

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2019

or

☐ **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

(State of incorporation)

45-4549771

(I.R.S. Employer Identification No.)

50 Rockefeller Plaza

New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant's telephone numbers, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	WPC	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

Registrant has 170,787,017 shares of common stock, \$0.001 par value, outstanding at July 26, 2019.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (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 be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: our corporate strategy and estimated or future economic performance and results, underlying assumptions about our portfolio (e.g., occupancy rate, lease terms, and tenant credit quality, including our expectations about tenant bankruptcies and interest coverage), possible new acquisitions and dispositions, and our international exposure and acquisition volume; our capital structure, future capital expenditure levels (including any plans to fund our future liquidity needs), and future leverage and debt service obligations; prospective statements regarding our capital markets program, including our credit ratings and “at-the-market” program (“ATM Program”); the outlook for the investment programs that we manage, including possible liquidity events for those programs; statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust (“REIT”); and the impact of recently issued accounting pronouncements and regulatory activity. 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, Adjusted funds from 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 (“SEC”), including but not limited to those described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018, dated February 25, 2019 (the “2018 Annual Report”). 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)

	June 30, 2019	December 31, 2018
Assets		
Investments in real estate:		
Land, buildings and improvements	\$ 9,480,306	\$ 9,251,396
Net investments in direct financing leases	1,263,319	1,306,215
In-place lease intangible assets and other	2,134,786	2,009,628
Above-market rent intangible assets	921,998	925,797
Investments in real estate	13,800,409	13,493,036
Accumulated depreciation and amortization	(1,812,628)	(1,564,182)
Assets held for sale, net	102,777	—
Net investments in real estate	12,090,558	11,928,854
Equity investments in the Managed Programs and real estate	317,159	329,248
Cash and cash equivalents	202,279	217,644
Due from affiliates	81,523	74,842
Other assets, net	580,270	711,507
Goodwill	920,218	920,944
Total assets ^(a)	\$ 14,192,007	\$ 14,183,039
Liabilities and Equity		
Debt:		
Senior unsecured notes, net	\$ 3,861,931	\$ 3,554,470
Unsecured revolving credit facility	111,227	91,563
Non-recourse mortgages, net	2,203,853	2,732,658
Debt, net	6,177,011	6,378,691
Accounts payable, accrued expenses and other liabilities	463,417	403,896
Below-market rent and other intangible liabilities, net	213,279	225,128
Deferred income taxes	168,841	173,115
Dividends payable	178,665	172,154
Total liabilities ^(a)	7,201,213	7,352,984
Commitments and contingencies (Note 11)		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized; 170,756,507 and 165,279,642 shares, respectively, issued and outstanding	171	165
Additional paid-in capital	8,576,245	8,187,335
Distributions in excess of accumulated earnings	(1,368,457)	(1,143,992)
Deferred compensation obligation	37,263	35,766
Accumulated other comprehensive loss	(260,817)	(254,996)
Total stockholders' equity	6,984,405	6,824,278
Noncontrolling interests	6,389	5,777
Total equity	6,990,794	6,830,055
Total liabilities and equity	\$ 14,192,007	\$ 14,183,039

(a) See [Note 2](#) for details related to variable interest entities (“VIEs”).

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Real Estate:				
Lease revenues	\$ 269,802	\$ 168,367	\$ 532,741	\$ 337,799
Operating property revenues	15,436	4,865	31,432	12,083
Lease termination income and other	6,304	680	9,574	1,622
	<u>291,542</u>	<u>173,912</u>	<u>573,747</u>	<u>351,504</u>
Investment Management:				
Asset management revenue	9,790	17,268	19,522	34,253
Reimbursable costs from affiliates	3,821	5,537	7,689	10,841
Structuring and other advisory revenue	58	4,426	2,576	6,355
	<u>13,669</u>	<u>27,231</u>	<u>29,787</u>	<u>51,449</u>
	<u>305,211</u>	<u>201,143</u>	<u>603,534</u>	<u>402,953</u>
Operating Expenses				
Depreciation and amortization	113,632	64,337	226,011	130,294
General and administrative	19,729	16,442	41,014	35,025
Reimbursable tenant costs	13,917	5,733	27,088	11,952
Operating property expenses	10,874	3,581	21,468	9,251
Property expenses, excluding reimbursable tenant costs	9,915	5,327	19,827	9,556
Stock-based compensation expense	4,936	3,698	9,101	11,917
Reimbursable costs from affiliates	3,821	5,537	7,689	10,841
Subadvisor fees	1,650	1,855	3,852	3,887
Merger and other expenses	696	2,692	842	2,655
Impairment charges	—	—	—	4,790
	<u>179,170</u>	<u>109,202</u>	<u>356,892</u>	<u>230,168</u>
Other Income and Expenses				
Interest expense	(59,719)	(41,311)	(121,032)	(79,385)
Equity in earnings of equity method investments in the Managed Programs and real estate	3,951	12,558	9,442	27,883
Other gains and (losses)	(671)	10,586	284	7,823
(Loss) gain on sale of real estate, net	(362)	11,912	571	18,644
	<u>(56,801)</u>	<u>(6,255)</u>	<u>(110,735)</u>	<u>(25,035)</u>
Income before income taxes	69,240	85,686	135,907	147,750
Provision for income taxes	(3,119)	(6,262)	(990)	(260)
Net Income	<u>66,121</u>	<u>79,424</u>	<u>134,917</u>	<u>147,490</u>
Net income attributable to noncontrolling interests	(83)	(3,743)	(385)	(6,535)
Net Income Attributable to W. P. Carey	<u>\$ 66,038</u>	<u>\$ 75,681</u>	<u>\$ 134,532</u>	<u>\$ 140,955</u>
Basic Earnings Per Share	<u>\$ 0.39</u>	<u>\$ 0.70</u>	<u>\$ 0.79</u>	<u>\$ 1.30</u>
Diluted Earnings Per Share	<u>\$ 0.38</u>	<u>\$ 0.70</u>	<u>\$ 0.79</u>	<u>\$ 1.30</u>
Weighted-Average Shares Outstanding				
Basic	<u>171,304,112</u>	<u>108,059,394</u>	<u>169,280,360</u>	<u>108,058,671</u>
Diluted	<u>171,490,625</u>	<u>108,234,934</u>	<u>169,520,508</u>	<u>108,243,063</u>

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net Income	\$ 66,121	\$ 79,424	\$ 134,917	\$ 147,490
Other Comprehensive Loss				
Foreign currency translation adjustments	(4,187)	(39,815)	(4,360)	(21,299)
Unrealized (loss) gain on derivative instruments	(3,406)	14,073	(1,457)	5,681
Unrealized (loss) gain on investments	(541)	(58)	(4)	370
	(8,134)	(25,800)	(5,821)	(15,248)
Comprehensive Income	57,987	53,624	129,096	132,242
Amounts Attributable to Noncontrolling Interests				
Net income	(83)	(3,743)	(385)	(6,535)
Foreign currency translation adjustments	—	7,634	—	3,852
Unrealized loss on derivative instruments	—	2	—	5
Comprehensive (income) loss attributable to noncontrolling interests	(83)	3,893	(385)	(2,678)
Comprehensive Income Attributable to W. P. Carey	\$ 57,904	\$ 57,517	\$ 128,711	\$ 129,564

See Notes to Consolidated Financial Statements.

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

	W. P. Carey Stockholders								
	Common Stock		Additional Paid-in Capital	Distributions	Deferred Compensation Obligation	Accumulated	Total W. P. Carey Stockholders	Noncontrolling Interests	Total
	\$0.001 Par Value			in Excess of		Other			
	Shares	Amount		Accumulated Earnings		Comprehensive Loss			
Balance at April 1, 2019	169,636,526	\$ 170	\$ 8,483,301	\$ (1,256,754)	\$ 37,263	\$ (252,683)	\$ 7,011,297	\$ 6,432	\$ 7,017,729
Shares issued under ATM Program, net	1,116,217	1	88,072				88,073		88,073
Shares issued upon delivery of vested restricted share awards	2,247	—	(177)				(177)		(177)
Shares issued upon purchases under employee share purchase plan	1,517	—	113				113		113
Amortization of stock-based compensation expense			4,936				4,936		4,936
Distributions to noncontrolling interests							—	(126)	(126)
Dividends declared (\$1.034 per share)				(177,741)			(177,741)		(177,741)
Net income				66,038			66,038	83	66,121
Other comprehensive loss:									
Foreign currency translation adjustments						(4,187)	(4,187)		(4,187)
Unrealized loss on derivative instruments						(3,406)	(3,406)		(3,406)
Unrealized loss on investments						(541)	(541)		(541)
Balance at June 30, 2019	170,756,507	\$ 171	\$ 8,576,245	\$ (1,368,457)	\$ 37,263	\$ (260,817)	\$ 6,984,405	\$ 6,389	\$ 6,990,794

	W. P. Carey Stockholders								
	Common Stock		Additional Paid-in Capital	Distributions	Deferred Compensation Obligation	Accumulated	Total W. P. Carey Stockholders	Noncontrolling Interests	Total
	\$0.001 Par Value			in Excess of		Other			
	Shares	Amount		Accumulated Earnings		Comprehensive Loss			
Balance at April 1, 2018	107,194,440	\$ 107	\$ 4,439,433	\$ (1,097,415)	\$ 36,147	\$ (229,238)	\$ 3,149,034	\$ 220,471	\$ 3,369,505
Shares issued upon delivery of vested restricted share awards	4,176	—	(22)				(22)		(22)
Shares issued upon purchases under employee share purchase plan	2,071	—	125				125		125
Delivery of deferred vested shares, net			140		(140)		—		—
Amortization of stock-based compensation expense			3,698				3,698		3,698
Contributions from noncontrolling interests							—	71	71
Distributions to noncontrolling interests							—	(4,549)	(4,549)
Dividends declared (\$1.020 per share)				(110,448)			(110,448)		(110,448)
Net income				75,681			75,681	3,743	79,424
Other comprehensive loss:									
Foreign currency translation adjustments						(32,181)	(32,181)	(7,634)	(39,815)
Unrealized gain on derivative instruments						14,075	14,075	(2)	14,073
Unrealized loss on investments						(58)	(58)		(58)
Balance at June 30, 2018	107,200,687	\$ 107	\$ 4,443,374	\$ (1,132,182)	\$ 36,007	\$ (247,402)	\$ 3,099,904	\$ 212,100	\$ 3,312,004

(Continued)

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

	W. P. Carey Stockholders								
	Common Stock		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
	\$0.001 Par Value								
	Shares	Amount							
Balance at January 1, 2019	165,279,642	\$ 165	\$ 8,187,335	\$ (1,143,992)	\$ 35,766	\$ (254,996)	\$ 6,824,278	\$ 5,777	\$ 6,830,055
Shares issued under ATM Program, net	5,169,840	5	391,899				391,904		391,904
Shares issued upon delivery of vested restricted share awards	305,508	1	(15,743)				(15,742)		(15,742)
Shares issued upon purchases under employee share purchase plan	1,517	—	113				113		113
Deferral of vested shares, net			(1,445)		1,445		—		—
Amortization of stock-based compensation expense			9,101				9,101		9,101
Contributions from noncontrolling interests							—	849	849
Distributions to noncontrolling interests							—	(622)	(622)
Dividends declared (\$2.066 per share)			4,985	(358,997)	52		(353,960)		(353,960)
Net income				134,532			134,532	385	134,917
Other comprehensive loss:									
Foreign currency translation adjustments							(4,360)	(4,360)	(4,360)
Unrealized loss on derivative instruments							(1,457)	(1,457)	(1,457)
Unrealized loss on investments							(4)	(4)	(4)
Balance at June 30, 2019	170,756,507	\$ 171	\$ 8,576,245	\$ (1,368,457)	\$ 37,263	\$ (260,817)	\$ 6,984,405	\$ 6,389	\$ 6,990,794

	W. P. Carey Stockholders								
	Common Stock		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
	\$0.001 Par Value								
	Shares	Amount							
Balance at January 1, 2018	106,922,616	\$ 107	\$ 4,433,573	\$ (1,052,064)	\$ 46,656	\$ (236,011)	\$ 3,192,261	\$ 219,124	\$ 3,411,385
Shares issued upon delivery of vested restricted share awards	276,000	—	(13,565)				(13,565)		(13,565)
Shares issued upon purchases under employee share purchase plan	2,071	—	125				125		125
Delivery of deferred vested shares, net			10,649		(10,649)		—		—
Amortization of stock-based compensation expense			11,917				11,917		11,917
Contributions from noncontrolling interests							—	71	71
Distributions to noncontrolling interests							—	(9,773)	(9,773)
Dividends declared (\$2.035 per share)			675	(221,073)			(220,398)		(220,398)
Net income				140,955			140,955	6,535	147,490
Other comprehensive loss:									
Foreign currency translation adjustments							(17,447)	(17,447)	(21,299)
Unrealized gain on derivative instruments							5,686	(5)	5,681
Unrealized gain on investments							370	370	370
Balance at June 30, 2018	107,200,687	\$ 107	\$ 4,443,374	\$ (1,132,182)	\$ 36,007	\$ (247,402)	\$ 3,099,904	\$ 212,100	\$ 3,312,004

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2019	2018
Cash Flows — Operating Activities		
Net income	\$ 134,917	\$ 147,490
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	232,100	132,188
Amortization of rent-related intangibles and deferred rental revenue	32,375	23,332
Straight-line rent adjustments	(24,294)	(7,503)
Realized and unrealized losses (gains) on foreign currency transactions, derivatives, and other	15,972	(4,330)
Investment Management revenue received in shares of Managed REITs and other	(15,357)	(30,793)
Distributions of earnings from equity method investments	12,889	28,361
Equity in earnings of equity method investments in the Managed Programs and real estate	(9,442)	(27,883)
Stock-based compensation expense	9,101	11,917
Deferred income tax benefit	(2,124)	(8,959)
Gain on sale of real estate, net	(571)	(18,644)
Impairment charges	—	4,790
Changes in assets and liabilities:		
Net changes in other operating assets and liabilities	(60,177)	(24,096)
Deferred structuring revenue received	3,344	5,620
Increase in deferred structuring revenue receivable	(573)	(2,576)
Net Cash Provided by Operating Activities	328,160	228,914
Cash Flows — Investing Activities		
Purchases of real estate	(289,766)	(269,890)
Funding for real estate construction, redevelopments, and other capital expenditures on real estate	(76,891)	(48,888)
Return of capital from equity method investments	27,186	6,957
Other investing activities, net	23,143	(4,010)
Proceeds from sales of real estate	12,589	77,737
Funding of short-term loans to affiliates	(10,596)	(10,000)
Proceeds from repayment of loan receivable	9,574	362
Capital contributions to equity method investments	(2,594)	(715)
Proceeds from repayment of short-term loans to affiliates	—	37,000
Net Cash Used in Investing Activities	(307,355)	(211,447)
Cash Flows — Financing Activities		
Proceeds from Senior Unsecured Credit Facility	526,821	592,990
Repayments of Senior Unsecured Credit Facility	(507,448)	(818,895)
Prepayments of mortgage principal	(493,317)	(164,908)
Proceeds from shares issued under ATM Program, net of selling costs	392,134	—
Dividends paid	(347,449)	(219,192)
Proceeds from issuance of Senior Unsecured Notes	321,347	616,355
Scheduled payments of mortgage principal	(57,358)	(34,338)
Payments for withholding taxes upon delivery of equity-based awards	(15,743)	(13,905)
Payment of financing costs	(2,258)	(4,286)
Other financing activities, net	1,393	(3,309)
Contributions from noncontrolling interests	849	71
Distributions paid to noncontrolling interests	(622)	(9,773)
Proceeds from mortgage financing	—	857
Net Cash Used in Financing Activities	(181,651)	(58,333)
Change in Cash and Cash Equivalents and Restricted Cash During the Period		
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(1,606)	(4,992)
Net decrease in cash and cash equivalents and restricted cash	(162,452)	(45,858)
Cash and cash equivalents and restricted cash, beginning of period	424,063	209,676
Cash and cash equivalents and restricted cash, end of period	<u>\$ 261,611</u>	<u>\$ 163,818</u>

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. (“W. P. Carey”) is a REIT that, together with our consolidated subsidiaries, invests primarily in operationally-critical, single-tenant commercial real estate properties located in the United States and Northern and Western Europe on a long-term basis. We earn revenue principally by leasing the properties we own to companies on a triple-net lease basis, which generally requires each tenant to pay the costs associated with operating and maintaining the property.

Founded in 1973, our shares of common stock are listed on the New York Stock Exchange under the symbol “WPC.”

We elected to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code effective as of February 15, 2012. As a REIT, we are not subject to federal income taxes on income and gains that we distribute to our stockholders 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 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. Through our taxable REIT subsidiaries (“TRSs”), we also earn revenue as the advisor to certain publicly owned, non-traded investment programs. We hold all of our real estate assets attributable to our Real Estate segment under the REIT structure, while the activities conducted by our Investment Management segment subsidiaries have been organized under TRSs.

On October 31, 2018, one of the non-traded REITs that we advised, Corporate Property Associates 17 – Global Incorporated (“CPA:17 – Global”), merged with and into one of our wholly owned subsidiaries (the “CPA:17 Merger”) ([Note 3](#)). At June 30, 2019, we were the advisor to the following entities:

- Corporate Property Associates 18 – Global Incorporated (“CPA:18 – Global”), a publicly owned, non-traded REIT that primarily invests in commercial real estate properties; we refer to CPA:17 – Global (until the closing of the CPA:17 Merger on October 31, 2018) and CPA:18 – Global together as the “CPA REITs;”
- Carey Watermark Investors Incorporated (“CWI 1”) and Carey Watermark Investors 2 Incorporated (“CWI 2”), two publicly owned, non-traded 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](#)); and
- Carey European Student Housing Fund I, L.P. (“CESH”), a limited partnership formed for the purpose of developing, owning, and operating student housing properties and similar investments in Europe ([Note 3](#)); we refer to the Managed REITs (including CPA:17 – Global prior to the CPA:17 Merger) and CESH collectively as the “Managed Programs.”

We no longer raise capital for new or existing funds, but currently expect to continue managing our existing Managed Programs through the end of their respective life cycles ([Note 3](#)).

Reportable Segments

Real Estate — Lease revenues from our real estate investments generate the vast majority of our earnings. We invest primarily in commercial properties located in the United States and Northern and Western Europe, which are leased to companies on a triple-net lease basis. At June 30, 2019, our owned portfolio was comprised of our full or partial ownership interests in 1,198 properties, totaling approximately 136.6 million square feet, substantially all of which were net leased to 320 tenants, with a weighted-average lease term of 10.4 years and an occupancy rate of 98.2%. In addition, at June 30, 2019, our portfolio was comprised of full or partial ownership interests in 26 operating properties, including 24 self-storage properties and two hotels, totaling approximately 2.0 million square feet.

