to the impairment charges of $19.4 million recognized on four properties during the three months ended September 30, 2015, as described above, we recognized impairment charges totaling $3.3 million on two properties and the parcel of vacant land, since their fair value measurements approximated their estimated selling prices. These two properties were sold during 2015 and the parcel of vacant land was sold during the nine months ended September 30, 2016.

Note 9. Risk Management and Use of Derivative Financial Instruments

Risk Management

In the normal course of our ongoing business operations, we encounter economic risk. There are four main components of economic risk that impact us: interest rate risk, credit risk, market risk, and foreign currency risk. We are primarily subject to interest rate risk on our interest-bearing liabilities, including our Senior Unsecured Credit Facility and Senior Unsecured Notes (Note 10). Credit risk is the risk of default on our operations and our tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of our properties and related loans, as well as changes in the value of our other securities and the shares we hold in the Managed Programs due to changes in interest rates or other market factors. We own investments in Europe, Asia, Australia, Canada, and Mexico and are subject to risks associated with fluctuating foreign currency exchange rates.

Derivative Financial Instruments

When we use derivative instruments, it is generally to reduce our exposure to fluctuations in interest rates and foreign currency exchange rate movements. We have not entered into, and do not plan to enter into, financial instruments for trading or speculative purposes. In addition to entering into derivative instruments on our own behalf, we may also be a party to derivative instruments that are embedded in other contracts, and we may be granted common stock warrants by lessees when structuring

Notes to Consolidated Financial Statements (Unaudited)

lease transactions, which are considered to be derivative instruments. The primary risks related to our use of derivative instruments include a counterparty to a hedging arrangement defaulting on its obligation and a downgrade in the credit quality of a counterparty to such an extent that our ability to sell or assign our side of the hedging transaction is impaired. While we seek to mitigate these risks by entering into hedging arrangements with large financial institutions that we deem to be creditworthy, it is possible that our hedging transactions, which are intended to limit losses, could adversely affect our earnings. Furthermore, if we terminate a hedging arrangement, we may be obligated to pay certain costs, such as transaction or breakage fees. We have established policies and procedures for risk assessment and the approval, reporting, and monitoring of derivative financial instrument activities.

We measure derivative instruments at fair value and record them as assets or liabilities, depending on our rights or obligations under the applicable derivative contract. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative designated, and that qualified, as a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in Other comprehensive loss until the hedged item is recognized in earnings. For a derivative designated, and that qualified, as a net investment hedge, the effective portion of the change in the fair value and/or the net settlement of the derivative is reported in Other comprehensive loss as part of the cumulative foreign currency translation adjustment. Amounts are reclassified out of Other comprehensive loss into earnings when the hedged investment is either sold or substantially liquidated. The ineffective portion of the change in fair value of any derivative is immediately recognized in earnings.

The following table sets forth certain information regarding our derivative instruments (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value at September 30, 2016	Asset Derivatives Fair Value at December 31, 2015	Liability Derivatives Fair Value at September 30, 2016	Liability Derivatives Fair Value at December 31, 2015
Foreign currency forward contracts	Other assets, net	$ 28,094	$ 38,975	$ —	$ —
Foreign currency collars	Other assets, net	11,500	7,718	—	—
Interest rate caps	Other assets, net	26	—	—	—
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	—	—	(5,881)	(4,762)
Foreign currency collars	Accounts payable, accrued expenses and other liabilities	—	—	(160)	—
Derivatives Not Designated as Hedging Instruments					
Stock warrants	Other assets, net	3,752	3,618	—	—
Interest rate swaps [a]	Other assets, net	—	9	—	—
Interest rate swaps [a]	Accounts payable, accrued expenses and other liabilities	—	—	(16)	(2,612)
Total derivatives		$ 43,372	$ 50,320	$ (6,057)	$ (7,374)

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(a) These interest rate swaps do not qualify for hedge accounting; however, they do protect against fluctuations in interest rates related to the underlying variable-rate debt.

All derivative transactions with an individual counterparty are governed by a master International Swap and Derivatives Association agreement, which can be considered as a master netting arrangement; however, we report all our derivative instruments on a gross basis on our consolidated financial statements. At both September 30, 2016 and December 31, 2015, no cash collateral had been posted nor received for any of our derivative positions.

Notes to Consolidated Financial Statements (Unaudited)

The following tables present the impact of our derivative instruments in the consolidated financial statements (in thousands):

	Amount of Gain (Loss) Recognized on Derivatives in Other Comprehensive (Loss) Income (Effective Portion) [(a)]			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships	2016	2015	2016	2015
Foreign currency forward contracts	$(3,622)	$1,056	$(7,830)	$15,109
Interest rate swaps	961	(1,776)	(1,536)	(1,620)
Foreign currency collars	(439)	2,028	3,618	4,094
Interest rate caps	(29)	2	(21)	3
Derivatives in Net Investment Hedging Relationships [(b)]				
Foreign currency forward contracts	(2,200)	5,105	(3,357)	8,411
Total	$(5,329)	$6,415	$(9,126)	$25,997

		Amount of Gain (Loss) on Derivatives Reclassified from Other Comprehensive Income (Loss) (Effective Portion)			
Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Foreign currency forward contracts	Other income and (expenses)	$1,773	$1,642	$5,163	$5,371
Foreign currency collars	Other income and (expenses)	654	—	1,259	357
Interest rate swaps and caps	Interest expense	(512)	(672)	(1,578)	(1,890)
Total		$1,915	$970	$4,844	$3,838

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(a) Excludes net gains of less than $0.1 million and net losses of less than $0.1 million recognized on unconsolidated jointly-owned investments for the three months ended September 30, 2016 and 2015, respectively, and net losses of $0.2 million and net gains of $0.9 million for the nine months ended September 30, 2016 and 2015, respectively.

(b) The effective portion of the change in fair value and the settlement of these contracts are reported in the foreign currency translation adjustment section of Other comprehensive loss until the underlying investment is sold, at which time we reclassify the gain or loss to earnings.

Notes to Consolidated Financial Statements (Unaudited)

Amounts reported in Other comprehensive loss related to interest rate swaps will be reclassified to Interest expense as interest is incurred on our variable-rate debt. Amounts reported in Other comprehensive loss related to foreign currency derivative contracts will be reclassified to Other income and (expenses) when the hedged foreign currency contracts are settled. As of September 30, 2016, we estimate that an additional $0.9 million and $9.7 million will be reclassified as interest expense and other income, respectively, during the next 12 months.

Derivatives Not in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) on Derivatives Recognized in Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Interest rate swaps	Other income and (expenses)	$401	$1,013	$2,656	$3,097
Stock warrants	Other income and (expenses)	335	—	134	134
Foreign currency collars	Other income and (expenses)	78	238	257	243
Foreign currency forward contracts	Other income and (expenses)	—	52	—	(296)
Derivatives in Cash Flow Hedging Relationships					
Interest rate swaps [(a)]	Interest expense	165	140	428	476
Foreign currency forward contracts	Other income and (expenses)	(55)	68	86	71
Foreign currency collars	Other income and (expenses)	(26)	41	12	64
Total		$898	$1,552	$3,573	$3,789

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(a) Relates to the ineffective portion of the hedging relationship.

See below for information on our purposes for entering into derivative instruments and for information on derivative instruments owned by unconsolidated investments, which are excluded from the tables above.

Interest Rate Swaps and Caps

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our investment partners may obtain variable-rate, non-recourse mortgage loans and, as a result, we have entered into, and may continue to enter into, interest rate swap agreements or interest rate cap agreements with counterparties. Interest rate swaps, which effectively convert the variable-rate debt service obligations of a loan to a fixed rate, are agreements in which one party exchanges a stream of interest payments for a counterparty's stream of cash flow over a specific period. The notional, or face, amount on which the swaps are based is not exchanged. Interest rate caps limit the effective borrowing rate of variable-rate debt obligations while allowing participants to share in downward shifts in interest rates. Our objective in using these derivatives is to limit our exposure to interest rate movements.

Notes to Consolidated Financial Statements (Unaudited)

The interest rate swaps and caps that our consolidated subsidiaries had outstanding at September 30, 2016 are summarized as follows (currency in thousands):

Interest Rate Derivatives	Number of Instruments	Notional Amount		Fair Value at September 30, 2016 [(a)]
Designated as Cash Flow Hedging Instruments				
Interest rate swaps	13	119,157	USD	$ (5,454)
Interest rate swap	1	5,928	EUR	(427)
Interest rate caps	2	68,810	EUR	26
Not Designated as Cash Flow Hedging Instruments				
Interest rate swap [(b)]	1	3,028	USD	(16)
				$ (5,871)

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(a) Fair value amounts are based on the exchange rate of the euro at September 30, 2016, as applicable.

(b) This interest rate swap does not qualify for hedge accounting; however, it does protect against fluctuations in interest rates related to the underlying variable-rate debt.

Foreign Currency Contracts and Collars

We are exposed to foreign currency exchange rate movements, primarily in the euro and, to a lesser extent, the British pound sterling, the Australian dollar, and certain other currencies. We manage foreign currency exchange rate movements by generally placing our debt service obligation on an investment in the same currency as the tenant's rental obligation to us. This reduces our overall exposure to the net cash flow from that investment. However, we are subject to foreign currency exchange rate movements to the extent that there is a difference in the timing and amount of the rental obligation and the debt service. Realized and unrealized gains and losses recognized in earnings related to foreign currency transactions are included in Other income and (expenses) in the consolidated financial statements.

In order to hedge certain of our foreign currency cash flow exposures, we enter into foreign currency forward contracts and collars. A foreign currency forward contract is a commitment to deliver a certain amount of currency at a certain price on a specific date in the future. A foreign currency collar consists of a written call option and a purchased put option to sell the foreign currency at a range of predetermined exchange rates. By entering into forward contracts and holding them to maturity, we are locked into a future currency exchange rate for the term of the contract. A foreign currency collar guarantees that the exchange rate of the currency will not fluctuate beyond the range of the options' strike prices. Our foreign currency forward contracts and foreign currency collars have maturities of 78 months or less.

The following table presents the foreign currency derivative contracts we had outstanding at September 30, 2016, which were designated as cash flow hedges (currency in thousands):

Foreign Currency Derivatives	Number of Instruments	Notional Amount		Fair Value at September 30, 2016
Designated as Cash Flow Hedging Instruments				
Foreign currency forward contracts	40	106,066	EUR	$ 21,148
Foreign currency collars	16	40,950	GBP	9,374
Foreign currency collars	16	68,275	EUR	1,966
Foreign currency forward contracts	9	4,820	GBP	1,260
Foreign currency forward contracts	13	16,436	AUD	1,076
Designated as Net Investment Hedging Instruments				

Foreign currency forward contracts	4	79,658	AUD 4,610
			$ 39,434

Notes to Consolidated Financial Statements (Unaudited)

Credit Risk-Related Contingent Features

We measure our credit exposure on a counterparty basis as the net positive aggregate estimated fair value of our derivatives, net of any collateral received. No collateral was received as of September 30, 2016. At September 30, 2016, our total credit exposure and the maximum exposure to any single counterparty was $20.0 million and $14.1 million, respectively.