Investment Management — Through our TRSs, we structure and negotiate investments and debt placement transactions for the Managed Programs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset management revenue. 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. In addition, we include equity income generated through our (i) ownership of shares and limited partnership units of the Managed Programs ([Note 7](#)) and (ii) special general partner interests in the operating partnerships of the Managed REITs, through which we participate in their cash flows ([Note 3](#)), in our Investment Management segment.

At June 30, 2019, CPA:18 – Global owned all or a portion of 54 net-leased properties (including certain properties in which we also have an ownership interest), totaling approximately 10.0 million square feet, substantially all of which were leased to 87 tenants, with an occupancy rate of approximately 97.8%. CPA:18 – Global and the other Managed Programs also had interests in 129 operating properties, totaling approximately 15.5 million square feet in the aggregate.

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 (“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, 2018, which are included in the 2018 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. 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.

When we obtain an economic interest in an entity, we evaluate the entity to determine if it should be deemed a VIE and, if so, whether we are the primary beneficiary and are therefore required to consolidate the entity. There have been no significant changes in our VIE policies from what was disclosed in the 2018 Annual Report.

During the six months ended June 30, 2019, we had a net decrease of four entities considered to be consolidated VIEs, primarily related to disposition activity, partially offset by acquisition activity. In addition, during the six months ended June 30, 2019, we received a full repayment of our preferred equity interest in an unconsolidated VIE entity. As a result, this preferred equity interest is now retired and is no longer considered a VIE ([Note 7](#)).

Notes to Consolidated Financial Statements (Unaudited)

At June 30, 2019 and December 31, 2018, we considered 27 and 32 entities to be VIEs, respectively, of which we consolidated 20 and 24, respectively, as we are considered the primary beneficiary. The following table presents a summary of selected financial data of the consolidated VIEs included in our consolidated balance sheets (in thousands):

	June 30, 2019	December 31, 2018
Land, buildings and improvements	\$ 646,702	\$ 781,347
Net investments in direct financing leases	290,337	305,493
In-place lease intangible assets and other	89,349	84,870
Above-market rent intangible assets	38,248	45,754
Accumulated depreciation and amortization	(177,008)	(164,942)
Assets held for sale, net	99,068	—
Total assets	1,035,074	1,112,984
Non-recourse mortgages, net	\$ 148,298	\$ 157,955
Total liabilities	217,226	227,461

At June 30, 2019 and December 31, 2018, our seven and eight unconsolidated VIEs, respectively, included our interests in five and six unconsolidated real estate investments, respectively, which we account for under the equity method of accounting, and two unconsolidated entities, which we accounted for at fair value. 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 on, but does not give us power over, decisions that significantly affect the economic performance of these entities. As of June 30, 2019 and December 31, 2018, the net carrying amount of our investments in these entities was \$271.7 million and \$301.6 million, respectively, and our maximum exposure to loss in these entities was limited to our investments.

Reclassifications

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

We currently present Operating property expenses on its own line item in the consolidated statements of income, which was previously included within Property expenses, excluding reimbursable tenant costs. In addition, in accordance with the SEC's adoption of certain rule and form amendments on August 17, 2018, we moved (Loss) gain on sale of real estate, net in the consolidated statements of income to be included within Other Income and Expenses. Also, structuring revenue and other advisory revenue are now included within Structuring and other advisory revenue in the consolidated statements of income.

In connection with our adoption of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, as described below in *Recent Accounting Pronouncements*, reimbursable tenant costs (within Real Estate revenues) are now included within Lease revenues in the consolidated statements of income. In addition, we currently present Reimbursable tenant costs and Reimbursable costs from affiliates (both within operating expenses) on their own line items in the consolidated statements of income. Previously, these line items were included within Reimbursable tenant and affiliate costs.

Revenue Recognition

Revenue from contracts under Accounting Standards Codification ("ASC") 606 is recognized when, or as, control of promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. At contract inception, we assess the services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, we consider all of the services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. ASC 606 does not apply to our lease revenues, which constitute a majority of our revenues, but primarily applies to revenues generated from our hotel operating properties and our Investment Management segment.

Revenue from contracts for our Real Estate segment primarily represented operating property revenues of \$7.8 million and \$4.9 million for the three months ended June 30, 2019 and 2018, respectively, and \$14.1 million and \$12.1 million for the six months ended June 30, 2019 and 2018, respectively. Such operating property revenues are primarily comprised of revenues from room rentals and from food and beverage services at our hotel operating properties during those periods. We identified a single performance obligation for each distinct service. Performance obligations are typically satisfied at a point in time, at the time of sale, or at the rendering of the service. Fees are generally determined to be fixed. Payment is typically due immediately following the delivery of the service. Revenue from contracts under ASC 606 from our Investment Management segment is discussed in [Note 3](#).

Restricted Cash

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the consolidated statements of cash flows (in thousands):

	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 202,279	\$ 217,644
Restricted cash ^(a)	59,332	206,419
Total cash and cash equivalents and restricted cash	<u>\$ 261,611</u>	<u>\$ 424,063</u>

(a) Restricted cash is included within Other assets, net in our consolidated balance sheets. The amount as of December 31, 2018 includes \$145.7 million of proceeds from the sale of a portfolio of Australian properties in December 2018. These funds were transferred from a restricted cash account to us in January 2019.

Recent Accounting Pronouncements

Pronouncements Adopted as of June 30, 2019

In February 2016, the Financial Accounting Standards Board (“FASB”) issued *ASU 2016-02, Leases (Topic 842)*. ASU 2016-02 modifies the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract: the lessee and the lessor. ASU 2016-02 provides new guidelines that change the accounting for leasing arrangements for lessees, whereby their rights and obligations under substantially all leases, existing and new, are capitalized and recorded on the balance sheet. For lessors, however, the new standard remains generally consistent with existing guidance, but has been updated to align with certain changes to the lessee model and *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”).

We adopted this guidance for our interim and annual periods beginning January 1, 2019 using the modified retrospective method, applying the transition provisions at the beginning of the period of adoption rather than at the beginning of the earliest comparative period presented. We elected the package of practical expedients as permitted under the transition guidance, which allowed us to not reassess whether arrangements contain leases, lease classification, and initial direct costs. The adoption of the lease standard did not result in a cumulative effect adjustment recognized in the opening balance of retained earnings as of January 1, 2019.

- *As a Lessee*: we recognized \$115.6 million of land lease right-of-use (“ROU”) assets, \$12.7 million of office lease ROU assets, and \$95.3 million of corresponding lease liabilities for certain operating office and land lease arrangements for which we were the lessee on January 1, 2019, which included reclassifying below-market ground lease intangible assets, above-market ground lease intangible liabilities, prepaid rent, and deferred rent as a component of the ROU asset (a net reclassification of \$33.0 million). See [Note 4](#) for additional disclosures on the presentation of these amounts in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments under the lease. We determine if an arrangement contains a lease at contract inception and determine the classification of the lease at commencement. Operating lease ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. We do not include renewal options in the lease term when calculating the lease liability unless we are reasonably certain we will exercise the option. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. Our variable lease payments

consist of increases as a result of the Consumer Price Index (“CPI”) or other comparable indices, taxes, and maintenance costs. Lease expense for lease payments is recognized on a straight-line basis over the term of the lease.

The implicit rate within our operating leases is generally not determinable and, as a result, we use our incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate requires judgment. We determine our incremental borrowing rate for each lease using estimated baseline mortgage rates. These baseline rates are determined based on a review of current mortgage debt market activity for benchmark securities across domestic and international markets, utilizing a yield curve. The rates are then adjusted for various factors, including level of collateralization and lease term.

- *As a Lessor:* a practical expedient allows lessors to combine non-lease components (lease arrangements that include common area maintenance services) with related lease components (lease revenues), if both the timing and pattern of transfer are the same for the non-lease component and related lease component, the lease component is the predominant component, and the lease component would otherwise be classified as an operating lease. We elected the practical expedient. For (i) operating lease arrangements involving real estate that include common area maintenance services and (ii) all real estate arrangements that include real estate taxes and insurance costs, we present these amounts within lease revenues in our consolidated statements of income. We record amounts reimbursed by the lessee in the period in which the applicable expenses are incurred.

Under ASU 2016-02, lessors are allowed to only capitalize incremental direct leasing costs. Historically, we have not capitalized internal legal and leasing costs incurred, and, as a result, we were not impacted by this change.

In August 2017, the FASB issued *ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 makes more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and eliminates the requirements to separately measure and disclose hedge effectiveness. It is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. We adopted this guidance for our interim and annual periods beginning January 1, 2019. The adoption of this standard impacted our consolidated financial statements for both cash flow hedges and net investment hedges. Changes in the fair value of our hedging instruments are no longer separated into effective and ineffective portions. The entire change in the fair value of these hedging instruments included in the assessment of effectiveness is now recorded in Accumulated other comprehensive loss. The impact to our consolidated financial statements as a result of these changes was not material.

In June 2018, the FASB issued *ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions in exchange for goods and services from nonemployees, which will align the accounting for such payments to nonemployees with the existing requirements for share-based payments granted to employees (with certain exceptions). These share-based payments will now be measured at the grant-date fair value of the equity instrument issued. We adopted this guidance for our interim and annual periods beginning January 1, 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

Pronouncements to be Adopted after June 30, 2019

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. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. 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.

Note 3. Agreements and Transactions with Related Parties***Advisory Agreements and Partnership Agreements with the Managed Programs***

We have advisory agreements with each of the existing Managed Programs, pursuant to which we earn fees and are entitled to receive reimbursement for certain fund management expenses. Upon completion of the CPA:17 Merger on October 31, 2018 ([Note 1](#)), the advisory agreements with CPA:17 – Global were terminated, and we no longer receive fees or reimbursements from CPA:17 – Global. We no longer raise capital for new or existing funds, but we currently expect to continue to manage all existing Managed Programs and earn various fees (as described below) through the end of their respective life cycles ([Note 1](#)). We have partnership agreements with each of the Managed Programs, and under the partnership agreements with the Managed REITs, we are entitled to receive certain cash distributions from their respective operating partnerships.

The following tables present a summary of revenue earned from the Managed Programs for the periods indicated, included in the consolidated financial statements (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Asset management revenue ^(a)	\$ 9,790	\$ 17,268	\$ 19,522	\$ 34,253
Reimbursable costs from affiliates ^(a)	3,821	5,537	7,689	10,841
Distributions of Available Cash ^(b)	3,765	8,776	9,450	19,278
Interest income on deferred acquisition fees and loans to affiliates ^(c)	571	495	1,091	1,048
Structuring and other advisory revenue ^(a)	58	4,426	2,576	6,355
	<u>\$ 18,005</u>	<u>\$ 36,502</u>	<u>\$ 40,328</u>	<u>\$ 71,775</u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
CPA:17 – Global ^(d)	\$ —	\$ 14,553	\$ —	\$ 30,337
CPA:18 – Global	5,862	11,147	13,819	18,034
CWI 1	6,140	5,643	13,641	12,622
CWI 2	4,904	4,408	10,650	9,445
CESH	1,099	751	2,218	1,337
	<u>\$ 18,005</u>	<u>\$ 36,502</u>	<u>\$ 40,328</u>	<u>\$ 71,775</u>

(a) Amounts represent revenues from contracts under ASC 606.

(b) Included within Equity in earnings of equity method investments in the Managed Programs and real estate in the consolidated statements of income.

(c) Included within Other gains and (losses) in the consolidated statements of income.

(d) We no longer earn revenue from CPA:17 – Global following the completion of the CPA:17 Merger on October 31, 2018 ([Note 1](#)).

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

	June 30, 2019	December 31, 2018
Short-term loans to affiliates, including accrued interest	\$ 70,449	\$ 58,824
Deferred acquisition fees receivable, including accrued interest	5,970	8,697
Reimbursable costs	2,436	3,227
Accounts receivable	1,218	1,425
Asset management fees receivable	1,160	563
Current acquisition fees receivable	290	2,106
	<u>\$ 81,523</u>	<u>\$ 74,842</u>

Performance Obligations and Significant Judgments

The fees earned pursuant to our advisory agreements are considered variable consideration. For the agreements that include multiple performance obligations, including asset management and investment structuring services, revenue is allocated to each performance obligation based on estimates of the price that we would charge for each promised service if it were sold on a standalone basis.

Judgment is applied in assessing whether there should be a constraint on the amount of fees recognized, such as amounts in excess of certain threshold limits with respect to the contract price or any potential clawback provisions included in certain of our arrangements. We exclude fees subject to such constraints to the extent it is probable that a significant reversal of those amounts will occur.

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 existing Managed Programs:

Managed Program	Rate	Payable	Description
CPA:18 – Global	0.5% – 1.5%	In shares of its Class A common stock and/or cash, at the option of CPA:18 – Global; payable 50% in cash and 50% in shares of its Class A common stock for 2019; payable in shares of its Class A common stock for 2018	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 shares of its common stock and/or cash, at our election; payable in shares of its common stock for 2019 and 2018	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 and/or cash, at our election; payable in shares of its Class A common stock for 2019 and 2018	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
CESH	1.0%	In cash	Based on gross assets at fair value

The performance obligation for asset management services is satisfied over time as services are rendered. The time-based output method is used to measure progress over time, as this is representative of the transfer of the services. We are compensated for our services on a monthly or quarterly basis. However, these services represent a series of distinct daily services under ASU 2014-09. Accordingly, we satisfy the performance obligation and resolve the variability associated with our fees on a daily basis. We apply the practical expedient and, as a result, do not disclose variable consideration attributable to wholly or partially unsatisfied performance obligations as of the end of the reporting period.

In providing asset management services, we are reimbursed for certain costs. Direct reimbursement of these costs does not represent a separate performance obligation. Payment for asset management services is typically due on the first business day following the month of the delivery of the service.

Structuring and Other Advisory Revenue

Under the terms of the advisory agreements with the Managed Programs, we earn revenue for structuring and negotiating investments and related financing. For the Managed REITs, the combined total of acquisition fees and other acquisition expenses are limited to 6% of the contract prices in aggregate. The following table presents a summary of our structuring fee arrangements with the existing Managed Programs:

Managed Program	Rate	Payable	Description
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 or commitments made
CWI REITs	1% – 2.5%	In cash upon completion; loan refinancing transactions up to 1% of the principal amount; 2.5% of the total investment cost of the properties acquired	Based on the total aggregate cost of the lodging investments or commitments made; we are required to pay 20% and 25% to the subadvisors of CWI 1 and CWI 2, respectively
CESH	2.0%	In cash upon acquisition	Based on the total aggregate cost of investments or commitments made, including the acquisition, development, construction, or redevelopment of the investments

The performance obligation for investment structuring services is satisfied at a point in time upon the closing of an investment acquisition, when there is an enforceable right to payment, and control (as well as the risks and rewards) has been transferred. Determining when control transfers requires management to make judgments that affect the timing of revenue recognized. Payment is due either on the day of acquisition (current portion) or deferred, as described above ([Note 5](#)). We do not believe the deferral of the fees represents a significant financing component.

In addition, we may earn fees for dispositions and mortgage loan refinancings completed on behalf of the Managed Programs.

Reimbursable Costs from Affiliates

The existing Managed Programs reimburse us for certain personnel and overhead costs that we incur on their behalf, a summary of which is presented in the table below:

Managed Program	Payable	Description
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 CPA:18 – Global based on the average of the trailing 12-month aggregate reported revenues of the Managed Programs and us, and personnel costs are capped at 1.0% of CPA:18 – Global's pro rata lease revenues for both 2019 and 2018; for the legal transactions group, costs are charged according to a fee schedule
CWI 1 and CWI 2	In cash	Actual expenses incurred, excluding those related to our senior management; allocated between the CWI REITs based on the percentage of their total pro rata hotel revenues for the most recently completed quarter
CESH	In cash	Actual expenses incurred

Distributions of Available Cash

We are entitled to receive distributions of up to 10% of the Available Cash (as defined in the respective partnership agreements) from the operating partnerships of each of the existing Managed REITs, payable quarterly in arrears. We are required to pay 20% and 25% of such distributions to the subadvisors of CWI 1 and CWI 2, respectively.

Back-End Fees and Interests in the Managed Programs

Under our advisory agreements with certain of the Managed Programs, we may also receive compensation in connection with providing liquidity events for their stockholders. For the Managed REITs, the timing and form of such liquidity events are at the discretion of each REIT's board of directors. Therefore, there can be no assurance as to whether or when any of these back-end fees or interests will be realized. Such back-end fees or interests may include disposition fees, interests in disposition proceeds, and distributions related to ownership of shares or limited partnership units in the Managed Programs. As a condition of the CPA:17 Merger, we waived certain back-end fees that we would have been entitled to receive from CPA:17 – Global upon its liquidation pursuant to the terms of our advisory agreement and partnership agreement with CPA:17 – Global.

*Other Transactions with Affiliates**CPA:17 Merger*

On October 31, 2018, CPA:17 – Global merged with and into one of our wholly owned subsidiaries, primarily in exchange for shares of our common stock, which we accounted for as a business combination under the acquisition method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed, based upon their preliminary fair values at October 31, 2018. During the first quarter of 2019, we identified certain measurement period adjustments that impacted the provisional accounting, which increased equity investments in real estate by \$2.6 million, decreased other assets, net by \$3.0 million, and decreased deferred income taxes by \$0.7 million, resulting in a \$0.3 million decrease in goodwill. We are in the process of finalizing our assessment of the fair value of the assets acquired and liabilities assumed. Accordingly, the fair value of these assets and liabilities and the impact to goodwill are subject to change during the measurement period, which will end up to one year from the acquisition date.

Loans to Affiliates

From time to time, our Board has approved the making of secured and unsecured loans or lines of credit from us to certain of the Managed Programs, 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 Unsecured Credit Facility ([Note 10](#)), generally for the purpose of facilitating acquisitions or for working capital purposes.

The following table sets forth certain information regarding our loans or lines of credit to affiliates (dollars in thousands):

Managed Program	Interest Rate at June 30, 2019	Maturity Date at June 30, 2019	Maximum Loan Amount Authorized at June 30, 2019	Principal Outstanding Balance at ^(a)	
				June 30, 2019	December 31, 2018
CWI 1 ^(b)	LIBOR + 1.00%	9/30/2019	\$ 65,802	\$ 46,637	\$ 41,637
CESH ^{(b) (c)}	LIBOR + 1.00%	5/31/2020	35,000	20,057	14,461
CPA:18 – Global	N/A	N/A	50,000	—	—
CWI 2	N/A	N/A	25,000	—	—
				<u>\$ 66,694</u>	<u>\$ 56,098</u>

(a) Amounts exclude accrued interest of \$3.8 million and \$2.7 million at June 30, 2019 and December 31, 2018, respectively.