Some of the agreements we have with our derivative counterparties contain cross-default provisions that could trigger a declaration of default on our derivative obligations if we default, or are capable of being declared in default, on certain of our indebtedness. At September 30, 2016, we had not been declared in default on any of our derivative obligations. The estimated fair value of our derivatives in a net liability position was $6.3 million and $8.2 million at September 30, 2016 and December 31, 2015, respectively, which included accrued interest and any nonperformance risk adjustments. If we had breached any of these provisions at September 30, 2016 or December 31, 2015, we could have been required to settle our obligations under these agreements at their aggregate termination value of $6.7 million and $8.3 million, respectively.

Net Investment Hedges

At September 30, 2016 and December 31, 2015, the amounts borrowed in euro outstanding under our Revolver (Note 10) were €339.0 million and €361.0 million, respectively. Additionally, we have issued euro-denominated senior notes with a principal amount of €500.0 million (Note 10), which we refer to as the 2% Senior Euro Notes. These borrowings are designated as, and are effective as, economic hedges of our net investments in foreign entities. Variability in the exchange rates of the foreign currencies with respect to the U.S. dollar impacts our financial results as the financial results of our foreign subsidiaries are translated to U.S. dollars each period, with the effect of changes in the foreign currencies to U.S. dollar exchange rates being recorded in Other comprehensive loss as part of the cumulative foreign currency translation adjustment. As a result, the borrowings in euro under our Revolver are recorded at cost in the consolidated financial statements and all changes in the value related to changes in the spot rates will be reported in the same manner as a translation adjustment, which is recorded in Other comprehensive loss as part of the cumulative foreign currency translation adjustment.

At September 30, 2016, we had foreign currency forward contracts that were designated as net investment hedges, as discussed in “Derivative Financial Instruments” above.

Note 10. Debt

Senior Unsecured Credit Facility

As of September 30, 2016, we had a senior credit facility that provided for a $1.5 billion unsecured revolving credit facility, or our Revolver, and a $250.0 million term loan facility, or our Term Loan Facility, which we refer to collectively as the Senior Unsecured Credit Facility. The Senior Unsecured Credit Facility also contains a $500.0 million accordion feature that, if exercised, subject to lender commitments, would allow us to increase our maximum borrowing capacity under our Revolver from $1.5 billion to $2.0 billion and under the Senior Unsecured Credit Facility in the aggregate to $2.25 billion. At September 30, 2016, the Senior Unsecured Credit Facility also permitted (i) up to $750.0 million under our Revolver to be borrowed in certain currencies other than the U.S. dollar, (ii) swing line loans up to $50.0 million under our Revolver, and (iii) the issuance of letters of credit under our Revolver in an aggregate amount not to exceed $50.0 million. The Senior Unsecured Credit Facility is being used for working capital needs, to refinance our existing indebtedness, for new investments, and for other general corporate purposes.

We exercised a prior accordion feature for the Senior Unsecured Credit Facility on January 15, 2015, which allowed us to increase the maximum borrowing capacity of our Revolver from $1.0 billion to $1.5 billion. In connection with the exercise of this accordion feature, we incurred financing costs totaling $3.1 million, which are being amortized to Interest expense in the consolidated financial statements over the remaining terms of the facility.

At September 30, 2016, our Revolver had unused capacity of $1.1 billion, excluding amounts reserved for outstanding letters of credit. As of September 30, 2016, our lenders had issued letters of credit totaling $0.6 million on our behalf in connection with certain contractual obligations, which reduce amounts that may be drawn under our Revolver by the same amount. We also incur a facility fee of 0.20% of the total commitment on our Revolver. On January 29, 2016, we exercised an option to extend our Term Loan Facility by an additional year to January 31, 2017. We have options to extend the maturity dates of the Revolver and Term Loan Facility by another year, subject to the conditions provided in the Second Amended and Restated Credit Agreement dated January 31, 2014, as amended, or the Credit Agreement.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents a summary of our Senior Unsecured Credit Facility (dollars in millions):

Senior Unsecured Credit Facility	Interest Rate at September 30, 2016 [(a)]	Maturity Date	Principal Outstanding Balance at September 30, 2016	December 31, 2015
Revolver:				
Revolver - borrowing in euros [(b)]	EURIBOR + 1.10%	1/31/2018	$378.4	$ 393.0
Revolver - borrowing in U.S. dollars	N/A	1/31/2018	—	92.0
			378.4	485.0
Term Loan Facility [(c)]	LIBOR + 1.25%	1/31/2017	250.0	250.0
			$628.4	$ 735.0

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(a) Interest rate at September 30, 2016 is based on our credit rating of BBB/Baa2.
(b) EURIBOR means Euro Interbank Offered Rate.
(c) Balance excludes unamortized deferred financing costs of $0.1 million and $0.3 million at September 30, 2016 and December 31, 2015, respectively (Note 2).

Senior Unsecured Notes

As of September 30, 2016, we have senior unsecured notes outstanding with an aggregate principal balance outstanding of $1.9 billion. We refer to these notes collectively as the Senior Unsecured Notes. On September 12, 2016, we issued $350.0 million of 4.25% Senior Notes, at a price of 99.682% of par value, in a registered public offering. These 4.25% Senior Notes have a ten-year term and are scheduled to mature on October 1, 2026.

Interest on the Senior Unsecured Notes is payable annually in arrears for our euro-denominated notes and semi-annually for U.S. dollar-denominated notes. The Senior Unsecured Notes can be redeemed at par within three months of their respective maturities, or we can call the notes at any time for the principal, accrued interest, and a make-whole amount based upon the applicable government bond yield plus 30 to 35 basis points. The following table presents a summary of our Senior Unsecured Notes (currency in millions):

Senior Unsecured Notes, net [(a)]	Issue Date	Principal Amount	Price of Par Value	Original Issue Discount	Effective Interest Rate	Coupon Rate	Maturity Date	Principal Outstanding Balance at September 30, 2016	December 31, 2015
2.0% Senior Euro Notes	1/21/2015	€ 500.0	99.220%	$ 4.6	2.107 %	2.0 %	1/20/2023	$558.1	$544.4
4.6% Senior Notes	3/14/2014	$ 500.0	99.639%	$ 1.8	4.645 %	4.6 %	4/1/2024	500.0	500.0
4.0% Senior Notes	1/26/2015	$ 450.0	99.372%	$ 2.8	4.077 %	4.0 %	2/3/2025	450.0	450.0
4.25% Senior Notes	9/12/2016	$ 350.0	99.682%	$ 1.1	4.290 %	4.25 %	10/1/2026	350.0	—
								$1,858.1	$1,494.4

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(a) Aggregate balance excludes unamortized deferred financing costs totaling $12.7 million and $10.5 million (Note 2), and unamortized discount totaling $8.2 million and $7.8 million, at September 30, 2016 and December 31, 2015, respectively.

Proceeds from the issuances of these notes were used primarily to partially pay down the amounts then outstanding under our Revolver. In connection with the offerings of the 2.0% Senior Euro Notes and 4.0% Senior Notes, we incurred financing costs totaling $7.8 million during the nine months ended September 30, 2015, and in connection with the offering of the 4.25% Senior Notes, we incurred financing costs totaling $3.1 million during the nine months ended September 30, 2016, all of which are included in Senior unsecured notes, net in the consolidated financial statements in accordance with our adoption of ASU 2015-03 (Note 2), and are being amortized to Interest expense over the respective terms of the Senior Unsecured Notes.

Covenants

The Senior Unsecured Credit Facility and the Senior Unsecured Notes include customary financial maintenance covenants that require us to maintain certain ratios and benchmarks at the end of each quarter. The Senior Unsecured Credit Facility also contains various customary affirmative and negative covenants applicable to us and our subsidiaries, subject to materiality and other qualifications, baskets, and exceptions as outlined in the Credit Agreement.

Notes to Consolidated Financial Statements (Unaudited)

We are required to ensure that the total Restricted Payments (as defined in the Credit Agreement) in an aggregate amount in any fiscal year does not exceed the greater of (i) 95% of Adjusted Funds from Operations (as defined in the Credit Agreement) and (ii) the amount of Restricted Payments required in order for us to maintain our REIT status. Restricted Payments include quarterly dividends and the total amount of shares repurchased by us, if any, in excess of $100.0 million per year.

Obligations under the Senior Unsecured Credit Facility may be declared immediately due and payable upon the occurrence of certain events of default as defined in the Credit Agreement, including failure to pay any principal when due and payable, failure to pay interest within five business days after becoming due, failure to comply with any covenant, representation or condition of any loan document, any change of control, cross-defaults, and certain other events as set forth in the Credit Agreement, with grace periods in some cases.

The Credit Agreement stipulates several financial covenants that require us to maintain certain ratios and benchmarks at the end of each quarter, as defined in the Credit Agreement. We were in compliance with all of these covenants at September 30, 2016.

Non-Recourse Debt

At September 30, 2016, our mortgage notes payable bore interest at fixed annual rates ranging from 2.0% to 7.8% and variable contractual annual rates ranging from 0.7% to 6.9%, with maturity dates ranging from October 2016 to June 2027.

During the nine months ended September 30, 2016, we prepaid 15 non-recourse mortgage loans totaling $193.0 million, including a mortgage loan of $50.8 million encumbering a property held for sale as of June 30, 2016. This property was sold in August 2016 (Note 15). In addition, we made a balloon payment at maturity on a non-recourse mortgage loan of $18.5 million during this period. In connection with these payments, during the nine months ended September 30, 2016 we recognized a loss on extinguishment of debt of $3.9 million, which was included in Other income and (expenses) in the consolidated financial statements.

On July 29, 2016, a jointly-owned investment with CPA®:17 – Global, which we consolidate, refinanced a non-recourse mortgage loan that had an outstanding balance of $33.8 million with new financing of $34.6 million, inclusive of the amount attributable to a noncontrolling interest of $17.0 million. The previous loan had an interest rate of 5.9% and a maturity date of July 31, 2016. The new loan has a rate of EURIBOR plus a 3.3% margin and a term of five years.

Foreign Currency Exchange Rate Impact

During the nine months ended September 30, 2016, the U.S. dollar weakened against the euro and strengthened against the British pound sterling, resulting in an aggregate increase of $42.1 million in the aggregate carrying values of our Non-recourse debt, net, Senior Unsecured Credit Facility - Revolver, and Senior unsecured notes, net from December 31, 2015 to September 30, 2016, with the impact of the weakening of the U.S. dollar against the euro more than offsetting the impact of the U.S. dollar strengthening against the British pound sterling.

Scheduled Debt Principal Payments

Scheduled debt principal payments during the remainder of 2016, each of the next four calendar years following December 31, 2016, and thereafter through 2027 are as follows (in thousands):

Years Ending December 31,	Total [(a)]

2016 (remainder)	$94,036
2017	878,564
2018	649,558
2019	99,962
2020	219,767
Thereafter through 2027	2,471,905
	4,413,792
Deferred financing costs [b]	(13,879)
Unamortized discount, net [c]	(8,093)
Total	$4,391,820

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Notes to Consolidated Financial Statements (Unaudited)

(a) Certain amounts are based on the applicable foreign currency exchange rate at September 30, 2016.