(b) LIBOR means London Interbank Offered Rate.

(c) In July 2019, CESH borrowed an additional \$7.3 million under its line of credit with us.

Other

At June 30, 2019, we owned interests in nine jointly owned investments in real estate, with the remaining interests held by affiliates or third parties. We consolidate two such investments and account for the remaining seven investments under the equity method of accounting ([Note 7](#)). In addition, we owned stock of each of the existing Managed REITs and limited partnership units of CESH at that date. We account for these investments under the equity method of accounting or at fair value ([Note 7](#)).

Note 4. Land, Buildings and Improvements and Assets Held for Sale***Land, Buildings and Improvements — Operating Leases***

Land and buildings leased to others, which are subject to operating leases, and real estate under construction, are summarized as follows (in thousands):

	June 30, 2019	December 31, 2018
Land	\$ 1,830,922	\$ 1,772,099
Buildings and improvements	7,409,650	6,945,513
Real estate under construction	50,441	63,114
Less: Accumulated depreciation	(836,360)	(724,550)
	<u>\$ 8,454,653</u>	<u>\$ 8,056,176</u>

During the six months ended June 30, 2019, the U.S. dollar strengthened against the euro, as the end-of-period rate for the U.S. dollar in relation to the euro decreased by 0.6% to \$1.1380 from \$1.1450. As a result of this fluctuation in foreign currency exchange rates, the carrying value of our Land, buildings and improvements subject to operating leases decreased by \$15.5 million from December 31, 2018 to June 30, 2019.

During the second quarter of 2019, we entered into net lease agreements for certain self-storage properties previously classified as operating properties. As a result, in June 2019, we reclassified 22 consolidated self-storage properties with an aggregate carrying value of \$182.7 million from Land, buildings and improvements attributable to operating properties to Land, buildings and improvements subject to operating leases. Effective as of that time, we began recognizing lease revenues from these properties, whereas previously we recognized operating property revenues and expenses from these properties.

In connection with changes in lease classifications due to extensions of the underlying leases, we reclassified three properties with an aggregate carrying value of \$27.0 million from Net investments in direct financing leases to Land, buildings and improvements subject to operating leases during the six months ended June 30, 2019 ([Note 5](#)).

Depreciation expense, including the effect of foreign currency translation, on our buildings and improvements subject to operating leases was \$56.5 million and \$36.6 million for the three months ended June 30, 2019 and 2018, respectively, and \$111.7 million and \$73.9 million for the six months ended June 30, 2019 and 2018, respectively.

Acquisitions of Real Estate

During the six months ended June 30, 2019, we entered into the following investments, which were deemed to be real estate asset acquisitions, at a total cost of \$308.0 million, including land of \$31.5 million, buildings of \$216.9 million (including capitalized acquisition-related costs of \$1.7 million), net lease intangibles of \$60.4 million, and a debt premium of \$0.8 million (related to the non-recourse mortgage loan assumed in connection with an acquisition, as described below):

- an investment of \$32.7 million for an educational facility in Portland, Oregon, on February 20, 2019;
- an investment of \$48.3 million for an office building in Morrisville, North Carolina, on March 7, 2019;
- an investment of \$37.6 million for a distribution center in Inwood, West Virginia, on March 27, 2019, which is encumbered by a non-recourse mortgage loan that we assumed on the date of acquisition with an outstanding principal balance of \$20.2 million ([Note 10](#));
- an investment of \$49.3 million for an industrial facility in Hurricane, Utah, on March 28, 2019;
- an investment of \$16.6 million for an industrial facility in Bensenville, Illinois, on March 29, 2019;
- an investment of \$10.2 million for two manufacturing and distribution centers in Westerville, Ohio, and North Wales, Pennsylvania, on May 21, 2019;
- an investment of \$24.5 million for eight manufacturing facilities in various locations in the United States and Mexico on May 31, 2019;
- an investment of \$18.8 million for a headquarters and warehouse facility in Statesville, North Carolina, on June 7, 2019; and
- an investment of \$70.1 million for a headquarters and industrial facility in Conestoga, Pennsylvania, on June 27, 2019.

The acquired net lease intangibles are comprised of (i) in-place lease intangible assets totaling \$70.0 million, which have a weighted-average expected life of 18.5 years, and (ii) below-market rent intangible liabilities totaling \$9.6 million, which have a weighted-average expected life of 15.0 years.

Real Estate Under Construction

During the six months ended June 30, 2019, we capitalized real estate under construction totaling \$66.8 million. The number of construction projects in progress with balances included in real estate under construction was five and four as of June 30, 2019 and December 31, 2018, respectively. Aggregate unfunded commitments totaled approximately \$173.2 million and \$204.5 million as of June 30, 2019 and December 31, 2018, respectively.

During the six months ended June 30, 2019, we completed the following construction projects, at a total cost of \$79.4 million:

- an expansion project at a warehouse facility in Zabia Wola, Poland, in March 2019 at a cost totaling \$5.6 million, including capitalized interest;
- a built-to-suit project for a warehouse facility in Dillon, South Carolina, in March 2019 at a cost totaling \$47.4 million, including capitalized interest;
- an expansion project at a warehouse facility in Rotterdam, the Netherlands, in May 2019 at a cost totaling \$20.4 million, including capitalized interest; and
- an expansion project at an industrial facility in Legnica, Poland, in June 2019 at a cost totaling \$6.0 million.

During the six months ended June 30, 2019, we committed to fund an aggregate of \$17.7 million (based on the exchange rate of the euro at June 30, 2019) for a build-to-suit project in Katowice, Poland. The facility will be constructed on land subject to three land leases. We currently expect to complete the project in the fourth quarter of 2019.

Dollar amounts are based on the exchange rates of the foreign currencies on the dates of activity, as applicable.

Dispositions of Properties

During the six months ended June 30, 2019, we sold one property, which was classified as Land, buildings and improvements subject to operating leases. As a result, the carrying value of our Land, buildings and improvements subject to operating leases decreased by \$3.3 million from December 31, 2018 to June 30, 2019.

Future Dispositions of Real Estate

As of June 30, 2019, two of our tenants had exercised their options to repurchase the properties they are leasing for an aggregate of \$8.6 million (the amount for one repurchase option is based on the exchange rate of the euro as of June 30, 2019), but there can be no assurance that such repurchases will be completed. At June 30, 2019, these two properties had an aggregate asset carrying value of \$6.3 million.

Leases

Operating Lease Income

Lease income related to operating leases recognized and included in the consolidated statements of income is as follows (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Lease income — fixed	\$ 222,057	\$ 437,175
Lease income — variable ^(a)	22,277	43,539
Total operating lease income ^(b)	<u>\$ 244,334</u>	<u>\$ 480,714</u>

(a) Includes (i) rent increases based on changes in the CPI and other comparable indices and (ii) reimbursements for property taxes, insurance, and common area maintenance services.

(b) Excludes \$25.4 million and \$52.0 million for the three and six months ended June 30, 2019, respectively, of interest income from direct financing leases that is included in Lease revenues in the consolidated statement of income.

Scheduled Future Lease Payments to be Received

Scheduled future lease payments to be received (exclusive of expenses paid by tenants, percentage of sales rents, and future CPI-based adjustments) under non-cancelable operating leases at June 30, 2019 are as follows (in thousands):

Years Ending December 31,	Total
2019 (remainder)	\$ 487,439
2020	967,832
2021	947,374
2022	911,914
2023	868,384
Thereafter	7,064,545
Total	\$ 11,247,488

Scheduled future lease payments to be received (exclusive of expenses paid by tenants, percentage of sales rents, and future CPI-based adjustments) under non-cancelable operating leases at December 31, 2018 are as follows (in thousands):

Years Ending December 31,	Total
2019	\$ 920,044
2020	915,411
2021	896,083
2022	861,688
2023	802,509
Thereafter	6,151,480
Total	\$ 10,547,215

Lease Cost

Certain information related to the total lease cost for operating leases is as follows (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Fixed lease cost	\$ 3,820	\$ 7,636
Variable lease cost	213	363
Total lease cost	\$ 4,033	\$ 7,999

During the three and six months ended June 30, 2019, we received sublease income totaling approximately \$1.5 million and \$3.0 million, respectively, which is included in Lease revenues in the consolidated statement of income.

Other Information

Supplemental balance sheet information related to ROU assets and lease liabilities is as follows (dollars in thousands):

	Location on Consolidated Balance Sheets	June 30, 2019
Operating ROU assets — land leases	In-place lease intangible assets and other	\$ 114,523
Operating ROU assets — office leases	Other assets, net	10,110
Total operating ROU assets		<u>\$ 124,633</u>
Operating lease liabilities	Accounts payable, accrued expenses and other liabilities	\$ 90,580
Weighted-average remaining lease term — operating leases		37.3 years
Weighted-average discount rate — operating leases		7.8%
Number of land lease arrangements		64
Number of office space arrangements		6
Lease term range (excluding extension options not reasonably certain of being exercised)		1 – 100 years

Cash paid for operating lease liabilities included in Net cash provided by operating activities totaled \$7.4 million for the six months ended June 30, 2019. There are no land or office direct financing leases for which we are the lessee, therefore there are no related ROU assets or lease liabilities.

Undiscounted Cash Flows

A reconciliation of the undiscounted cash flows for operating leases recorded on the consolidated balance sheet within Accounts payable, accrued expenses and other liabilities as of June 30, 2019 is as follows (in thousands):

Years Ending December 31,	Total
2019 (remainder)	\$ 7,194
2020	14,980
2021	8,483
2022	7,628
2023	7,481
Thereafter	257,076
Total lease payments	<u>302,842</u>
Less: amount of lease payments representing interest	(212,262)
Present value of future lease payments/lease obligations	<u>\$ 90,580</u>

Scheduled future lease payments (excluding amounts paid directly by tenants) for the years subsequent to the year ended December 31, 2018 are: \$14.5 million for 2019, \$13.5 million for 2020, \$7.9 million for 2021, \$7.1 million for 2022, \$7.0 million for 2023, and \$246.7 million for the years thereafter.

Land, Buildings and Improvements — Operating Properties

At June 30, 2019, Land, buildings and improvements attributable to operating properties consisted of our investments in 15 consolidated self-storage properties and one consolidated hotel. As of June 30, 2019, we reclassified another consolidated hotel to Assets held for sale, net, as described below. At December 31, 2018, Land, buildings and improvements attributable to operating properties consisted of our investments in 37 consolidated self-storage properties and two consolidated hotels. Below is a summary of our Land, buildings and improvements attributable to operating properties (in thousands):

	June 30, 2019	December 31, 2018
Land	\$ 39,675	\$ 102,478
Buildings and improvements	149,618	363,572
Real estate under construction	—	4,620
Less: Accumulated depreciation	(11,179)	(10,234)
	<u>\$ 178,114</u>	<u>\$ 460,436</u>

As described above under *Land, Buildings and Improvements — Operating Leases*, during the second quarter of 2019, we entered into net lease agreements for certain self-storage properties previously classified as operating properties. As a result, in June 2019, we reclassified 22 consolidated self-storage properties with an aggregate carrying value of \$182.7 million from Land, buildings and improvements attributable to operating properties to Land, buildings and improvements subject to operating leases.

Depreciation expense on our buildings and improvements attributable to operating properties was \$2.5 million and \$0.4 million for the three months ended June 30, 2019 and 2018, respectively, and \$5.3 million and \$1.5 million for the six months ended June 30, 2019 and 2018, respectively.

For the three and six months ended June 30, 2019, Operating property revenues totaling \$15.4 million and \$31.4 million, respectively, were comprised of \$12.5 million and \$25.7 million, respectively, in lease revenues and \$2.9 million and \$5.7 million, respectively, in other income (such as food and beverage revenue) from 37 consolidated self-storage properties and two consolidated hotels. For the three and six months ended June 30, 2018, Operating property revenues totaling \$4.9 million and \$12.1 million, respectively, were comprised of \$3.4 million and \$8.4 million, respectively, in lease revenues and \$1.5 million and \$3.7 million, respectively, in other income from two consolidated hotels. We derive self-storage revenue primarily from rents received from customers who rent storage space under month-to-month leases for personal or business use. We derive hotel revenue primarily from room rentals, as well as food, beverage, and other services.

Assets Held for Sale, Net

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

	June 30, 2019	December 31, 2018
Land, buildings and improvements	\$ 105,590	\$ —
Accumulated depreciation and amortization	(2,813)	—
Assets held for sale, net	<u>\$ 102,777</u>	<u>\$ —</u>

At June 30, 2019, we had two properties classified as Assets held for sale, net, with an aggregate carrying value of \$102.8 million, including one hotel operating property with a carrying value of \$99.1 million. The other property was sold in July 2019 for gross proceeds of \$3.2 million.

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, loans receivable, and deferred acquisition fees. Operating leases are not included in finance receivables. See [Note 2](#) and [Note 4](#) for information on ROU operating lease assets recognized in our consolidated balance sheets.

Net Investments in Direct Financing Leases

Net investments in direct financing leases is summarized as follows (in thousands):

	June 30, 2019	December 31, 2018
Lease payments receivable	\$ 1,062,863	\$ 1,160,977
Unguaranteed residual value	932,605	966,826
	1,995,468	2,127,803
Less: unearned income	(732,149)	(821,588)
	<u>\$ 1,263,319</u>	<u>\$ 1,306,215</u>

Interest income from direct financing leases, which was included in Lease revenues in the consolidated financial statements, was \$25.4 million and \$16.9 million for the three months ended June 30, 2019 and 2018, respectively, and \$52.0 million and \$34.1 million for the six months ended June 30, 2019 and 2018, respectively.

During the six months ended June 30, 2019, we reclassified three properties with an aggregate carrying value of \$27.0 million from Net investments in direct financing leases to Land, buildings and improvements subject to operating leases in connection with changes in lease classifications due to extensions of the underlying leases (Note 4). During the six months ended June 30, 2019, we sold four properties accounted for as direct financing leases that had an aggregate net carrying value of \$6.4 million. During the six months ended June 30, 2019, the U.S. dollar strengthened against the euro, resulting in a \$2.8 million decrease in the carrying value of Net investments in direct financing leases from December 31, 2018 to June 30, 2019.

Scheduled Future Lease Payments to be Received

Scheduled future lease payments to be received (exclusive of expenses paid by tenants, percentage of sales rents, and future CPI-based adjustments) under non-cancelable direct financing leases at June 30, 2019 are as follows (in thousands):

Years Ending December 31,	Total
2019 (remainder) ^(a)	\$ 309,070
2020	94,349
2021	92,367
2022	83,351
2023	77,589
Thereafter	406,137
Total	<u>\$ 1,062,863</u>

Scheduled future lease payments to be received (exclusive of expenses paid by tenants, percentage of sales rents, and future CPI-based adjustments) under non-cancelable direct financing leases at December 31, 2018 are as follows (in thousands):

Years Ending December 31,	Total
2019 ^(a)	\$ 373,632
2020	98,198
2021	95,181
2022	85,801
2023	80,033
Thereafter	428,132
Total	<u>\$ 1,160,977</u>

- (a) Includes total rents owed and a bargain purchase option amount (for an aggregate of \$261.8 million and \$275.4 million as of June 30, 2019 and December 31, 2018, respectively) from The New York Times Company, a tenant at one of our properties, which exercised its bargain purchase option to repurchase the property in the fourth quarter of 2019. There can be no assurance that such repurchase will be completed. At June 30, 2019, this property had an aggregate asset carrying value of \$256.3 million.

Loans Receivable

At both June 30, 2019 and December 31, 2018, we had four loans receivable related to a domestic investment with an aggregate carrying value of \$57.7 million. In addition, at December 31, 2018, we had a loan receivable representing the expected future payments under a sales type lease with a carrying value of \$9.5 million. In June 2019, this loan receivable was repaid in full to us for \$9.3 million (Note 14). Our loans receivable are included in Other assets, net in the consolidated financial statements. Earnings from our loans 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 CPA:18 – Global. A portion of this revenue is due in equal annual installments over three years. Unpaid deferred installments, including accrued interest, from CPA:18 – Global were included in Due from affiliates in the consolidated financial statements.

Credit Quality of Finance Receivables

We generally invest in facilities that we believe are critical to a tenant's business and therefore have a lower risk of tenant default. At both June 30, 2019 and December 31, 2018, 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, there were no material modifications of finance receivables during the six months ended June 30, 2019.

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 inclusion on the watch list to risk of default. The credit quality evaluation of our finance receivables is updated quarterly. We believe the credit quality of our deferred acquisition fees receivable falls under category one, as CPA:18 – Global is 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 / Obligor at		Carrying Value at	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
1 - 3	35	36	\$ 1,109,973	\$ 1,135,321
4	8	10	211,083	227,591
5	—	1	—	10,580
			<u>\$ 1,321,056</u>	<u>\$ 1,373,492</u>

Note 6. Goodwill and Other Intangibles

We have recorded net lease, internal-use software development, and trade name intangibles that are being amortized over periods ranging from two years to 48 years. In-place lease intangibles, at cost are included in In-place lease intangible assets and other in the consolidated financial statements. Above-market rent intangibles, at cost are included in Above-market rent intangible assets in the consolidated financial statements. Accumulated amortization of in-place lease and above-market rent intangibles is included in Accumulated depreciation and amortization in the consolidated financial statements. Internal-use software development and trade name intangibles are included in Other assets, net in the consolidated financial statements. Below-market rent and below-market purchase option intangibles are included in Below-market rent and other intangible liabilities, net in the consolidated financial statements.