(b) In accordance with ASU 2015-03, we reclassified deferred financing costs from Other assets, net to Non-recourse debt, net, Senior Unsecured Notes, net, and Senior Unsecured Credit Facility - Term Loan, net as of December 31, 2015 (Note 2).

(c) Represents the unamortized discount on the Senior Unsecured Notes of $8.2 million, partially offset by unamortized premium of $0.1 million in the aggregate resulting from the assumption of property-level debt in connection with the CPA®:15 Merger and CPA®:16 Merger (Note 1).

Note 11. Commitments and Contingencies

At September 30, 2016, we were not involved in any material litigation. Various claims and lawsuits arising in the normal course of business are pending against us. The results of these proceedings are not expected to have a material adverse effect on our consolidated financial position or results of operations.

Note 12. Restructuring and Other Compensation

In connection with the resignation of our then-Chief Executive Officer, Trevor P. Bond, we and Mr. Bond entered into a letter agreement, dated February 10, 2016. Under the terms of the agreement, subject to certain conditions, Mr. Bond will be entitled to receive the severance benefits provided for in his employment agreement and, subject to satisfaction of applicable performance conditions and proration, vesting of his outstanding unvested performance stock units, or PSUs, in accordance with their terms. In addition, the portion of his previously-granted restricted stock units, or RSUs, that were scheduled to vest on February 15, 2016, which would have been forfeited upon separation pursuant to their terms, were allowed to vest on that date. In connection with the separation agreement, we recorded $5.1 million of severance-related expenses during the nine months ended September 30, 2016, which are included in Restructuring and other compensation in the consolidated financial statements.

In February 2016, we entered into an agreement with Catherine D. Rice, our former Chief Financial Officer, in connection with the termination of her employment, which provides for the continued vesting of her outstanding RSUs and PSUs pursuant to their terms as though her employment had continued through their respective vesting dates. In connection with the modification of these award terms, we recorded incremental stock-based compensation expense of $2.4 million during the nine months ended September 30, 2016, which is included in Restructuring and other compensation in the consolidated financial statements.

In March 2016, as part of a cost savings initiative, we undertook a reduction in force, or RIF, and realigned and consolidated certain positions within the company, resulting in employee headcount reductions. As a result of these reductions in headcount and the separations described above, during the nine months ended September 30, 2016, we recorded $8.2 million of severance and benefits, $3.2 million of stock-based compensation, and $0.5 million of other related costs, which are all included in Restructuring and other compensation in the consolidated financial statements.

As of September 30, 2016, the accrued liability for these severance obligations was $4.3 million and is included within Accounts payable, accrued expenses and other liabilities in the consolidated financial statements.

Note 13. Stock-Based Compensation and Equity

Stock-Based Compensation

We maintain several stock-based compensation plans, which are more fully described in the 2015 Annual Report. There have been no significant changes to the terms and conditions of any of our stock-based compensation plans or arrangements during the nine months ended September 30, 2016. During the nine months ended September 30, 2016 and 2015, we recorded stock-based compensation expense of $18.2 million and $16.1 million, respectively, of which $3.2 million was included in Restructuring and other compensation for the nine months ended September 30, 2016 (Note 12).

Notes to Consolidated Financial Statements (Unaudited)

Restricted and Conditional Awards

Nonvested restricted stock awards, or RSAs, RSUs, and PSUs at September 30, 2016 and changes during the nine months ended September 30, 2016 were as follows:

	RSA and RSU Awards		PSU Awards	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2016	356,771	$ 64.09	340,358	$ 52.26
Granted [(a)]	277,813	58.27	200,005	73.18
Vested [(b)]	(214,682)	61.22	(180,683)	80.22
Forfeited	(44,514)	62.08	(35,241)	75.33
Adjustment [(c)]	—	—	41,097	93.23
Nonvested at September 30, 2016 [(d)]	375,388	$ 61.66	365,536	$ 72.52

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(a) The grant date fair value of RSAs and RSUs reflect our stock price on the date of grant. The grant date fair value of PSUs were determined utilizing a Monte Carlo simulation model to generate a range of possible future stock prices for both us and the plan defined peer index over the three-year performance period. To estimate the fair value of PSUs granted during the nine months ended September 30, 2016, we used risk-free interest rates ranging from 0.9% - 1.1% and expected volatility rates ranging from 18.2% - 19.1% (the plan defined peer index assumes a range of 15.0% - 15.6%) and assumed a dividend yield of zero.

(b) The total fair value of shares vested during the nine months ended September 30, 2016 was $27.6 million. Employees have the option to take immediate delivery of the shares upon vesting or defer receipt to a future date, pursuant to previously-made deferral elections. At September 30, 2016 and December 31, 2015, we had an obligation to issue 1,219,502 and 1,395,907 shares, respectively, of our common stock underlying such deferred awards, which is recorded within W. P. Carey stockholders' equity as a Deferred compensation obligation of $50.6 million and $56.0 million, respectively.

(c) Vesting and payment of the PSUs is conditioned upon certain company and/or market performance goals being met during the relevant three-year performance period. The ultimate number of PSUs to be vested will depend on the extent to which the performance goals are met and can range from zero to three times the original awards. As a result, we recorded adjustments to reflect the number of shares expected to be issued when the PSUs vest.

(d) At September 30, 2016, total unrecognized compensation expense related to these awards was approximately $27.3 million, with an aggregate weighted-average remaining term of 2.1 years.

During the three and nine months ended September 30, 2016, 6,396 and 103,694 stock options, respectively, were exercised with an aggregate intrinsic value of $0.2 million and $3.5 million, respectively. At September 30, 2016, there were 154,831 stock options outstanding, of which 144,573 were exercisable.

Notes to Consolidated Financial Statements (Unaudited)

Earnings Per Share

Under current authoritative guidance for determining earnings per share, all nonvested share-based payment awards that contain non-forfeitable rights to distributions are considered to be participating securities and therefore are included in the computation of earnings per share under the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common shares and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Our nonvested RSUs and RSAs contain rights to receive non-forfeitable distribution equivalents or distributions, respectively, and therefore we apply the two-class method of computing earnings per share. The calculation of earnings per share below excludes the income attributable to the nonvested RSUs and RSAs from the numerator and such nonvested shares in the denominator. The following table summarizes basic and diluted earnings (in thousands, except share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to W. P. Carey	$110,943	$21,745	$220,043	$121,209
Allocation of distribution equivalents paid on nonvested RSUs and RSAs in excess of income	(386)	(73)	(766)	(408)
Net income – basic and diluted	$110,557	$21,672	$219,277	$120,801
Weighted-average shares outstanding – basic	107,221,668	105,813,237	106,493,145	105,627,423
Effect of dilutive securities	246,361	523,803	360,029	830,072
Weighted-average shares outstanding – diluted	107,468,029	106,337,040	106,853,174	106,457,495

For the three and nine months ended September 30, 2016 and 2015, there were no potentially dilutive securities excluded from the computation of diluted earnings per share.

At-The-Market Equity Offering Program

On June 3, 2015, we filed a prospectus supplement with the SEC pursuant to which we may offer and sell shares of our common stock, up to an aggregate gross sales price of $400.0 million, through an “at-the-market,” or ATM, offering program with a consortium of banks as sales agents. During the three and nine months ended September 30, 2016, we issued 968,535 and 1,249,836 shares, respectively, of our common stock under the ATM program at a weighted-average price of $68.54 and $68.52 per share, respectively, for net proceeds of $65.4 million and $84.4 million, respectively. As of September 30, 2016, $314.4 million remained available for issuance under our ATM program.

Redeemable Noncontrolling Interest

We account for the noncontrolling interest in WPCI held by a third party as a redeemable noncontrolling interest, because, pursuant to a put option held by the third party, we had an obligation to redeem the interest at fair value, subject to certain conditions. This obligation was required to be settled in shares of our common stock. On October 1, 2013, we received a notice from the holder of the noncontrolling interest in WPCI regarding the exercise of the put option, pursuant to which we were required to purchase the third party’s 7.7% interest in WPCI. Pursuant to the terms of the related put agreement, the value of that interest was determined based on a third-party valuation as of October 31, 2013, which is the end of the month that the put option was exercised. In March 2016, we issued 217,011 shares of our common stock to the holder of the redeemable noncontrolling interest, which had a value of $13.4 million at the date of issuance pursuant to a formula set forth in the put agreement. Through the date of this Report, the third party has not transferred his interests in WPCI to us pursuant to the put agreement because of a dispute regarding any

amounts that may still be owed to him.

Notes to Consolidated Financial Statements (Unaudited)

The following table presents a reconciliation of redeemable noncontrolling interest (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Beginning balance	$14,944	$6,071
Distributions	(13,418)	—
Redemption value adjustment	(561)	8,551
Ending balance	$965	$14,622

Reclassifications Out of Accumulated Other Comprehensive Loss

The following tables present a reconciliation of changes in Accumulated other comprehensive loss by component for the periods presented (in thousands):

	Three Months Ended September 30, 2016			
	Gains and Losses on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and Losses on Marketable Securities	Total
Beginning balance	$34,744	$(240,985)	$ 40	$(206,201)
Other comprehensive loss before reclassifications	(1,178)	(11,824)	(7)	(13,009)
Amounts reclassified from accumulated other comprehensive loss to:				
Interest expense	512	—	—	512
Other income and (expenses)	(2,427)	—	—	(2,427)
Total	(1,915)	—	—	(1,915)
Net current period other comprehensive loss	(3,093)	(11,824)	(7)	(14,924)
Net current period other comprehensive gain attributable to noncontrolling interests	17	(218)	—	(201)
Ending balance	$31,668	$(253,027)	$ 33	$(221,326)

	Three Months Ended September 30, 2015			
	Gains and Losses on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and Losses on Marketable Securities	Total
Beginning balance	$30,796	$(151,608)	$ 35	$(120,777)
Other comprehensive loss before reclassifications	2,259	(37,138)	—	(34,879)
Amounts reclassified from accumulated other comprehensive loss to:				
Interest expense	672	—	—	672
Other income and (expenses)	(1,642)	—	—	(1,642)
Total	(970)	—	—	(970)
Net current period other comprehensive loss	1,289	(37,138)	—	(35,849)
Net current period other comprehensive gain attributable to noncontrolling interests	—	(43)	—	(43)

Ending balance	$32,085	$(188,789)	$ 35	$(156,669)

Notes to Consolidated Financial Statements (Unaudited)

	Nine Months Ended September 30, 2016			
	Gains and Losses on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and Losses on Marketable Securities	Total
Beginning balance	$37,650	$(209,977)	$ 36	$(172,291)
Other comprehensive loss before reclassifications	(1,155)	(41,999)	(3)	(43,157)
Amounts reclassified from accumulated other comprehensive loss to:				
Interest expense	1,578	—	—	1,578
Other income and (expenses)	(6,422)	—	—	(6,422)
Total	(4,844)	—	—	(4,844)
Net current period other comprehensive loss	(5,999)	(41,999)	(3)	(48,001)
Net current period other comprehensive gain attributable to noncontrolling interests	17	(1,051)	—	(1,034)
Ending balance	$31,668	$(253,027)	$ 33	$(221,326)

	Nine Months Ended September 30, 2015			
	Gains and Losses on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and Losses on Marketable Securities	Total
Beginning balance	$13,597	$(89,177)	$ 21	$(75,559)
Other comprehensive loss before reclassifications	22,326	(103,127)	14	(80,787)
Amounts reclassified from accumulated other comprehensive loss to:				
Interest expense	1,890	—	—	1,890
Other income and (expenses)	(5,728)	—	—	(5,728)
Total	(3,838)	—	—	(3,838)
Net current period other comprehensive loss	18,488	(103,127)	14	(84,625)
Net current period other comprehensive loss attributable to noncontrolling interests	—	3,515	—	3,515
Ending balance	$32,085	$(188,789)	$ 35	$(156,669)

Distributions Declared

During the third quarter of 2016, we declared a quarterly distribution of $0.9850 per share, which was paid on October 14, 2016 to stockholders of record on October 3, 2016, in the aggregate amount of $106.5 million.