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

	Real Estate	Investment Management	Total
Balance at December 31, 2018	\$ 857,337	\$ 63,607	\$ 920,944
Foreign currency translation adjustments	(383)	—	(383)
CPA:17 Merger measurement period adjustments (Note 3)	(343)	—	(343)
Balance at June 30, 2019	<u>\$ 856,611</u>	<u>\$ 63,607</u>	<u>\$ 920,218</u>

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

	June 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-Lived Intangible Assets						
Internal-use software development costs	\$ 19,190	\$ (12,068)	\$ 7,122	\$ 18,924	\$ (10,672)	\$ 8,252
Trade name	3,975	(1,593)	2,382	3,975	(1,196)	2,779
	<u>23,165</u>	<u>(13,661)</u>	<u>9,504</u>	<u>22,899</u>	<u>(11,868)</u>	<u>11,031</u>
Lease Intangibles:						
In-place lease	2,020,263	(595,540)	1,424,723	1,960,437	(496,096)	1,464,341
Above-market rent	921,998	(369,549)	552,449	925,797	(330,935)	594,862
Below-market ground lease ^(a)	—	—	—	42,889	(2,367)	40,522
	<u>2,942,261</u>	<u>(965,089)</u>	<u>1,977,172</u>	<u>2,929,123</u>	<u>(829,398)</u>	<u>2,099,725</u>
Indefinite-Lived Goodwill and Intangible Assets						
Goodwill	920,218	—	920,218	920,944	—	920,944
Below-market ground lease ^(a)	—	—	—	6,302	—	6,302
	<u>920,218</u>	<u>—</u>	<u>920,218</u>	<u>927,246</u>	<u>—</u>	<u>927,246</u>
Total intangible assets	<u>\$ 3,885,644</u>	<u>\$ (978,750)</u>	<u>\$ 2,906,894</u>	<u>\$ 3,879,268</u>	<u>\$ (841,266)</u>	<u>\$ 3,038,002</u>
Finite-Lived Intangible Liabilities						
Below-market rent	\$ (262,689)	\$ 66,121	\$ (196,568)	\$ (253,633)	\$ 57,514	\$ (196,119)
Above-market ground lease ^(a)	—	—	—	(15,961)	3,663	(12,298)
	<u>(262,689)</u>	<u>66,121</u>	<u>(196,568)</u>	<u>(269,594)</u>	<u>61,177</u>	<u>(208,417)</u>
Indefinite-Lived Intangible Liabilities						
Below-market purchase option	(16,711)	—	(16,711)	(16,711)	—	(16,711)
Total intangible liabilities	<u>\$ (279,400)</u>	<u>\$ 66,121</u>	<u>\$ (213,279)</u>	<u>\$ (286,305)</u>	<u>\$ 61,177</u>	<u>\$ (225,128)</u>

- (a) In connection with our adoption of ASU 2016-02 (Note 2), in the first quarter of 2019, we prospectively reclassified below-market ground lease intangible assets and above-market ground lease intangible liabilities to be a component of ROU assets within In-place lease intangible assets and other in our consolidated balance sheets. As of December 31, 2018, below-market ground lease intangible assets were included in In-place lease intangible assets and other in the consolidated balance sheets, and above-market ground lease intangible liabilities were included in Below-market rent and other intangible liabilities, net in the consolidated balance sheets.

Net amortization of intangibles, including the effect of foreign currency translation, was \$70.1 million and \$39.0 million for the three months ended June 30, 2019 and 2018, respectively, and \$139.5 million and \$77.7 million for the six months ended June 30, 2019 and 2018, 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, trade name, and in-place lease intangibles is included in Depreciation and amortization; and amortization of above-market ground lease and below-market ground lease intangibles was included in Property expenses, excluding reimbursable tenant costs, prior to the reclassification of above-market ground lease and below-market ground lease intangibles to ROU assets in the first quarter of 2019, as described above and in [Note 2](#).

Note 7. Equity Investments in the Managed Programs and Real Estate

We own interests in certain unconsolidated real estate investments with CPA:18 – Global and third parties, 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) or at fair value by electing the equity method fair value option available under GAAP.

We classify distributions received from equity method investments using the cumulative earnings approach. Distributions received are considered returns on the investment and classified as cash inflows from operating activities. If, however, the investor's cumulative distributions received, less distributions received in prior periods determined to be returns of investment, exceeds cumulative equity in earnings recognized, the excess is considered a return of investment and is classified as cash inflows from investing activities.

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Distributions of Available Cash (Note 3)	\$ 3,765	\$ 8,776	\$ 9,450	\$ 19,278
Proportionate share of equity in earnings of equity investments in the Managed Programs	312	1,167	525	3,030
Amortization of basis differences on equity method investments in the Managed Programs	(356)	(914)	(685)	(1,312)
Total equity in earnings of equity method investments in the Managed Programs	3,721	9,029	9,290	20,996
Equity in earnings of equity method investments in real estate	774	4,084	1,336	7,987
Amortization of basis differences on equity method investments in real estate	(544)	(555)	(1,184)	(1,100)
Total equity in earnings of equity method investments in real estate	230	3,529	152	6,887
Equity in earnings of equity method investments in the Managed Programs and real estate	<u>\$ 3,951</u>	<u>\$ 12,558</u>	<u>\$ 9,442</u>	<u>\$ 27,883</u>

Managed Programs

We own interests in the Managed Programs and account for these interests under the equity method because, as their advisor, we do not exert control over, but we do have the ability to exercise significant influence over, the Managed Programs. Operating results of the Managed Programs are included in the Investment Management segment.

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

Fund	% of Outstanding Interests Owned at		Carrying Amount of Investment at	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
CPA:18 – Global ^(a)	3.664%	3.446%	\$ 41,242	\$ 39,600
CPA:18 – Global operating partnership	0.034%	0.034%	209	209
CWI 1 ^(a)	3.516%	3.062%	43,802	38,600
CWI 1 operating partnership	0.015%	0.015%	186	186
CWI 2 ^(a)	3.295%	2.807%	29,733	25,200
CWI 2 operating partnership	0.015%	0.015%	300	300
CESH ^(b)	2.430%	2.430%	3,755	3,495
			<u>\$ 119,227</u>	<u>\$ 107,590</u>

(a) During the six months ended June 30, 2019, we received asset management revenue from the existing Managed REITs primarily in shares of their common stock, which increased our ownership percentage in each of the existing Managed REITs ([Note 3](#)).

(b) Investment is accounted for at fair value.

CPA:17 – Global — On October 31, 2018, we acquired all of the remaining interests in CPA:17 – Global and the CPA:17 – Global operating partnership in the CPA:17 Merger ([Note 3](#)). We received distributions from CPA:17 – Global during the six months ended June 30, 2018 of \$4.9 million. We received distributions from our investment in the CPA:17 – Global operating partnership during the six months ended June 30, 2018 of \$11.4 million ([Note 3](#)).

CPA:18 – Global — The carrying value of our investment in CPA:18 – Global at June 30, 2019 includes asset management fees receivable, for which 54,473 shares of CPA:18 – Global Class A common stock were issued during the third quarter of 2019. We received distributions from this investment during the six months ended June 30, 2019 and 2018 of \$1.6 million and \$1.2 million, respectively. We received distributions from our investment in the CPA:18 – Global operating partnership during the six months ended June 30, 2019 and 2018 of \$4.0 million and \$4.7 million, respectively ([Note 3](#)).

CWI 1 — The carrying value of our investment in CWI 1 at June 30, 2019 includes asset management fees receivable, for which 114,306 shares of CWI 1 common stock were issued during the third quarter of 2019. We received distributions from this investment during the six months ended June 30, 2019 and 2018 of \$1.3 million and \$0.9 million, respectively. We received distributions from our investment in the CWI 1 operating partnership during the six months ended June 30, 2019 and 2018 of \$2.4 million and \$1.0 million, respectively ([Note 3](#)).

CWI 2 — The carrying value of our investment in CWI 2 at June 30, 2019 includes asset management fees receivable, for which 78,392 shares of CWI 2 Class A common stock were issued during the third quarter of 2019. We received distributions from this investment during the six months ended June 30, 2019 and 2018 of \$0.7 million and \$0.5 million, respectively. We received distributions from our investment in the CWI 2 operating partnership during the six months ended June 30, 2019 and 2018 of \$3.1 million and \$2.2 million, respectively ([Note 3](#)).

CESH — We have elected to account for our investment in CESH at fair value by selecting the equity method fair value option available under GAAP. We record our investment in CESH on a one quarter lag; therefore, the balance of our equity method investment in CESH recorded as of June 30, 2019 is based on the estimated fair value of our investment as of March 31, 2019. We did not receive distributions from this investment during the six months ended June 30, 2019 or 2018.

At June 30, 2019 and December 31, 2018, the aggregate unamortized basis differences on our equity investments in the Managed Programs were \$41.1 million and \$35.2 million, respectively.

Interests in Other Unconsolidated Real Estate Investments

We own equity interests in properties that are generally leased to companies through noncontrolling interests in partnerships and limited liability companies that we do not control but over which we exercise significant influence. The underlying investments are jointly owned with affiliates or third parties. We account for these investments under the equity method of accounting. Operating results of our unconsolidated real estate investments are included in the Real Estate segment.

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	
			June 30, 2019	December 31, 2018
Johnson Self Storage	Third Party	90%	\$ 71,217	\$ 73,475
Kesko Senukai ^(a)	Third Party	70%	45,506	52,432
Bank Pekao ^(a)	CPA:18 – Global	50%	27,890	29,086
BPS Nevada, LLC ^(b)	Third Party	15%	22,453	22,292
State Farm Mutual Automobile Insurance Co.	CPA:18 – Global	50%	18,077	18,927
Apply Sørco AS ^{(c) (d)}	CPA:18 – Global	49%	9,869	7,483
Fortenova Grupa d.d. (formerly Konzum d.d.) ^(a)	CPA:18 – Global	20%	2,920	2,858
Beach House JV, LLC ^(e)	Third Party	N/A	—	15,105
			<u>\$ 197,932</u>	<u>\$ 221,658</u>

- (a) The carrying value of this investment is affected by fluctuations in the exchange rate of the euro.
- (b) This investment is reported using the hypothetical liquidation at book value model, which may be different than pro rata ownership percentages, primarily due to the capital structure of the partnership agreement.
- (c) The carrying value of this investment is affected by fluctuations in the exchange rate of the Norwegian krone.
- (d) During the first quarter of 2019, we identified measurement period adjustments that impacted the provisional accounting for this investment, which was acquired in the CPA:17 Merger on October 31, 2018 ([Note 3](#)). As such, the CPA:17 Merger purchase price allocated to this jointly owned investment increased by approximately \$5.2 million, of which our proportionate share was \$2.6 million.
- (e) On February 27, 2019, we received a full repayment of our preferred equity interest in this investment totaling \$15.0 million. As a result, this preferred equity interest is now retired.

We received aggregate distributions of \$12.0 million and \$8.6 million from our other unconsolidated real estate investments for the six months ended June 30, 2019 and 2018, respectively. At June 30, 2019 and December 31, 2018, the aggregate unamortized basis differences on our unconsolidated real estate investments were \$25.1 million and \$23.7 million, respectively.

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.

Derivative Assets and Liabilities — Our derivative assets and liabilities, which are included in Other assets, net and Accounts payable, accrued expenses and other liabilities, respectively, in the consolidated financial statements, are comprised of foreign currency forward contracts, foreign currency collars, interest rate swaps, interest rate caps, and stock warrants ([Note 9](#)).

The valuation of our derivative instruments (excluding stock warrants) is determined using a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, as well as observable market-based inputs, including interest rate curves, spot and forward rates, and implied volatilities. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative instruments for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. These derivative instruments 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.

Equity Investment in CESH — We have elected to account for our investment in CESH, which is included in Equity investments in the Managed Programs and real estate in the consolidated financial statements, at fair value by selecting the equity method fair value option available under GAAP ([Note 7](#)). We classified this investment as Level 3 because we primarily used valuation models that incorporate unobservable inputs to determine its fair value. The fair value of our equity investment in CESH approximated its carrying value as of June 30, 2019 and December 31, 2018.

Investment in Shares of a Cold Storage Operator — We have elected to apply the measurement alternative under *ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10)* to account for our investment in shares of a cold storage operator, which is included in Other assets, net in the consolidated financial statements. Under this alternative, the carrying value is adjusted for any impairments or changes in fair value resulting from observable transactions for similar or identical investments in the issuer. We classified this investment as Level 3 because it is not traded in an active market. During the first quarter of 2019, we identified measurement period adjustments that impacted the provisional accounting for this investment, which was acquired in the CPA:17 Merger on October 31, 2018 ([Note 3](#)). As such, the CPA:17 Merger purchase price allocated to this investment decreased by approximately \$3.0 million. In addition, during the six months ended June 30, 2019, we recognized unrealized losses on our investment in shares of a cold storage operator totaling \$3.3 million, which was recorded within Other gains and (losses) in the consolidated financial statements. The fair value of this investment approximated its carrying value, which was \$110.0 million and \$116.3 million at June 30, 2019 and December 31, 2018, respectively.

Investment in Shares of GCIF — We account for our investment in shares of Guggenheim Credit Income Fund ("GCIF"), which is included in Other assets, net in the consolidated financial statements, at fair value. We classified this investment as Level 2 because we used a quoted price from an inactive market to determine its fair value. During the six months ended June 30, 2019, we redeemed a portion of our investment in shares of GCIF for approximately \$3.3 million. Distributions of earnings from GCIF and unrealized gains or losses recognized on GCIF are recorded within Other gains and (losses) in the consolidated financial statements. During the six months ended June 30, 2019, we recognized unrealized losses on our investment in shares of GCIF totaling \$1.1 million, due to a decrease in the net asset value of the investment. The fair value of our investment in shares of GCIF approximated its carrying value, which was \$19.1 million and \$23.6 million at June 30, 2019 and December 31, 2018, respectively.

We did not have any transfers into or out of Level 1, Level 2, and Level 3 category of measurements during either the six months ended June 30, 2019 or 2018. Gains and losses (realized and unrealized) recognized on items measured at fair value on a recurring basis included in earnings are reported within Other gains and (losses) on our consolidated financial statements.

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

	Level	June 30, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Unsecured Notes, net ^{(a) (b) (c)}	2	\$ 3,861,931	\$ 4,118,482	\$ 3,554,470	\$ 3,567,593
Non-recourse mortgages, net ^{(a) (b) (d)}	3	2,203,853	2,228,407	2,732,658	2,737,861
Loans receivable ^(d)	3	57,737	57,737	67,277	67,123

- (a) The carrying value of Senior Unsecured Notes, net ([Note 10](#)) includes unamortized deferred financing costs of \$21.0 million and \$19.7 million at June 30, 2019 and December 31, 2018, respectively. The carrying value of Non-recourse mortgages, net includes unamortized deferred financing costs of \$0.7 million and \$0.8 million at June 30, 2019 and December 31, 2018, respectively.
- (b) The carrying value of Senior Unsecured Notes, net includes unamortized discount of \$18.1 million and \$15.8 million at June 30, 2019 and December 31, 2018, respectively. The carrying value of Non-recourse mortgages, net includes unamortized discount of \$20.6 million and \$21.8 million at June 30, 2019 and December 31, 2018, respectively.
- (c) We determined the estimated fair value of the Senior Unsecured Notes using observed market prices in an open market with limited trading volume.
- (d) 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.

We estimated that our other financial assets and liabilities, including amounts outstanding under our Senior Unsecured Credit Facility ([Note 10](#)) but excluding net investments in direct financing leases, had fair values that approximated their carrying values at both June 30, 2019 and December 31, 2018.

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. There have been no significant changes in our impairment policies from what was disclosed in the 2018 Annual Report.

We did not recognize any impairment charges during the three or six months ended June 30, 2019.

During the six months ended June 30, 2018, we recognized impairment charges totaling \$4.8 million on two properties in order to reduce the carrying values of the properties to their estimated fair values, which was \$3.9 million in each case. We recognized an impairment charge of \$3.8 million on one of those properties due to a tenant bankruptcy and the resulting vacancy, and the fair value measurement for the property was determined by estimating discounted cash flows using market rent assumptions. We recognized an impairment charge of \$1.0 million on the other property due to a lease expiration and resulting vacancy, and the fair value measurement for the property approximated its estimated selling price.

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 or limited partnership units we hold in the Managed Programs due to changes in interest rates or other market factors. We own investments in North America, Europe, and Japan 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 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 derivatives designated and that qualify as cash flow hedges, the change in fair value of the derivative is recognized in Other comprehensive loss until the hedged transaction affects earnings. Gains and losses on the cash flow hedges representing hedge components excluded from the assessment of effectiveness are recognized in earnings over the life of the hedge on a systematic and rational basis, as documented at hedge inception in accordance with our accounting policy election. Such gains and losses are recorded within Other gains and (losses) or Interest expense in our consolidated statements of income. The earnings recognition of excluded components is presented in the same line item as the hedged transactions. For derivatives designated and that qualify as a net investment hedge, 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 (within (Loss) gain on sale of real estate, net, in our consolidated statements of income) when the hedged net investment is either sold or substantially liquidated.

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 June 30, 2019 and December 31, 2018, no cash collateral had been posted nor received for any of our derivative positions.

Notes to Consolidated Financial Statements (Unaudited)

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

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Derivative Assets Fair Value at		Derivative Liabilities Fair Value at	
		June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Foreign currency forward contracts	Other assets, net	\$ 17,209	\$ 22,520	\$ —	\$ —
Foreign currency collars	Other assets, net	11,276	8,536	—	—
Interest rate swaps	Other assets, net	35	1,435	—	—
Interest rate caps	Other assets, net	3	56	—	—
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	—	—	(5,609)	(3,387)
Foreign currency collars	Accounts payable, accrued expenses and other liabilities	—	—	(531)	(1,679)
		28,523	32,547	(6,140)	(5,066)
Derivatives Not Designated as Hedging Instruments					
Stock warrants	Other assets, net	5,200	5,500	—	—
Foreign currency forward contracts	Other assets, net	—	7,144	—	—
Interest rate swaps ^(a)	Accounts payable, accrued expenses and other liabilities	—	—	(131)	(343)
		5,200	12,644	(131)	(343)
Total derivatives		\$ 33,723	\$ 45,191	\$ (6,271)	\$ (5,409)

(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.

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized on Derivatives in Other Comprehensive Loss ^(a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Foreign currency forward contracts	\$ (2,289)	\$ 3,306	\$ (1,170)	\$ 142
Interest rate swaps	(562)	414	(2,377)	1,420
Foreign currency collars	262	9,999	3,878	3,850
Interest rate caps	176	(4)	149	(11)
Derivatives in Net Investment Hedging Relationships ^(b)				
Foreign currency forward contracts	(1)	1,913	(1)	2,316
Foreign currency collars	1	—	1	—
Total	\$ (2,413)	\$ 15,628	\$ 480	\$ 7,717

Notes to Consolidated Financial Statements (Unaudited)

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) on Derivatives Reclassified from Other Comprehensive Loss			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
Foreign currency forward contracts	Other gains and (losses)	\$ 2,120	\$ 1,622	\$ 4,554	\$ 2,804
Interest rate swaps and cap	Interest expense	(1,547)	(40)	(1,614)	(251)
Foreign currency collars	Other gains and (losses)	1,285	167	2,373	574
Total		<u>\$ 1,858</u>	<u>\$ 1,749</u>	<u>\$ 5,313</u>	<u>\$ 3,127</u>

- (a) Excludes net losses of \$1.0 million and net gains of \$0.4 million recognized on unconsolidated jointly owned investments for the three months ended June 30, 2019 and 2018, respectively, and net losses of \$1.9 million and net gains of \$0.3 million for the six months ended June 30, 2019 and 2018, respectively.
- (b) The changes in fair value of these contracts are reported in the foreign currency translation adjustment section of Other comprehensive loss.