During the nine months ended September 30, 2016, we declared distributions totaling $2.9392 per share in the aggregate amount of $315.4 million.

Note 14. Income Taxes

We elected to be treated as a REIT and believe that we have been organized and have operated in such a manner to maintain our qualification as a REIT for federal and state income tax purposes. As a REIT, we are generally not

subject to corporate level federal income taxes on earnings distributed to our stockholders. Since inception, we have distributed at least 100% of our taxable income annually and intend to do so for the tax year ending December 31, 2016. Accordingly, we have not included any provisions for federal income taxes related to the REIT in the accompanying consolidated financial statements for the three and nine months ended September 30, 2016 and 2015.

Certain of our subsidiaries have elected TRS status. A TRS may provide certain services considered impermissible for REITs and may hold assets that REITs may not hold directly. We also own real property in jurisdictions outside the United States through foreign subsidiaries and are subject to income taxes on our pre-tax income earned from properties in such countries.

Notes to Consolidated Financial Statements (Unaudited)

The accompanying consolidated financial statements include an interim tax provision for our TRSs and foreign subsidiaries, as necessary, for the three and nine months ended September 30, 2016 and 2015. Current income tax expense was $4.8 million for both the three months ended September 30, 2016 and 2015, and $14.7 million and $24.9 million for the nine months ended September 30, 2016 and 2015, respectively.

During the second quarter of 2016, we identified and recorded out-of-period adjustments related to adjustments to prior period income tax returns. This adjustment is reflected as a $3.0 million reduction of our Benefit from income taxes in the consolidated statements of income for the nine months ended September 30, 2016 (Note 2), and is included in current income tax expense for the nine months ended September 30, 2016.

Our TRSs and foreign subsidiaries are subject to U.S. federal, state, and foreign income taxes. As such, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe that more likely than not we will not realize the deferred tax asset based on available evidence at the time the determination is made. A change in circumstances may cause us to change our judgment about whether a deferred tax asset will more likely than not be realized. We generally report any change in the valuation allowance through our income statement in the period in which such changes in circumstances occur. Deferred tax assets (net of valuation allowance) and liabilities for our TRSs and foreign subsidiaries were recorded, as necessary, as of September 30, 2016 and December 31, 2015. The majority of our deferred tax assets relate to the timing difference between the financial reporting basis and tax basis for stock based compensation expense. The majority of our deferred tax liabilities relate to differences between the tax basis and financial reporting basis of the assets acquired in acquisitions treated as business combinations under GAAP and in which the tax basis of such assets was not stepped up to fair value for income tax purposes. Provision for income taxes included deferred income tax benefits of $1.6 million and $1.4 million for the three months ended September 30, 2016 and 2015, respectively, and $19.2 million and $4.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Note 15. Property Dispositions

From time to time, we may decide to sell a property. We have an active capital recycling program, with a goal of extending the average lease term through reinvestment, improving portfolio credit quality through dispositions and acquisitions of assets, increasing the asset criticality factor in our portfolio, and/or executing strategic dispositions of assets. We may make a decision to dispose of a property when it is vacant as a result of tenants vacating space, tenants electing not to renew their leases, tenant insolvency, or lease rejection in the bankruptcy process. In such cases, we assess whether we can obtain the highest value from the property by selling it, as opposed to re-leasing it. We may also sell a property when we receive an unsolicited offer or negotiate a price for an investment that is consistent with our strategy for that investment. When it is appropriate to do so, we classify the property as an asset held for sale on our consolidated balance sheet. All property dispositions are recorded within our Owned Real Estate segment.

The results of operations for properties that have been sold or classified as held for sale are included in the consolidated financial statements and are summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$16,242	$21,292	$90,264	$63,880
Expenses	(1,872)	(13,733)	(40,330)	(39,128)
Gain on sale of real estate, net of tax	48,929	1,779	67,873	2,980

Impairment charges	(5,524)	(1,389)	(40,952)	(4,071)
(Loss) gain on extinguishment of debt	(2,058)	2,281	(3,999)	2,281
Benefit from (provision for) income taxes	836	(1,050)	11,260	(3,121)
Income from properties sold or classified as held for sale, net of income taxes (a)	$56,553	$9,180	$84,116	$22,821

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(a) Amounts included net income attributable to noncontrolling interests of $1.5 million and $2.0 million for the nine months ended September 30, 2016 and 2015, respectively. We did not recognize net income attributable to noncontrolling interests for the three months ended September 30, 2016 and 2015.