Amounts reported in Other comprehensive loss related to interest rate derivative contracts 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 gains and (losses) when the hedged foreign currency contracts are settled. As of June 30, 2019, we estimate that an additional \$1.9 million and \$12.8 million will be reclassified as interest expense and other gains, respectively, during the next 12 months.

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

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 June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
Stock warrants	Other gains and (losses)	\$ (300)	\$ (67)	\$ (300)	\$ 201
Foreign currency collars	Other gains and (losses)	154	557	195	320
Foreign currency forward contracts	Other gains and (losses)	(31)	—	(261)	(125)
Interest rate swaps	Other gains and (losses)	(26)	2	(26)	7
Interest rate swaps	Interest expense	13	—	22	—
Derivatives in Cash Flow Hedging Relationships					
Interest rate swaps	Interest expense	(1,062)	63	(1,127)	213
Interest rate caps	Interest expense	(54)	—	(95)	—
Foreign currency collars	Other gains and (losses)	—	25	7	(21)
Foreign currency forward contracts	Other gains and (losses)	—	—	(132)	—
Total		<u>\$ (1,306)</u>	<u>\$ 580</u>	<u>\$ (1,717)</u>	<u>\$ 595</u>

See below for information on our purposes for entering into derivative instruments.

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 generally seek long-term debt financing on a fixed-rate basis. However, from time to time, we or our investment partners have obtained, and may in the future 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.

The interest rate swaps and caps that our consolidated subsidiaries had outstanding at June 30, 2019 are summarized as follows (currency in thousands):

Interest Rate Derivatives	Number of Instruments	Notional Amount	Fair Value at June 30, 2019 ^(a)
Designated as Cash Flow Hedging Instruments			
Interest rate swaps	8	112,709 USD	\$ (3,347)
Interest rate swaps	3	64,281 EUR	(2,227)
Interest rate caps	5	155,647 EUR	2
Interest rate cap	1	6,394 GBP	1
Not Designated as Hedging Instruments			
Interest rate swap ^(b)	1	4,667 EUR	(131)
			<u>\$ (5,702)</u>

(a) Fair value amounts are based on the exchange rate of the euro or British pound sterling at June 30, 2019, as applicable.

(b) 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.

Foreign Currency Forward 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 Danish krone, the Norwegian krone, and certain other currencies. 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 77 months or less.

The following table presents the foreign currency derivative contracts we had outstanding at June 30, 2019 (currency in thousands):

Foreign Currency Derivatives	Number of Instruments	Notional Amount	Fair Value at June 30, 2019
Designated as Cash Flow Hedging Instruments			
Foreign currency forward contracts	23	61,543 EUR	\$ 17,114
Foreign currency collars	73	238,450 EUR	5,910
Foreign currency collars	62	48,000 GBP	4,837
Foreign currency forward contracts	3	2,187 NOK	45
Foreign currency collars	3	2,000 NOK	(1)
Designated as Net Investment Hedging Instruments			
Foreign currency forward contract	1	2,468 NOK	50
Foreign currency collar	1	2,500 NOK	(1)
			<u>\$ 27,954</u>

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 June 30, 2019. At June 30, 2019, our total credit exposure and the maximum exposure to any single counterparty was \$27.2 million and \$12.4 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 June 30, 2019, 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 \$10.7 million and \$7.3 million at June 30, 2019 and December 31, 2018, respectively, which included accrued interest and any nonperformance risk adjustments. If we had breached any of these provisions at June 30, 2019 or December 31, 2018, we could have been required to settle our obligations under these agreements at their aggregate termination value of \$11.0 million and \$7.6 million, respectively.

Net Investment Hedges

We have completed four offerings of euro-denominated senior notes, each with a principal amount of €500.0 million, which we refer to as the 2.0% Senior Notes due 2023, 2.25% Senior Notes due 2024, 2.250% Senior Notes due 2026, and 2.125% Senior Notes due 2027 (Note 10). In addition, at June 30, 2019, the amounts borrowed in euro and Japanese yen outstanding under our Unsecured Revolving Credit Facility (Note 10) were €78.0 million and ¥2.4 billion, respectively. These borrowings are designated as, and are effective as, economic hedges of our net investments in foreign entities. Exchange rate variations impact our financial results because the financial results of our foreign subsidiaries are translated to U.S. dollars each period, with the effect of exchange rate variations being recorded in Other comprehensive loss as part of the cumulative foreign currency translation adjustment. As a result, changes in the value of our borrowings under our euro-denominated senior notes and changes in the value of our euro and Japanese yen borrowings under our Unsecured Revolving Credit Facility, related to changes in the spot rates, will be reported in the same manner as foreign currency translation adjustments, which are recorded in Other comprehensive loss as part of the cumulative foreign currency translation adjustment. Such (losses) gains related to non-derivative net investment hedges were \$(30.5) million and \$84.6 million for the three months ended June 30, 2019 and 2018, respectively, and \$13.6 million and \$44.6 million for the six months ended June 30, 2019 and 2018, respectively.

At June 30, 2019, we also 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*

On February 22, 2017, we entered into the Third Amended and Restated Credit Facility (the “Credit Agreement”), which provided for a \$1.5 billion unsecured revolving credit facility (our “Unsecured Revolving Credit Facility”), a €236.3 million term loan, and a \$100.0 million delayed draw term loan, which we refer to collectively as the “Senior Unsecured Credit Facility.” The aggregate principal amount (of revolving and term loans) available under the Credit Agreement may be increased up to an amount not to exceed the U.S. dollar equivalent of \$2.35 billion, subject to the conditions to increase provided in the Credit Agreement.

The maturity date of the Unsecured Revolving Credit Facility is February 22, 2021. We have two options to extend the maturity date of the Unsecured Revolving Credit Facility by six months, subject to the conditions provided in the Credit Agreement. The Unsecured Revolving Credit Facility is being used for working capital needs, for acquisitions, and for other general corporate purposes. The Credit Agreement permits borrowing under the Unsecured Revolving Credit Facility in certain currencies other than U.S. dollars.

At June 30, 2019, our Unsecured Revolving Credit Facility had available capacity of \$1.4 billion. We incur an annual facility fee of 0.20% of the total commitment on our Unsecured Revolving Credit Facility.

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

Senior Unsecured Credit Facility	Interest Rate at June 30, 2019 ^(a)	Maturity Date at June 30, 2019	Principal Outstanding Balance at	
			June 30, 2019	December 31, 2018
Unsecured Revolving Credit Facility:				
Unsecured Revolving Credit Facility — borrowing in euros ^(b)	EURIBOR + 1.00%	2/22/2021	\$ 88,764	\$ 69,273
Unsecured Revolving Credit Facility — borrowing in Japanese yen	JPY LIBOR + 1.00%	2/22/2021	22,463	22,290
			\$ 111,227	\$ 91,563

- (a) The applicable interest rate at June 30, 2019 was based on the credit rating for our Senior Unsecured Notes of BBB/Baa2.
(b) EURIBOR means Euro Interbank Offered Rate.

Senior Unsecured Notes

As set forth in the table below, we have euro and U.S. dollar-denominated senior unsecured notes outstanding with an aggregate principal balance outstanding of \$3.9 billion at June 30, 2019 (the “Senior Unsecured Notes”). On June 14, 2019, we completed an underwritten public offering of \$325.0 million of 3.850% Senior Notes due 2029, at a price of 98.876% of par value. These 3.850% Senior Notes due 2029 have a 10.1-year term and are scheduled to mature on July 15, 2029.

Interest on the Senior Unsecured Notes is payable annually in arrears for our euro-denominated senior notes and semi-annually for U.S. dollar-denominated senior 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 outstanding at June 30, 2019 (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	
								June 30, 2019	December 31, 2018
2.0% Senior Notes due 2023	1/21/2015	€ 500.0	99.220%	\$ 4.6	2.107%	2.0%	1/20/2023	\$ 569.0	\$ 572.5
4.6% Senior Notes due 2024	3/14/2014	\$ 500.0	99.639%	\$ 1.8	4.645%	4.6%	4/1/2024	500.0	500.0
2.25% Senior Notes due 2024	1/19/2017	€ 500.0	99.448%	\$ 2.9	2.332%	2.25%	7/19/2024	569.0	572.5
4.0% Senior Notes due 2025	1/26/2015	\$ 450.0	99.372%	\$ 2.8	4.077%	4.0%	2/1/2025	450.0	450.0
2.250% Senior Notes due 2026	10/9/2018	€ 500.0	99.252%	\$ 4.3	2.361%	2.250%	4/9/2026	569.0	572.5
4.25% Senior Notes due 2026	9/12/2016	\$ 350.0	99.682%	\$ 1.1	4.290%	4.25%	10/1/2026	350.0	350.0
2.125% Senior Notes due 2027	3/6/2018	€ 500.0	99.324%	\$ 4.2	2.208%	2.125%	4/15/2027	569.0	572.5
3.850% Senior Notes due 2029	6/14/2019	\$ 325.0	98.876%	\$ 3.7	3.986%	3.850%	7/15/2029	325.0	—
								<u>\$ 3,901.0</u>	<u>\$ 3,590.0</u>

- (a) Aggregate balance excludes unamortized deferred financing costs totaling \$21.0 million and \$19.7 million, and unamortized discount totaling \$18.1 million and \$15.8 million, at June 30, 2019 and December 31, 2018, respectively.

Proceeds from the issuances of each of these notes were used primarily to partially pay down the amounts then outstanding under the senior unsecured credit facility that we had in place at that time and/or to repay certain non-recourse mortgage loans. In connection with the offering of the 3.850% Senior Notes due 2029 in June 2019, we incurred financing costs totaling \$2.9 million during the six months ended June 30, 2019, which are included in Senior Unsecured Notes, net in the consolidated financial statements and are being amortized to Interest expense over the term of the 3.850% Senior Notes due 2029.

Covenants

The Credit Agreement and each of 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 Credit Agreement 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. We were in compliance with all of these covenants at June 30, 2019.

We may make unlimited Restricted Payments (as defined in the Credit Agreement), as long as no non-payment default or financial covenant default has occurred before, or would on a pro forma basis occur as a result of, the Restricted Payment. In addition, we may make Restricted Payments in an amount required to (i) maintain our REIT status and (ii) as a result of that status, not pay federal or state income or excise tax, as long as the loans under the Credit Agreement have not been accelerated and no bankruptcy or event of default has occurred.

Obligations under the Unsecured Revolving 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.

Non-Recourse Mortgages

At June 30, 2019, the weighted-average interest rates for our fixed-rate and variable-rate non-recourse mortgage notes payable were 5.2% and 2.9%, respectively, with maturity dates ranging from October 2019 to September 2031.

During the six months ended June 30, 2019, we assumed a non-recourse mortgage loan with an outstanding principal balance of \$20.2 million in connection with the acquisition of a property ([Note 4](#)). This mortgage loan has a fixed annual interest rate of 4.7% and a maturity date of July 6, 2024.

A non-recourse mortgage loan encumbering six vacant properties that were acquired in the CPA:17 Merger, with an outstanding principal balance of approximately \$57.2 million (carrying value of \$42.6 million), was in default as of both June 30, 2019 and December 31, 2018. The former tenant at the properties declared bankruptcy in 2018 and vacated the properties prior to the CPA:17 Merger. This loan currently bears interest at 4.4%, with a default interest rate of an additional 5.0%, and is collateralized by the six properties, which we wholly-own. Interest expense of \$4.2 million on this loan has been accrued and unpaid as of June 30, 2019 (including default interest). As of June 30, 2019, the carrying value of the properties totaled \$42.6 million.

A non-recourse mortgage loan encumbering a vacant property that was acquired in the CPA:17 Merger, with an outstanding principal balance of approximately \$8.7 million (carrying value of \$8.2 million), was in default as of June 30, 2019. The former tenant at the property has been in federal receivership since the first quarter of 2019. This loan currently bears interest at 5.5%, with a default interest rate of an additional 18.0%, and is collateralized by the property, which we wholly-own. Interest expense of \$0.3 million on this loan has been accrued and unpaid as of June 30, 2019 (including default interest). As of June 30, 2019, the carrying value of the property was \$10.5 million.

Repayments During the Six Months Ended June 30, 2019

During the six months ended June 30, 2019, we (i) prepaid non-recourse mortgage loans totaling \$493.3 million and (ii) repaid non-recourse mortgage loans at maturity with an aggregate principal balance of approximately \$18.8 million. The weighted-average interest rate for these non-recourse mortgage loans on their respective dates of repayment was 5.1%. Amounts are based on the exchange rate of the related foreign currency as of the date of repayment, as applicable. We primarily used proceeds from issuances of common stock under our ATM Program ([Note 12](#)) to fund these prepayments.

Repayments During the Six Months Ended June 30, 2018

During the six months ended June 30, 2018, we (i) prepaid non-recourse mortgage loans totaling \$164.9 million, including \$12.5 million encumbering properties that were disposed of during the six months ended June 30, 2018, and (ii) repaid non-recourse mortgage loans at maturity with an aggregate principal balance of approximately \$9.5 million. The weighted-average interest rate for these non-recourse mortgage loans on their respective dates of repayment was 2.5%. Amounts are based on the exchange rate of the related foreign currency as of the date of repayment, as applicable.

Foreign Currency Exchange Rate Impact

During the six months ended June 30, 2019, the U.S. dollar strengthened against the euro, resulting in an aggregate decrease of \$18.4 million in the aggregate carrying values of our Non-recourse mortgages, net, Senior Unsecured Credit Facility, and Senior Unsecured Notes, net from December 31, 2018 to June 30, 2019.

Scheduled Debt Principal Payments

Scheduled debt principal payments as of June 30, 2019 are as follows (in thousands):

Years Ending December 31,	Total ^(a)
2019 (remainder)	\$ 58,984
2020	446,277
2021	615,966
2022	539,632
2023	927,234
Thereafter through 2031	3,649,226
Total principal payments	6,237,319
Unamortized discount, net ^(b)	(38,655)
Unamortized deferred financing costs	(21,653)
Total	<u>\$ 6,177,011</u>

(a) Certain amounts are based on the applicable foreign currency exchange rate at June 30, 2019.

(b) Represents the unamortized discount, net, of \$20.6 million in aggregate primarily resulting from the assumption of property-level debt in connection with business combinations, including the CPA:17 Merger ([Note 3](#)), and the unamortized discount on the Senior Unsecured Notes of \$18.1 million in aggregate.

Note 11. Commitments and Contingencies

At June 30, 2019, 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. Stock-Based Compensation and Equity**Stock-Based Compensation**

We maintain several stock-based compensation plans, which are more fully described in the 2018 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 six months ended June 30, 2019. We recorded stock-based compensation expense of \$4.9 million and \$3.7 million during the three months ended June 30, 2019 and 2018, respectively, and \$9.1 million and \$11.9 million during the six months ended June 30, 2019 and 2018, respectively. Approximately \$4.2 million of the stock-based compensation expense recorded during the six months ended June 30, 2018 was attributable to the modification of restricted share units (“RSUs”) and performance share units (“PSUs”) in connection with the retirement of our former chief executive officer in February 2018.

Restricted and Conditional Awards

Nonvested restricted share awards (“RSAs”), RSUs, and PSUs at June 30, 2019 and changes during the six months ended June 30, 2019 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, 2019	277,002	\$ 62.41	331,216	\$ 78.82
Granted ^(a)	132,743	69.86	84,006	92.16
Vested ^(b)	(137,873)	61.72	(403,701)	74.04
Forfeited	(1,889)	64.63	—	—
Adjustment ^(c)	—	—	301,426	77.95
Nonvested at June 30, 2019 ^(d)	269,983	\$ 66.41	312,947	\$ 81.17

- (a) The grant date fair value of RSAs and RSUs reflect our stock price on the date of grant on a one-for-one basis. The grant date fair value of PSUs was determined utilizing (i) a Monte Carlo simulation model to generate an estimate of our future stock price over the three-year performance period and (ii) future financial performance projections. To estimate the fair value of PSUs granted during the six months ended June 30, 2019, we used a risk-free interest rate of 2.5%, an expected volatility rate of 15.8%, and assumed a dividend yield of zero.
- (b) The grant date fair value of shares vested during the six months ended June 30, 2019 was \$38.4 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 June 30, 2019 and December 31, 2018, we had an obligation to issue 893,713 and 867,871 shares, respectively, of our common stock underlying such deferred awards, which is recorded within Total stockholders' equity as a Deferred compensation obligation of \$37.3 million and \$35.8 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 at June 30, 2019 to reflect the number of shares expected to be issued when the PSUs vest.
- (d) At June 30, 2019, total unrecognized compensation expense related to these awards was approximately \$28.2 million, with an aggregate weighted-average remaining term of 2.1 years.

Earnings Per Share

Under current authoritative guidance for determining earnings per share, all nonvested share-based payment awards that contain non-forfeitable rights to dividends 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. Certain of our nonvested RSUs contain rights to receive non-forfeitable dividend equivalents or dividends, 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 participating RSUs 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income attributable to W. P. Carey	\$ 66,038	\$ 75,681	\$ 134,532	\$ 140,955
Net income attributable to nonvested participating RSUs	(17)	(97)	(35)	(180)
Net income — basic and diluted	<u>\$ 66,021</u>	<u>\$ 75,584</u>	<u>\$ 134,497</u>	<u>\$ 140,775</u>
Weighted-average shares outstanding — basic	171,304,112	108,059,394	169,280,360	108,058,671
Effect of dilutive securities	186,513	175,540	240,148	184,392
Weighted-average shares outstanding — diluted	<u>171,490,625</u>	<u>108,234,934</u>	<u>169,520,508</u>	<u>108,243,063</u>

For the three and six months ended June 30, 2019 and 2018, there were no potentially dilutive securities excluded from the computation of diluted earnings per share.

ATM Program

On February 27, 2019, we filed a prospectus supplement with the SEC pursuant to which we may offer and sell shares of our common stock from time to time, up to an aggregate gross sales price of \$500.0 million, through an ATM Program with a consortium of banks acting as sales agents. On that date, we also terminated a prior ATM Program that was established on March 1, 2017. During the three and six months ended June 30, 2019, we issued 1,116,217 and 5,169,840 shares, respectively, of our common stock under our current and former ATM Programs at a weighted-average price of \$80.33 and \$77.06 per share, respectively, for net proceeds of \$88.3 million and \$392.1 million, respectively. Proceeds from issuances of common stock under our ATM Program during the three and six months ended June 30, 2019 were used primarily to prepay certain non-recourse mortgage loans ([Note 10](#)) and to fund acquisitions.

During the three and six months ended June 30, 2018, we did not issue any shares of our common stock under our prior ATM Program. As of June 30, 2019, \$159.2 million remained available for issuance under our current ATM Program.

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 June 30, 2019			
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and (Losses) on Investments	Total
Beginning balance	\$ 16,051	\$ (269,264)	\$ 530	\$ (252,683)
Other comprehensive loss before reclassifications	(1,548)	(4,187)	(541)	(6,276)
Amounts reclassified from accumulated other comprehensive loss to:				
Other gains and (losses)	(3,405)	—	—	(3,405)
Interest expense	1,547	—	—	1,547
Total	(1,858)	—	—	(1,858)
Net current period other comprehensive loss	(3,406)	(4,187)	(541)	(8,134)
Ending balance	\$ 12,645	\$ (273,451)	\$ (11)	\$ (260,817)

	Three Months Ended June 30, 2018			
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and (Losses) on Investments	Total
Beginning balance	\$ 783	\$ (230,288)	\$ 267	\$ (229,238)
Other comprehensive loss before reclassifications	15,822	(39,815)	(58)	(24,051)
Amounts reclassified from accumulated other comprehensive loss to:				
Other gains and (losses)	(1,789)	—	—	(1,789)
Interest expense	40	—	—	40
Total	(1,749)	—	—	(1,749)
Net current period other comprehensive loss	14,073	(39,815)	(58)	(25,800)
Net current period other comprehensive loss attributable to noncontrolling interests	2	7,634	—	7,636
Ending balance	\$ 14,858	\$ (262,469)	\$ 209	\$ (247,402)

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2019				
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and (Losses) on Investments	Total
Beginning balance	\$ 14,102	\$ (269,091)	\$ (7)	\$ (254,996)
Other comprehensive income before reclassifications	3,856	(4,360)	(4)	(508)
Amounts reclassified from accumulated other comprehensive loss to:				
Other gains and (losses)	(6,927)	—	—	(6,927)
Interest expense	1,614	—	—	1,614
Total	(5,313)	—	—	(5,313)
Net current period other comprehensive loss	(1,457)	(4,360)	(4)	(5,821)
Ending balance	<u>\$ 12,645</u>	<u>\$ (273,451)</u>	<u>\$ (11)</u>	<u>\$ (260,817)</u>

Six Months Ended June 30, 2018				
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Gains and (Losses) on Investments	Total
Beginning balance	\$ 9,172	\$ (245,022)	\$ (161)	\$ (236,011)
Other comprehensive loss before reclassifications	8,808	(21,299)	370	(12,121)
Amounts reclassified from accumulated other comprehensive loss to:				
Other gains and (losses)	(3,378)	—	—	(3,378)
Interest expense	251	—	—	251
Total	(3,127)	—	—	(3,127)
Net current period other comprehensive loss	5,681	(21,299)	370	(15,248)
Net current period other comprehensive loss attributable to noncontrolling interests	5	3,852	—	3,857
Ending balance	<u>\$ 14,858</u>	<u>\$ (262,469)</u>	<u>\$ 209</u>	<u>\$ (247,402)</u>

See [Note 9](#) for additional information on our derivatives activity recognized within Other comprehensive loss for the periods presented.

Dividends Declared

During the second quarter of 2019, our Board declared a quarterly dividend of \$1.034 per share, which was paid on July 15, 2019 to stockholders of record as of June 28, 2019.

During the six months ended June 30, 2019, we declared dividends totaling \$2.066 per share.

Note 13. 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, 2019. 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 six months ended June 30, 2019 and 2018.

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. The accompanying consolidated financial statements include an interim tax provision for our TRSs and foreign subsidiaries, as necessary, for the three and six months ended June 30, 2019 and 2018. Current income tax expense was \$3.4 million and \$3.2 million for the three months ended June 30, 2019 and 2018, respectively, and \$3.1 million and \$9.4 million for the six months ended June 30, 2019 and 2018, respectively. Provision for income taxes for the six months ended June 30, 2019 included a current tax benefit of approximately \$6.3 million due to a change in tax position for state and local taxes.

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 it is more likely than not that we will not realize the tax benefit of deferred tax assets based on available evidence at the time the determination is made. A change in circumstances may cause us to change our judgment about whether the tax benefit of 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. 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 in which the tax basis of such assets was not stepped up to fair value for income tax purposes. Deferred income tax benefit (expense) was \$0.3 million and \$(3.0) million for the three months ended June 30, 2019 and 2018, respectively, and \$2.1 million and \$9.1 million for the six months ended June 30, 2019 and 2018, respectively. Provision for income taxes for the six months ended June 30, 2018 included a deferred tax benefit of approximately \$6.2 million as a result of the release of a deferred tax liability relating to a property holding company that was no longer required due to a change in tax classification.

Note 14. Property Dispositions

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 Real Estate segment.

2019 — During the three and six months ended June 30, 2019, we sold four and five properties, respectively, for total proceeds of \$7.7 million and \$12.6 million, respectively, net of selling costs, and recognized a net (loss) gain on these sales totaling \$(0.3) million and \$0.7 million, respectively.

In addition, in June 2019, a loan receivable was repaid in full to us for \$9.3 million, which resulted in a net loss of \$(0.1) million ([Note 5](#)).

2018 — During the three and six months ended June 30, 2018, we sold two and seven properties, respectively, for total proceeds of \$42.0 million and \$77.7 million, respectively, net of selling costs, and recognized a net gain on these sales totaling \$5.6 million and \$12.3 million, respectively (inclusive of income taxes totaling \$1.2 million for both periods recognized upon sale). Disposition activity included the sale of one of our hotel operating properties in April 2018.

In addition, in June 2018, we completed a nonmonetary transaction, in which we disposed of 23 properties in exchange for the acquisition of one property leased to the same tenant. This swap was recorded based on the fair value of the property acquired of \$85.5 million, which resulted in a net gain of \$6.3 million, and was a non-cash investing activity.

Note 15. Segment Reporting

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

Real Estate

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Lease revenues	\$ 269,802	\$ 168,367	\$ 532,741	\$ 337,799
Operating property revenues ^(a)	15,436	4,865	31,432	12,083
Lease termination income and other	6,304	680	9,574	1,622
	<u>291,542</u>	<u>173,912</u>	<u>573,747</u>	<u>351,504</u>
Operating Expenses				
Depreciation and amortization	112,666	63,374	224,079	128,294
General and administrative	15,001	10,599	30,189	22,664
Reimbursable tenant costs	13,917	5,733	27,088	11,952
Operating property expenses	10,874	3,581	21,468	9,251
Property expenses, excluding reimbursable tenant costs	9,915	5,327	19,827	9,556
Stock-based compensation expense	3,482	1,990	6,282	6,296
Merger and other expenses	696	2,692	842	2,655
Impairment charges	—	—	—	4,790
	<u>166,551</u>	<u>93,296</u>	<u>329,775</u>	<u>195,458</u>
Other Income and Expenses				
Interest expense	(59,719)	(41,311)	(121,032)	(79,385)
Other gains and (losses)	(1,362)	9,630	(392)	6,743
(Loss) gain on sale of real estate, net	(362)	11,912	571	18,644
Equity in earnings of equity method investments in real estate	230	3,529	152	6,887
	<u>(61,213)</u>	<u>(16,240)</u>	<u>(120,701)</u>	<u>(47,111)</u>
Income before income taxes	63,778	64,376	123,271	108,935
(Provision for) benefit from income taxes	(3,019)	(1,317)	(9,178)	2,216
Net Income from Real Estate	<u>60,759</u>	<u>63,059</u>	<u>114,093</u>	<u>111,151</u>
Net loss (income) attributable to noncontrolling interests	9	(3,743)	83	(6,535)
Net Income from Real Estate Attributable to W. P. Carey	<u>\$ 60,768</u>	<u>\$ 59,316</u>	<u>\$ 114,176</u>	<u>\$ 104,616</u>

- (a) Operating property revenues from our hotels include (i) \$0.9 million and \$4.8 million for the three and six months ended June 30, 2018, respectively, generated from a hotel in Memphis, Tennessee, which was sold in April 2018, (ii) \$4.1 million and \$4.0 million for the three months ended June 30, 2019 and 2018, respectively, and \$7.5 million and \$7.2 million for the six months ended June 30, 2019 and 2018, respectively, generated from a hotel in Bloomington, Minnesota, and (iii) \$3.7 million and \$6.6 million for the three and six months ended June 30, 2019, respectively, generated from a hotel in Miami, Florida, which was acquired in the CPA:17 Merger and was classified as held for sale as of June 30, 2019 ([Note 4](#)).

Notes to Consolidated Financial Statements (Unaudited)

Investment Management

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Asset management revenue	\$ 9,790	\$ 17,268	\$ 19,522	\$ 34,253
Reimbursable costs from affiliates	3,821	5,537	7,689	10,841
Structuring and other advisory revenue	58	4,426	2,576	6,355
	<u>13,669</u>	<u>27,231</u>	<u>29,787</u>	<u>51,449</u>
Operating Expenses				
General and administrative	4,728	5,843	10,825	12,361
Reimbursable costs from affiliates	3,821	5,537	7,689	10,841
Subadvisor fees	1,650	1,855	3,852	3,887
Stock-based compensation expense	1,454	1,708	2,819	5,621
Depreciation and amortization	966	963	1,932	2,000
	<u>12,619</u>	<u>15,906</u>	<u>27,117</u>	<u>34,710</u>
Other Income and Expenses				
Equity in earnings of equity method investments in the Managed Programs	3,721	9,029	9,290	20,996
Other gains and (losses)	691	956	676	1,080
	<u>4,412</u>	<u>9,985</u>	<u>9,966</u>	<u>22,076</u>
Income before income taxes	5,462	21,310	12,636	38,815
(Provision for) benefit from income taxes	(100)	(4,945)	8,188	(2,476)
Net Income from Investment Management	<u>5,362</u>	<u>16,365</u>	<u>20,824</u>	<u>36,339</u>
Net income attributable to noncontrolling interests	(92)	—	(468)	—
Net Income from Investment Management Attributable to W. P. Carey	<u>\$ 5,270</u>	<u>\$ 16,365</u>	<u>\$ 20,356</u>	<u>\$ 36,339</u>

Total Company

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues	\$ 305,211	\$ 201,143	\$ 603,534	\$ 402,953
Operating expenses	179,170	109,202	356,892	230,168
Other income and (expenses)	(56,801)	(6,255)	(110,735)	(25,035)
Provision for income taxes	(3,119)	(6,262)	(990)	(260)
Net income attributable to noncontrolling interests	(83)	(3,743)	(385)	(6,535)
Net income attributable to W. P. Carey	<u>\$ 66,038</u>	<u>\$ 75,681</u>	<u>\$ 134,532</u>	<u>\$ 140,955</u>

	Total Assets at	
	June 30, 2019	December 31, 2018
Real Estate	\$ 13,932,956	\$ 13,941,963
Investment Management	259,051	241,076
Total Company	<u>\$ 14,192,007</u>	<u>\$ 14,183,039</u>

Note 16. Subsequent Events*Acquisitions*

In July 2019, we completed two investments for a total purchase price of approximately \$45.2 million. We acquired a three-property manufacturing/warehouse portfolio in Milwaukee, Wisconsin, with a lease term of 25 years for an aggregate purchase price of approximately \$30.1 million. We also acquired a headquarters/manufacturing facility and a warehouse facility in Ontario, Canada, with a lease term of 22 years for an aggregate purchase price of approximately \$15.1 million (based on the exchange rate of the Canadian dollar on the date of acquisition). It is not practicable to disclose the preliminary purchase price allocations for these transactions given the short period of time between the acquisition dates and the filing of this Report.

Conversion of Self-Storage Operating Properties to Net Leases

On August 1, 2019, five consolidated self-storage operating properties were converted to net leases, pursuant to the net lease agreements entered into during the second quarter of 2019 ([Note 4](#)).

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding our financial statements and the reasons for changes in certain key components of our financial statements from period to period. This item also provides our perspective on our financial position and liquidity, as well as certain other factors that may affect our future results. The discussion also breaks down the financial results of our business by segment to provide a better understanding of how these segments and their results affect our financial condition and results of operations. Our Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2018 Annual Report and subsequent reports filed under the Securities Exchange Act of 1934.

Business Overview

As described in more detail in Item 1 of the 2018 Annual Report, we are a diversified net lease REIT with a portfolio of operationally-critical, commercial real estate that includes 1,198 net lease properties covering approximately 136.6 million square feet and 26 operating properties as of June 30, 2019. We invest in high-quality single tenant industrial, warehouse, office, retail, and self-storage properties subject to long-term net leases with built-in rent escalators. Our portfolio is located primarily in the United States and Northern and Western Europe, and we believe it is well-diversified by tenant, property type, geographic location, and tenant industry.

We also earn fees and other income by managing the portfolios of the Managed Programs through our investment management business. We no longer raise capital for new or existing funds, but currently expect to continue managing our existing Managed Programs through the end of their respective life cycles ([Note 1](#)).

Financial Highlights

During the six months ended June 30, 2019, we completed the following (as further described in the consolidated financial statements):

Real Estate

Investments

- We acquired nine investments totaling \$308.0 million ([Note 4](#)).
- We completed four construction projects at a cost totaling \$79.4 million. Construction projects include build-to-suit and expansion projects ([Note 4](#)).
- We committed to fund an aggregate of \$17.7 million (based on the exchange rate of the euro at June 30, 2019) for a build-to-suit project in Katowice, Poland. We currently expect to complete the project in the fourth quarter of 2019 ([Note 4](#)).

Leasing Transactions

- We entered into net lease agreements for certain self-storage properties previously classified as operating properties. As a result, in June 2019, we reclassified 22 consolidated self-storage properties with an aggregate carrying value of \$182.7 million from Land, buildings and improvements attributable to operating properties to Land, buildings and improvements subject to operating leases. Effective as of that time, we began recognizing lease revenues from these properties, whereas previously we recognized operating property revenues and expenses from these properties. On August 1, 2019, five additional consolidated self-storage properties were converted from operating properties to net-lease properties ([Note 4](#)).
- We restructured the leases with a tenant on a portfolio of grocery store and warehouse properties in Croatia. For 19 properties, we reached agreements on new rents, reducing contractual rents, but increasing total contractual minimum annualized base rent ("ABR") from \$10.2 million to \$15.4 million. We extended the lease terms on these properties by a weighted average of three years. We also agreed to a payment plan to collect approximately 50% of unpaid back rents plus value-added tax, which will be paid in ten monthly installments of €1.0 million each (equivalent to approximately \$1.1 million) starting in July 2019.

Financing and Capital Markets Transactions

- On June 14, 2019, we completed an underwritten public offering of \$325.0 million of 3.850% Senior Notes due 2029, at a price of 98.876% of par value. These 3.850% Senior Notes due 2029 have a 10.1-year term and are scheduled to mature on July 15, 2029 ([Note 10](#)).
- We issued 5,169,840 shares of our common stock under our ATM Program at a weighted-average price of \$77.06 per share for net proceeds of \$392.1 million ([Note 12](#)). Proceeds from issuances of common stock under our ATM Program during the six months ended June 30, 2019 were used primarily to prepay certain non-recourse mortgage loans (as described below and in [Note 10](#)) and to fund acquisitions.
- We reduced our mortgage debt outstanding by prepaying or repaying at maturity a total of \$512.2 million of non-recourse mortgage loans with a weighted-average interest rate of 5.1% ([Note 10](#)).

Investment Management

As of June 30, 2019, we managed total assets of approximately \$7.6 billion on behalf of CPA:18 – Global, CWI 1, CWI 2, and CESH. Upon completion of the CPA:17 Merger ([Note 3](#)), we ceased earning advisory fees and other income previously earned when we served as advisor to CPA:17 – Global. During the six months ended June 30, 2018, such fees and other income from CPA:17 – Global totaled \$30.3 million. We expect to structure fewer investments on behalf of the Managed Programs going forward because the Managed Programs are fully invested, we no longer raise capital for new or existing funds, and in light of the completion of the CPA:17 Merger.

Dividends to Stockholders

We declared cash dividends totaling \$2.066 per share during the six months ended June 30, 2019, comprised of two quarterly dividends per share of \$1.032 and \$1.034.

Consolidated Results

(in thousands, except shares)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues from Real Estate	\$ 291,542	\$ 173,912	\$ 573,747	\$ 351,504
Revenues from Investment Management	13,669	27,231	29,787	51,449
Total revenues	305,211	201,143	603,534	402,953
Net income from Real Estate attributable to W. P. Carey	60,768	59,316	114,176	104,616
Net income from Investment Management attributable to W. P. Carey	5,270	16,365	20,356	36,339
Net income attributable to W. P. Carey	66,038	75,681	134,532	140,955
Dividends declared	177,741	110,448	353,960	220,398
Net cash provided by operating activities			328,160	228,914
Net cash used in investing activities			(307,355)	(211,447)
Net cash used in financing activities			(181,651)	(58,333)
Supplemental financial measures ^(a) :				
Adjusted funds from operations attributable to W. P. Carey (AFFO) — Real Estate	199,824	116,462	388,146	231,396
Adjusted funds from operations attributable to W. P. Carey (AFFO) — Investment Management	8,641	26,137	22,086	49,573
Adjusted funds from operations attributable to W. P. Carey (AFFO)	208,465	142,599	410,232	280,969
Diluted weighted-average shares outstanding ^(b)	171,490,625	108,234,934	169,520,508	108,243,063

- (a) We consider AFFO, a supplemental measure that is not defined by GAAP (a “non-GAAP measure”), to be an important measure in the evaluation of our operating performance. See [Supplemental Financial Measures](#) below for our definition of this non-GAAP measure and a reconciliation to its most directly comparable GAAP measure.
- (b) Amounts for the three and six months ended June 30, 2019 reflect the dilutive impact of the 53,849,087 shares of our common stock issued to stockholders of CPA:17 – Global in connection with the CPA:17 Merger on October 31, 2018 ([Note 3](#)).

Revenues and Net Income Attributable to W. P. Carey

Total revenues increased significantly for the three and six months ended June 30, 2019 as compared to the same periods in 2018, due to increases within our Real Estate segment, partially offset by decreases within our Investment Management segment. Real Estate revenue increased due to an increase in lease revenues and operating property revenues, primarily from the properties we acquired in the CPA:17 Merger on October 31, 2018 ([Note 3](#)) and other property acquisition activity, partially offset by the impact of property dispositions. Investment Management revenue decreased primarily due to the cessation of asset management revenue earned from CPA:17 – Global after the CPA:17 Merger on October 31, 2018 ([Note 3](#)).

Net income attributable to W. P. Carey decreased for the three and six months ended June 30, 2019 as compared to the same periods in 2018, due to decreases within our Investment Management segment, partially offset by increases within our Real Estate segment. Net income from Investment Management attributable to W. P. Carey decreased primarily due to the cessation of Investment Management revenues and distributions previously earned from CPA:17 – Global ([Note 3](#)), partially offset by tax benefits recognized during the six months ended June 30, 2019 ([Note 13](#)). Net income from Real Estate attributable to W. P. Carey increased primarily due to real estate acquisitions and properties acquired in the CPA:17 Merger ([Note 3](#)). The increase in revenues from such properties was partially offset by corresponding increases in depreciation and amortization, interest expense, and property expenses. We also recognized a lower gain on sale of estate in the current year periods as compared to the prior year periods ([Note 14](#)).