2016 — During the three and nine months ended September 30, 2016, we sold three properties, and ten properties and a parcel of vacant land, respectively, for total proceeds of $192.0 million and $392.6 million, respectively, net of selling costs, and recognized a net gain on these sales of $37.4 million and $39.9 million, respectively, inclusive of amounts attributable to noncontrolling interests of $0.9 million for the nine months ended September 30, 2016. In April 2016, we transferred ownership of a vacant international property and the related non-recourse mortgage loan, which had a carrying value of $39.8 million and an outstanding balance of $60.9 million, respectively, on the date of transfer, to the mortgage lender, resulting in a net gain of $16.4 million. In addition, in July 2016, a vacant domestic property with an asset carrying value of $13.7 million, which was encumbered by a $27.0 million mortgage loan, was foreclosed upon by the mortgage lender, resulting in a net gain of $11.6 million.

In connection with those sales that constituted businesses, during the nine months ended September 30, 2016 we allocated goodwill totaling $32.9 million to the cost basis of the properties for our Owned Real Estate segment based on the relative fair value at the time of the sale (Note 7). At September 30, 2016, we had 16 properties classified as assets held for sale (Note 4). During the three and nine months ended September 30, 2016, we recognized impairment charges totaling $5.5 million and $41.0 million, respectively, on a portfolio of 14 of these properties (Note 8).

In the fourth quarter of 2015, we executed a lease amendment with a tenant in a domestic office building. The amendment extended the lease term an additional 15 years to January 31, 2037 and provided a one-time rent payment of $25.0 million, which was paid to us on December 18, 2015. The lease amendment also provided an option to terminate the lease effective February 29, 2016, with additional lease termination fees of $22.2 million to be paid to us on or five days before February 29, 2016 upon exercise of the option. The tenant exercised the option on January 1, 2016. The aggregate of the additional rent payment of $25.0 million and the lease termination fees of $22.2 million were amortized to lease termination income from the lease amendment date on December 4, 2015 through the end of the non-cancelable lease term on February 29, 2016, resulting in $15.0 million recognized during the year ended December 31, 2015 and $32.2 million recognized during the three months ended March 31, 2016 within Lease termination income and other in the consolidated financial statements. In connection with the lease amendment, we defeased the mortgage loan encumbering the property with a principal balance of $36.5 million and recognized a loss on extinguishment of debt of $5.3 million, which was included in Other income and (expenses) in the consolidated financial statements for the year ended December 31, 2015. In addition, during the fourth quarter of 2015, we entered into an agreement to sell the property to a third party and the buyer placed a deposit of $12.7 million for the purchase of the property that was held in escrow. At December 31, 2015, this property was classified as held for sale (Note 4). During the three months ended March 31, 2016, we sold the property for proceeds of $44.4 million, net of selling costs, and recognized a loss on the sale of $10.7 million.

2015 — During the nine months ended September 30, 2015, we sold 11 properties for total proceeds of $28.8 million, net of selling costs, and we recognized a net gain on these sales of $2.4 million. In addition, during July 2015, a domestic vacant property was foreclosed upon and sold for $1.4 million. We recognized a gain on sale of $0.6 million in connection with that disposition. In connection with those sales that constituted a business, during the nine months ended September 30, 2015 we allocated goodwill totaling $1.1 million to the cost basis of the properties, for our Owned Real Estate segment, based on the relative fair value at the time of the sale (Note 7).

Notes to Consolidated Financial Statements (Unaudited)

Note 16. Segment Reporting

We evaluate our results from operations through our two major business segments — Owned Real Estate and Investment Management (Note 1). The following tables present a summary of comparative results and assets for these business segments (in thousands):

Owned Real Estate

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Lease revenues	$163,786	$164,741	$506,358	$487,480
Operating property revenues	8,524	8,107	23,696	23,645
Reimbursable tenant costs	6,537	5,340	19,237	17,409
Lease termination income and other	1,224	2,988	34,603	9,319
	180,071	181,176	583,894	537,853
Operating Expenses				
Depreciation and amortization	61,740	74,529	210,557	203,048
Impairment charges	14,441	19,438	49,870	22,711
Property expenses, excluding reimbursable tenant costs	10,193	11,120	38,475	31,504
General and administrative	7,453	10,239	25,653	37,124
Reimbursable tenant costs	6,537	5,340	19,237	17,409
Stock-based compensation expense	1,572	1,468	4,316	5,943
Property acquisition and other expenses	—	3,642	2,975	11,213
Restructuring and other compensation	—	—	4,413	—
	101,936	125,776	355,496	328,952
Other Income and Expenses				
Interest expense	(44,349)	(49,683)	(139,496)	(145,325)
Equity in earnings of equity method investments in the Managed REITs and real estate	15,705	13,575	46,771	39,408
Other income and (expenses)	3,244	6,588	7,681	9,545
	(25,400)	(29,520)	(85,044)	(96,372)
Income before income taxes and gain on sale of real estate	52,735	25,880	143,354	112,529
(Provision for) benefit from income taxes	(530)	(5,247)	6,792	(7,820)
Income before gain on sale of real estate	52,205	20,633	150,146	104,709
Gain on sale of real estate, net of tax	49,126	1,779	68,070	2,980
Net Income from Owned Real Estate	101,331	22,412	218,216	107,689
Net income attributable to noncontrolling interests	(1,359)	(1,814)	(6,294)	(5,871)
Net Income from Owned Real Estate Attributable to W. P. Carey	$99,972	$20,598	$211,922	$101,818

Notes to Consolidated Financial Statements (Unaudited)

Investment Management

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Asset management revenue	$15,978	$13,004	$45,596	$36,236
Reimbursable costs from affiliates	14,540	11,155	46,372	28,401
Structuring revenue	12,301	8,207	30,990	67,735
Dealer manager fees	1,835	1,124	5,379	2,704
Other advisory revenue	522	—	522	203
	45,176	33,490	128,859	135,279
Operating Expenses				
Reimbursable costs from affiliates	14,540	11,155	46,372	28,401
General and administrative	8,280	12,603	32,469	41,863