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased for the six months ended June 30, 2019 as compared to the same period in 2018, primarily due to an increase in cash flow generated from properties acquired during 2018 and 2019, including properties acquired in the CPA:17 Merger, partially offset by a decrease in cash flow as a result of property dispositions during 2018 and 2019, as well as an increase in interest expense, primarily due to the assumption of non-recourse mortgage loans in the CPA:17 Merger and the issuance of senior notes in March 2018, October 2018, and June 2019.

AFFO

AFFO increased for the three and six months ended June 30, 2019 as compared to the same periods in 2018, primarily due to higher lease revenues and operating property revenues, partially offset by higher interest expense and lower Investment Management revenues and cash distributions as a result of the CPA:17 Merger.

Portfolio Overview

Our portfolio is comprised of operationally-critical, commercial real estate assets net leased to tenants located primarily in the United States and Northern and Western Europe. We invest in high-quality single tenant industrial, warehouse, office, retail, and self-storage properties subject to long-term net leases with built-in rent escalators. Portfolio information is provided on a pro rata basis, unless otherwise noted below, to better illustrate the economic impact of our various net-leased jointly owned investments. See Terms and Definitions below for a description of pro rata amounts.

Portfolio Summary

	June 30, 2019	December 31, 2018
Number of net-leased properties	1,198	1,163
Number of operating properties ^(a)	26	48
Number of tenants (net-leased properties)	320	304
Total square footage (net-leased properties, in thousands)	136,579	130,956
Occupancy (net-leased properties)	98.2%	98.3%
Weighted-average lease term (net-leased properties, in years)	10.4	10.2
Number of countries	25	25
Total assets (in thousands)	\$ 14,192,007	\$ 14,183,039
Net investments in real estate (in thousands)	12,090,558	11,928,854

	Six Months Ended June 30,	
	2019	2018
Acquisition volume (in millions)	\$ 308.0	\$ 357.3
Construction projects completed (in millions)	79.4	38.2
Average U.S. dollar/euro exchange rate	1.1297	1.2108
Average U.S. dollar/British pound sterling exchange rate	1.2931	1.3764
Change in the U.S. CPI ^(b)	1.9%	2.2%
Change in the Germany CPI ^(b)	1.4%	0.6%
Change in the Poland CPI ^(b)	2.1%	0.8%
Change in the Netherlands CPI ^(b)	1.8%	1.1%
Change in the Spain CPI ^(b)	0.4%	1.2%

- (a) At June 30, 2019, operating properties consisted of 24 self-storage properties (of which we consolidated 15, with an average occupancy of 92.1% as of June 30, 2019) and two hotel properties, with an average occupancy of 80.9% for the six months ended June 30, 2019. At December 31, 2018, operating properties consisted of 46 self-storage properties (of which we consolidated 37) and two hotel properties. During the six months ended June 30, 2019, we reclassified 22 consolidated self-storage properties from Land, buildings and improvements attributable to operating properties to Land, buildings and improvements subject to operating leases ([Note 4](#)).
- (b) Many of our lease agreements include contractual increases indexed to changes in the U.S. CPI or similar indices in the jurisdictions in which the properties are located.

Net-Leased Portfolio

The tables below represent information about our net-leased portfolio at June 30, 2019 on a pro rata basis and, accordingly, exclude all operating properties. See Terms and Definitions below for a description of pro rata amounts and ABR.

Top Ten Tenants by ABR (dollars in thousands)

Tenant/Lease Guarantor	Description	Number of Properties	ABR	ABR Percent	Weighted-Average Lease Term (Years)
U-Haul Moving Partners Inc. and Mercury Partners, LP	Net lease self-storage properties in the U.S.	78	\$ 36,008	3.2%	4.8
Hellweg Die Profi-Baumärkte GmbH & Co. KG ^(a)	Do-it-yourself retail properties in Germany	44	35,895	3.2%	17.7
State of Andalusia ^(a)	Government office properties in Spain	70	28,762	2.6%	15.5
The New York Times Company ^(b)	Media headquarters in New York City	1	27,967	2.5%	4.8
Metro Cash & Carry Italia S.p.A. ^(a)	Business-to-business wholesale stores in Italy and Germany	20	27,468	2.5%	7.8
Pendragon PLC ^(a)	Automotive dealerships in the United Kingdom	70	21,460	1.9%	10.8
Marriott Corporation	Net lease hotel properties in the U.S.	18	20,065	1.8%	4.4
Nord Anglia Education, Inc.	K-12 private schools in the U.S.	3	18,734	1.7%	24.2
Forterra, Inc. ^{(a)(c)}	Industrial properties in the U.S. and Canada	27	18,387	1.7%	24.0
Advance Auto Parts, Inc.	Distribution facilities in the U.S.	30	18,345	1.6%	13.6
Total		361	\$ 253,091	22.7%	12.1

- (a) ABR amounts are subject to fluctuations in foreign currency exchange rates.
- (b) As of June 30, 2019, the tenant exercised its option to repurchase the property it is leasing in the fourth quarter of 2019. There can be no assurance that such repurchase will be completed ([Note 5](#)).
- (c) Of the 27 properties leased to Forterra, Inc., 25 are located in the United States and two are located in Canada.

Portfolio Diversification by Geography
(in thousands, except percentages)

Region	ABR	ABR Percent	Square Footage ^(a)	Square Footage Percent
United States				
South				
Texas	\$ 94,822	8.5%	10,948	8.0%
Florida	45,660	4.1%	4,060	3.0%
Georgia	28,430	2.5%	4,024	2.9%
Tennessee	16,174	1.4%	2,445	1.8%
Alabama	13,989	1.3%	2,259	1.7%
Other ^(b)	12,334	1.1%	2,252	1.6%
Total South	211,409	18.9%	25,988	19.0%
East				
New York	34,920	3.1%	1,770	1.3%
North Carolina	32,253	2.9%	7,023	5.2%
Massachusetts	20,970	1.9%	1,397	1.0%
Pennsylvania	20,701	1.9%	3,054	2.2%
New Jersey	19,174	1.7%	1,100	0.8%
South Carolina	15,125	1.4%	4,158	3.1%
Virginia	13,250	1.2%	1,430	1.0%
Other ^(b)	33,326	3.0%	6,594	4.8%
Total East	189,719	17.1%	26,526	19.4%
Midwest				
Illinois	50,078	4.5%	5,931	4.3%
Minnesota	25,584	2.3%	2,451	1.8%
Indiana	17,836	1.6%	2,827	2.1%
Ohio	14,179	1.3%	3,102	2.3%
Wisconsin	13,409	1.2%	3,125	2.3%
Michigan	13,119	1.2%	2,073	1.5%
Other ^(b)	26,396	2.3%	4,806	3.5%
Total Midwest	160,601	14.4%	24,315	17.8%
West				
California	60,021	5.4%	5,162	3.8%
Arizona	36,895	3.3%	3,652	2.7%
Colorado	11,190	1.0%	1,008	0.7%
Other ^(b)	43,827	3.9%	4,210	3.1%
Total West	151,933	13.6%	14,032	10.3%
United States Total	713,662	64.0%	90,861	66.5%
International				
Germany	65,246	5.9%	6,970	5.1%
Poland	51,418	4.6%	7,093	5.2%
The Netherlands	49,647	4.4%	6,659	4.9%
Spain	49,580	4.4%	4,226	3.1%
United Kingdom	38,383	3.5%	2,924	2.2%
Italy	25,841	2.3%	2,386	1.7%
Croatia	16,525	1.5%	1,860	1.4%
France	15,963	1.4%	1,429	1.0%
Denmark	12,246	1.1%	1,987	1.5%
Finland	11,484	1.0%	949	0.7%
Canada	11,434	1.0%	1,817	1.3%
Other ^(c)	54,392	4.9%	7,418	5.4%
International Total	402,159	36.0%	45,718	33.5%
Total	\$ 1,115,821	100.0%	136,579	100.0%

Portfolio Diversification by Property Type
(in thousands, except percentages)

Property Type	ABR	ABR Percent	Square Footage ^(a)	Square Footage Percent
Office	\$ 277,870	24.9%	17,376	12.7%
Industrial	261,157	23.4%	45,771	33.5%
Warehouse	229,030	20.5%	43,571	31.9%
Retail ^(d)	195,939	17.6%	18,669	13.7%
Self Storage (net lease)	49,627	4.4%	5,476	4.0%
Other ^(e)	102,198	9.2%	5,716	4.2%
Total	\$ 1,115,821	100.0%	136,579	100.0%

(a) Includes square footage for any vacant properties.

(b) Other properties within South include assets in Louisiana, Oklahoma, Arkansas, and Mississippi. Other properties within East include assets in Kentucky, Maryland, Connecticut, West Virginia, New Hampshire, and Maine. Other properties within Midwest include assets in Missouri, Kansas, Nebraska, Iowa, North Dakota, and South Dakota. Other properties within West include assets in Utah, Nevada, Oregon, Washington, Hawaii, New Mexico, Wyoming, Montana, and Alaska.

(c) Includes assets in Lithuania, Norway, Hungary, Mexico, Austria, Portugal, Japan, the Czech Republic, Slovakia, Latvia, Sweden, Belgium, and Estonia.

(d) Includes automotive dealerships.

(e) Includes ABR from tenants within the following property types: education facility, hotel (net lease), fitness facility, laboratory, theater, and student housing (net lease).

Portfolio Diversification by Tenant Industry
(in thousands, except percentages)

Industry Type	ABR	ABR Percent	Square Footage	Square Footage Percent
Retail Stores ^(a)	\$ 226,504	20.3%	30,004	22.0%
Consumer Services	105,430	9.4%	8,165	6.0%
Automotive	69,435	6.2%	11,822	8.7%
Cargo Transportation	60,557	5.4%	9,650	7.1%
Grocery	57,600	5.2%	6,628	4.9%
Business Services	57,500	5.2%	5,076	3.7%
Healthcare and Pharmaceuticals	49,112	4.4%	3,923	2.9%
Hotel, Gaming, and Leisure	43,554	3.9%	2,423	1.8%
Media: Advertising, Printing, and Publishing	42,673	3.8%	2,147	1.6%
Sovereign and Public Finance	41,709	3.7%	3,364	2.4%
Construction and Building	41,604	3.7%	7,673	5.6%
Capital Equipment	39,206	3.5%	6,550	4.8%
Beverage, Food, and Tobacco	37,122	3.3%	4,844	3.5%
Containers, Packaging, and Glass	36,227	3.2%	6,527	4.8%
High Tech Industries	27,444	2.5%	2,921	2.1%
Insurance	24,658	2.2%	1,759	1.3%
Banking	19,269	1.7%	1,247	0.9%
Telecommunications	18,915	1.7%	1,736	1.3%
Durable Consumer Goods	18,511	1.7%	4,265	3.1%
Non-Durable Consumer Goods	18,328	1.7%	5,032	3.7%
Aerospace and Defense	13,397	1.2%	1,279	0.9%
Media: Broadcasting and Subscription	12,857	1.2%	784	0.6%
Wholesale	12,846	1.2%	2,005	1.4%
Chemicals, Plastics, and Rubber	11,909	1.1%	1,403	1.0%
Other ^(b)	29,454	2.6%	5,352	3.9%
Total	\$ 1,115,821	100.0%	136,579	100.0%

(a) Includes automotive dealerships.

(b) Includes ABR from tenants in the following industries: metals and mining, oil and gas, environmental industries, electricity, consumer transportation, forest products and paper, real estate, and finance. Also includes square footage for vacant properties.

Lease Expirations
(in thousands, except percentages and number of leases)

Year of Lease Expiration ^(a)	Number of Leases Expiring	Number of Tenants with Leases Expiring	ABR	ABR Percent	Square Footage	Square Footage Percent
Remaining 2019	13	11	\$ 7,014	0.6%	755	0.6%
2020	26	24	21,733	1.9%	2,189	1.6%
2021	79	23	36,659	3.3%	4,776	3.5%
2022	43	34	63,126	5.7%	6,879	5.0%
2023	30	28	49,876	4.5%	6,351	4.6%
2024 ^(b)	59	37	135,270	12.1%	14,593	10.7%
2025	58	26	55,816	5.0%	7,129	5.2%
2026	31	19	53,807	4.8%	7,309	5.4%
2027	46	28	72,333	6.5%	8,494	6.2%
2028	44	26	66,573	6.0%	6,795	5.0%
2029	29	17	34,165	3.1%	4,419	3.2%
2030	28	22	73,525	6.6%	6,776	5.0%
2031	62	12	59,180	5.3%	6,229	4.6%
2032	37	16	48,308	4.3%	7,408	5.4%
Thereafter (>2032)	160	73	338,436	30.3%	44,014	32.2%
Vacant	—	—	—	—%	2,463	1.8%
Total	745		\$ 1,115,821	100.0%	136,579	100.0%

(a) Assumes tenants do not exercise any renewal options or purchase options.

(b) Includes ABR of \$28.0 million from a tenant (The New York Times Company) that as of June 30, 2019 exercised its option to repurchase the property it is leasing in the fourth quarter of 2019. There can be no assurance that such repurchase will be completed ([Note 5](#)).

Terms and Definitions

Pro Rata Metrics — The portfolio information above contains certain metrics prepared under the pro rata consolidation method. We refer to these metrics as pro rata metrics. We have a number of investments, usually with our affiliates, in which our economic ownership is less than 100%. Under the full consolidation method, we report 100% of the assets, liabilities, revenues, and expenses of those investments that are deemed to be under our control or for which we are deemed to be the primary beneficiary, even if our ownership is less than 100%. Also, for all other jointly owned investments, which we do not control, we report our net investment and our net income or loss from that investment. Under the pro rata consolidation method, we present our proportionate share, based on our economic ownership of these jointly owned investments, of the portfolio metrics of those investments. Multiplying each of our jointly owned investments' financial statement line items by our percentage ownership and adding or subtracting those amounts from our totals, as applicable, may not accurately depict the legal and economic implications of holding an ownership interest of less than 100% in our jointly owned investments.

ABR — ABR represents contractual minimum annualized base rent for our net-leased properties, net of receivable reserves as determined by GAAP, and reflects exchange rates as of June 30, 2019. If there is a rent abatement, we annualize the first monthly contractual base rent following the free rent period. ABR is not applicable to operating properties.

Results of Operations

We operate in two reportable segments: Real Estate and Investment Management. We evaluate our results of operations with a primary focus on increasing and enhancing the value, quality, and number of properties in our Real Estate segment. We focus our efforts on accretive investing and improving portfolio quality through re-leasing efforts, including negotiation of lease renewals, or selectively selling assets in order to increase value in our real estate portfolio. Through our Investment Management segment, we expect to continue to earn fees and other income from the management of the portfolios of the remaining Managed Programs until those programs reach the end of their respective life cycles.

Real Estate — Property Level Contribution

The following table presents the Property level contribution for our consolidated net-leased and operating properties within our Real Estate segment, as well as a reconciliation to Net income from Real Estate attributable to W. P. Carey (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
Existing Net-Leased Properties						
Lease revenues	\$ 159,326	\$ 157,962	\$ 1,364	\$ 319,522	\$ 317,224	\$ 2,298
Depreciation and amortization	(55,741)	(58,185)	2,444	(111,809)	(117,392)	5,583
Reimbursable tenant costs	(6,050)	(5,617)	(433)	(12,170)	(11,314)	(856)
Property expenses	(4,712)	(4,837)	125	(9,042)	(8,423)	(619)
Property level contribution	92,823	89,323	3,500	186,501	180,095	6,406
Net-Leased Properties Acquired in the CPA:17 Merger						
Lease revenues	90,160	—	90,160	176,109	—	176,109
Depreciation and amortization	(39,834)	—	(39,834)	(77,726)	—	(77,726)
Reimbursable tenant costs	(7,339)	—	(7,339)	(14,016)	—	(14,016)
Property expenses	(4,493)	—	(4,493)	(9,191)	—	(9,191)
Property level contribution	38,494	—	38,494	75,176	—	75,176
Recently Acquired Net-Leased Properties						
Lease revenues	20,314	2,562	17,752	36,946	2,853	34,093
Depreciation and amortization	(8,557)	(900)	(7,657)	(15,661)	(1,021)	(14,640)
Reimbursable tenant costs	(508)	(28)	(480)	(882)	(28)	(854)
Property expenses	(477)	(11)	(466)	(998)	(54)	(944)
Property level contribution	10,772	1,623	9,149	19,405	1,750	17,655
Existing Operating Property						
Operating property revenues	4,083	3,959	124	7,518	7,240	278
Depreciation and amortization	(379)	(424)	45	(758)	(851)	93
Operating property expenses	(3,034)	(2,844)	(190)	(6,030)	(5,575)	(455)
Property level contribution	670	691	(21)	730	814	(84)
Operating Properties Acquired in the CPA:17 Merger						
Operating property revenues	7,658	—	7,658	17,316	—	17,316
Depreciation and amortization	(7,210)	—	(7,210)	(16,250)	—	(16,250)
Operating property expenses	(3,365)	—	(3,365)	(7,057)	—	(7,057)
Property level contribution	(2,917)	—	(2,917)	(5,991)	—	(5,991)
Properties Sold or Held for Sale						
Lease revenues	2	7,843	(7,841)	164	17,722	(17,558)
Operating property revenues	3,695	906	2,789	6,598	4,843	1,755
Depreciation and amortization	(635)	(3,541)	2,906	(1,252)	(8,381)	7,129
Reimbursable tenant costs	(20)	(88)	68	(20)	(610)	590
Property expenses	(233)	(479)	246	(596)	(1,079)	483
Operating property expenses	(4,475)	(737)	(3,738)	(8,381)	(3,676)	(4,705)
Property level contribution	(1,666)	3,904	(5,570)	(3,487)	8,819	(12,306)
Property Level Contribution	138,176	95,541	42,635	272,334	191,478	80,856
Add: Lease termination income and other	6,304	680	5,624	9,574	1,622	7,952
Less other expenses:						
General and administrative	(15,001)	(10,599)	(4,402)	(30,189)	(22,664)	(7,525)
Stock-based compensation expense	(3,482)	(1,990)	(1,492)	(6,282)	(6,296)	14
Merger and other expenses	(696)	(2,692)	1,996	(842)	(2,655)	1,813
Corporate depreciation and amortization	(310)	(324)	14	(623)	(649)	26
Impairment charges	—	—	—	—	(4,790)	4,790
Other Income and Expenses						
Interest expense	(59,719)	(41,311)	(18,408)	(121,032)	(79,385)	(41,647)
Other gains and (losses)	(1,362)	9,630	(10,992)	(392)	6,743	(7,135)
(Loss) gain on sale of real estate, net	(362)	11,912	(12,274)	571	18,644	(18,073)
Equity in earnings of equity method investments in real estate	230	3,529	(3,299)	152	6,887	(6,735)
	(61,213)	(16,240)	(44,973)	(120,701)	(47,111)	(73,590)
Income before income taxes	63,778	64,376	(598)	123,271	108,935	14,336
(Provision for) benefit from income taxes	(3,019)	(1,317)	(1,702)	(9,178)	2,216	(11,394)
Net Income from Real Estate	60,759	63,059	(2,300)	114,093	111,151	2,942
Net loss (income) attributable to noncontrolling interests	9	(3,743)	3,752	83	(6,535)	6,618
Net Income from Real Estate Attributable to W. P. Carey	\$ 60,768	\$ 59,316	\$ 1,452	\$ 114,176	\$ 104,616	\$ 9,560

Also refer to [Note 15](#) for a table presenting the comparative results of our Real Estate segment.

Property level contribution is a non-GAAP measure that we believe to be a useful supplemental measure for management and investors in evaluating and analyzing the financial results of our net-leased and operating properties included in our Real Estate segment over time. Property level contribution presents our lease and operating property revenues, less property expenses, reimbursable tenant costs, and depreciation and amortization. Reimbursable tenant costs (within Real Estate revenues) are now included within Lease revenues in the consolidated statements of income ([Note 2](#)). We believe that Property level contribution allows for meaningful comparison between periods of the direct costs of owning and operating our net-leased assets and operating properties. While we believe that Property level contribution is a useful supplemental measure, it should not be considered as an alternative to Net income from Real Estate attributable to W. P. Carey as an indication of our operating performance.

Existing Net-Leased Properties

Existing net-leased properties are those that we acquired or placed into service prior to January 1, 2018 and that were not sold or held for sale during the periods presented. For the periods presented, there were 796 existing net-leased properties.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, lease revenues from existing net-leased properties increased by \$3.3 million and \$6.6 million, respectively, due to new leases, \$1.8 million and \$3.4 million, respectively, related to scheduled rent increases, and \$1.2 million and \$2.5 million, respectively, related to completed construction projects on existing properties. These increases were partially offset by decreases of \$2.9 million and \$6.8 million, respectively, as a result of the weakening of foreign currencies (primarily the euro) in relation to the U.S. dollar between the periods and \$1.7 million and \$3.2 million, respectively, due to lease expirations and rejections. Depreciation and amortization expense from existing net-leased properties decreased primarily due to accelerated amortization of an in-place lease intangible during the prior year periods in connection with a lease termination, as well as the weakening of foreign currencies (primarily the euro) in relation to the U.S. dollar between the periods.

Net-Leased Properties Acquired in the CPA:17 Merger

Net-leased properties acquired in the CPA:17 Merger on October 31, 2018 ([Note 3](#)) consisted of 271 net-leased properties, as well as one property placed into service during the first quarter of 2019, which was an open build-to-suit project at the time of acquisition in the CPA:17 Merger. The 271 net-leased properties included 22 self-storage properties acquired in the CPA:17 Merger, which were reclassified from operating properties to net-leased properties effective June 2019, as a result of entering into net-lease agreements during the second quarter of 2019 ([Note 4](#)).

Recently Acquired Net-Leased Properties

Recently acquired net-leased properties are those that we acquired or placed into service subsequent to December 31, 2017, excluding properties acquired in the CPA:17 Merger, and that were not sold or held for sale during the periods presented. Since January 1, 2018, we acquired 24 investments comprised of 92 properties, four of which we acquired during the first quarter of 2018, 16 of which we acquired during the second quarter of 2018, 39 of which we acquired during the third quarter of 2018, 16 of which we acquired during the fourth quarter of 2018, five of which we acquired during the first quarter of 2019, and 12 of which we acquired during the second quarter of 2019. We also placed one property into service during the second quarter of 2018 and one property into service during the third quarter of 2018.

Existing Operating Property

We have one hotel operating property with results of operations reflected in all periods presented. In April 2018, we sold another hotel operating property, which is included in *Properties Sold or Held for Sale* below.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, property level contribution from our existing operating property was substantially unchanged.

Operating Properties Acquired in the CPA:17 Merger

Operating properties acquired in the CPA:17 Merger ([Note 3](#)) consisted of 15 self-storage properties (which excludes seven self-storage properties acquired in the CPA:17 Merger accounted for under the equity method). The 15 net-leased properties excluded 22 self-storage properties acquired in the CPA:17 Merger, which were reclassified from operating properties to net-leased properties effective June 2019, as described in *Net-Leased Properties Acquired in the CPA:17 Merger* above. At June 30, 2019, we had one hotel operating property classified as held for sale ([Note 4](#)), which was acquired in the CPA:17 Merger and is included in *Properties Sold or Held for Sale* below.

Properties Sold or Held for Sale

During the three and six months ended June 30, 2019, we disposed of five and six properties, respectively, including the repayment of a loan receivable in June 2019 ([Note 5](#)). At June 30, 2019, we had two properties classified as held for sale ([Note 4](#)), including a hotel operating property that we acquired in the CPA:17 Merger. The other property was sold in July 2019 ([Note 4](#)). During the year ended December 31, 2018, we disposed of 72 properties, including one hotel operating property.

In addition to the impact on property level contribution related to properties we sold or classified as held for sale during the periods presented, we recognized gains (losses) on sale of real estate and a net loss on extinguishment of debt. The impact of these transactions is described in further detail below and in [Note 14](#).

Other Revenues and Expenses

Lease Termination Income and Other

2019 — For the three and six months ended June 30, 2019, lease termination income and other was \$6.3 million and \$9.6 million, respectively, primarily comprised of (i) a value-added tax refund of \$2.2 million related to a lease restructuring recognized in May 2019, (ii) interest income from our loans receivable totaling \$2.1 million and \$3.8 million, respectively, (iii) income substantially from a parking garage attached to one of our net-leased properties totaling \$0.8 million and \$1.6 million, respectively, and (iv) income of \$0.8 million and \$1.4 million, respectively, from receipt of rent claims from former tenants that were previously deemed uncollectible.

2018 — For the three and six months ended June 30, 2018, lease termination income and other was \$0.7 million and \$1.6 million, respectively, primarily comprised of income recognized during both the first and second quarters of 2018 related to a lease termination that occurred during the fourth quarter of 2017.

General and Administrative

General and administrative expenses recorded by our Real Estate segment are allocated based on time incurred by our personnel for the Real Estate and Investment Management segments.

As discussed in [Note 3](#), certain personnel costs and overhead costs are charged to CPA:18 – Global based on the trailing 12-month reported revenues of the Managed Programs and us. We allocate certain personnel and overhead costs to the CWI REITs and CESH based on the time incurred by our personnel.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, general and administrative expenses in our Real Estate segment increased by \$4.4 million and \$7.5 million, respectively, primarily due to an increase in time spent by management and personnel on Real Estate segment activities.

Stock-based Compensation Expense

For the three months ended June 30, 2019 as compared to the same period in 2018, stock-based compensation expense allocated to our Real Estate segment increased by \$1.5 million, primarily due to an increase in time spent by management and personnel on Real Estate segment activities.

Merger and Other Expenses

For both the three and six months ended June 30, 2019 and 2018, merger and other expenses were primarily comprised of costs incurred in connection with the CPA:17 Merger ([Note 3](#)).

Impairment Charges

Our impairment charges are more fully described in [Note 8](#).

We did not recognize any impairment charges during the three or six months ended June 30, 2019.

During the six months ended June 30, 2018, we recognized impairment charges totaling \$4.8 million on two properties in order to reduce the carrying values of the properties to their estimated fair values. We recognized an impairment charge of \$3.8 million on one of those properties due to a tenant bankruptcy and the resulting vacancy. We recognized an impairment charge of \$1.0 million on the other property due to a lease expiration and resulting vacancy.

Interest Expense

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, interest expense increased by \$18.4 million and \$41.6 million, respectively, primarily due to \$17.4 million and \$37.2 million, respectively, of interest expense incurred during the current year periods related to non-recourse mortgage loans assumed in the CPA:17 Merger ([Note 3](#)). In addition, interest expense increased due to the issuance of the €500.0 million of 2.125% Senior Notes due 2027 on March 6, 2018, the €500.0 million of 2.250% Senior Notes due 2026 on October 9, 2018, and the \$325.0 million of 3.850% Senior Notes due 2029 on June 14, 2019 ([Note 10](#)). Our average outstanding debt balance was \$6.2 billion and \$4.4 billion for the three months ended June 30, 2019 and 2018, respectively, and \$6.3 billion and \$4.4 billion for the six months ended June 30, 2019 and 2018, respectively. Our weighted-average interest rate was 3.5% for all of the three months ended June 30, 2019 and 2018, and the six months ended June 30, 2019 and 2018.

Other Gains and (Losses)

Other gains and (losses) primarily consists of gains and losses on foreign currency transactions, derivative instruments, and extinguishment of debt. For the three and six months ended June 30, 2018, gains and losses on foreign currency transactions were recognized on the remeasurement of certain of our euro-denominated unsecured debt instruments that were not designated as net investment hedges; such instruments were all designated as net investment hedges during the three and six months ended June 30, 2019 ([Note 9](#)). We also make certain foreign currency-denominated intercompany loans to a number of our foreign subsidiaries, most of which do not have the U.S. dollar as their functional currency. Remeasurement of foreign currency intercompany transactions that are scheduled for settlement, consisting primarily of accrued interest and short-term loans, are included in the determination of net income. In addition, we have certain derivative instruments, including common stock warrants and foreign currency forward and collar contracts, that are not designated as hedges for accounting purposes, for which realized and unrealized gains and losses are included in earnings. We also recognize unrealized gains and losses on movements in the fair value of certain investments within Other gains and (losses). The timing and amount of such gains or losses cannot always be estimated and are subject to fluctuation.

2019 — For the three months ended June 30, 2019, net other losses were \$1.4 million. During the period, we recognized unrealized losses of \$3.3 million related to a decrease in the fair value of our investment in shares of a cold storage operator ([Note 8](#)) and a net loss on extinguishment of debt totaling \$3.0 million related to the prepayment of mortgage loans during the period (primarily comprised of prepayment penalties) ([Note 10](#)). These losses were partially offset by realized gains of \$3.5 million related to the settlement of foreign currency forward contracts and foreign currency collars and interest income of \$1.0 million related to our loans to affiliates and deposits with banks.

For the six months ended June 30, 2019, net other losses were \$0.4 million. During the period, we recognized a net loss on extinguishment of debt totaling \$4.2 million related to the prepayment of mortgage loans during the period (primarily comprised of prepayment penalties) ([Note 10](#)) and unrealized losses of \$3.3 million related to a decrease in the fair value of our investment in shares of a cold storage operator ([Note 8](#)). These losses were partially offset by realized gains of \$7.4 million related to the settlement of foreign currency forward contracts and foreign currency collars.

2018 — For the three months ended June 30, 2018, net other gains were \$9.6 million. During the period, we recognized net realized and unrealized gains of \$8.2 million on foreign currency transactions as a result of changes in foreign currency exchange rates and realized gains of \$2.3 million related to foreign currency forward contracts and foreign currency collars.

For the six months ended June 30, 2018, net other gains were \$6.7 million. During the period, we recognized net realized and unrealized gains of \$5.0 million on foreign currency transactions as a result of changes in foreign currency exchange rates and realized gains of \$3.9 million related to foreign currency forward contracts and foreign currency collars. These gains were partially offset by a non-cash net loss on extinguishment of debt totaling \$1.6 million primarily related to the repayment of our Unsecured Term Loans.

(Loss) Gain on Sale of Real Estate, Net

(Loss) gain on sale of real estate, net, consists of loss/gain on the sale of properties, net of tax that were disposed of during the three and six months ended June 30, 2019 and 2018. Our dispositions are more fully described in [Note 14](#).

2019 — During the three and six months ended June 30, 2019, we sold four and five properties, respectively, for proceeds of \$7.7 million and \$12.6 million, respectively, net of selling costs, and recognized a net (loss) gain on these sales totaling \$(0.3) million and \$0.7 million, respectively. In addition, in June 2019, a loan receivable was repaid in full to us for \$9.3 million, which resulted in a net loss of \$(0.1) million ([Note 5](#)).

2018 — During the three and six months ended June 30, 2018, we sold two and seven properties, respectively, for total proceeds of \$42.0 million and \$77.7 million, respectively, net of selling costs, and recognized a net gain on these sales totaling \$5.6 million and \$12.3 million, respectively (inclusive of income taxes totaling \$1.2 million for both periods recognized upon sale). In addition, in June 2018, we completed a nonmonetary transaction, in which we disposed of 23 properties in exchange for the acquisition of one property leased to the same tenant. This swap was recorded based on the fair value of the property acquired of \$85.5 million, which resulted in a net gain of \$6.3 million.

Equity in Earnings of Equity Method Investments in Real Estate

In connection with the CPA:17 Merger ([Note 3](#)), we acquired the remaining interests in six investments, in which we already had a joint interest and accounted for under the equity method, and equity interests in seven unconsolidated investments ([Note 7](#)). In November 2018, we acquired an equity interest in two self-storage properties ([Note 7](#)); this acquisition was related to a jointly owned investment in seven self-storage properties that we acquired in the CPA:17 Merger. In February 2019, we received a full repayment of our preferred equity interest in an investment, which is now retired ([Note 7](#)). The following table presents the details of our Equity in earnings of equity method investments in real estate (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Equity in earnings of equity method investments in real estate:				
Equity investments acquired in the CPA:17 Merger	\$ 350	\$ —	\$ 213	\$ —
Recently acquired equity investment	(120)	—	(321)	—
Equity investments consolidated after the CPA:17 Merger	—	3,210	—	6,249
Retired equity investment	—	319	260	638
Equity in earnings of equity method investments in real estate	<u>\$ 230</u>	<u>\$ 3,529</u>	<u>\$ 152</u>	<u>\$ 6,887</u>

(Provision for) Benefit from Income Taxes

For the three and six months ended June 30, 2019, we recorded a provision for income taxes of \$3.0 million and \$9.2 million, respectively, compared to a provision for income taxes of \$1.3 million and a benefit from income taxes of \$2.2 million recognized during the three and six months ended June 30, 2018, respectively, within our Real Estate segment. For the three and six months ended June 30, 2019, we recognized a provision for income taxes totaling \$2.0 million and \$4.6 million, respectively, related to properties acquired in the CPA:17 Merger on October 31, 2018 ([Note 3](#)). In addition, during the six months ended June 30, 2018, we recognized a deferred tax benefit of approximately \$6.2 million as a result of the release of a deferred tax liability relating to a property holding company that was no longer required due to a change in tax classification.

Net Loss (Income) Attributable to Noncontrolling Interests

For both the three and six months ended June 30, 2019, we recorded loss attributable to noncontrolling interests of less than \$0.1 million, compared to income attributable to noncontrolling interests of \$3.7 million and \$6.5 million for the three and six months ended June 30, 2018, respectively. During the prior year periods, we consolidated seven less-than-wholly-owned investments, for which the remaining interest was owned by CPA:17 – Global or a third party. Following the CPA:17 Merger on October 31, 2018 ([Note 3](#)), we consolidate two less-than-wholly-owned investments (for which the remaining interest was owned by a third party), resulting in a decrease in amounts attributable to noncontrolling interests during the current year periods as compared to the prior year periods.

Investment Management

We earn revenue as the advisor to the Managed Programs. For the periods presented, we acted as advisor to the following Managed Programs: CPA:17 – Global (through October 31, 2018), CPA:18 – Global, CWI 1, CWI 2, and CESH. Upon completion of the CPA:17 Merger on October 31, 2018 ([Note 3](#)), the advisory agreements with CPA:17 – Global were terminated and we ceased earning revenue from CPA:17 – Global. We no longer raise capital for new or existing funds, but we currently expect to continue to manage all existing Managed Programs and earn the various fees described below through the end of their respective life cycles ([Note 1](#), [Note 3](#)). As of June 30, 2019, we managed total assets of approximately \$7.6 billion on behalf of the remaining Managed Programs.

Below is a summary of comparative results of our Investment Management segment (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
Revenues						
Asset management revenue	\$ 9,790	\$ 17,268	\$ (7,478)	\$ 19,522	\$ 34,253	\$ (14,731)
Reimbursable costs from affiliates	3,821	5,537	(1,716)	7,689	10,841	(3,152)
Structuring and other advisory revenue	58	4,426	(4,368)	2,576	6,355	(3,779)
	<u>13,669</u>	<u>27,231</u>	<u>(13,562)</u>	<u>29,787</u>	<u>51,449</u>	<u>(21,662)</u>
Operating Expenses						
General and administrative	4,728	5,843	(1,115)	10,825	12,361	(1,536)
Reimbursable costs from affiliates	3,821	5,537	(1,716)	7,689	10,841	(3,152)
Subadvisor fees	1,650	1,855	(205)	3,852	3,887	(35)
Stock-based compensation expense	1,454	1,708	(254)	2,819	5,621	(2,802)
Depreciation and amortization	966	963	3	1,932	2,000	(68)
	<u>12,619</u>	<u>15,906</u>	<u>(3,287)</u>	<u>27,117</u>	<u>34,710</u>	<u>(7,593)</u>
Other Income and Expenses						
Equity in earnings of equity method investments in the Managed Programs	3,721	9,029	(5,308)	9,290	20,996	(11,706)
Other gains and (losses)	691	956	(265)	676	1,080	(404)
	<u>4,412</u>	<u>9,985</u>	<u>(5,573)</u>	<u>9,966</u>	<u>22,076</u>	<u>(12,110)</u>
Income before income taxes	5,462	21,310	(15,848)	12,636	38,815	(26,179)
(Provision for) benefit from income taxes	(100)	(4,945)	4,845	8,188	(2,476)	10,664
Net Income from Investment Management	<u>5,362</u>	<u>16,365</u>	<u>(11,003)</u>	<u>20,824</u>	<u>36,339</u>	<u>(15,515)</u>
Net income attributable to noncontrolling interests	(92)	—	(92)	(468)	—	(468)
Net Income from Investment Management Attributable to W. P. Carey	<u>\$ 5,270</u>	<u>\$ 16,365</u>	<u>\$ (11,095)</u>	<u>\$ 20,356</u>	<u>\$ 36,339</u>	<u>\$ (15,983)</u>

Asset Management Revenue

During the periods presented, we earned asset management revenue from (i) CPA:17 – Global (prior to the CPA:17 Merger) and CPA:18 – Global based on the value of their real estate-related assets under management, (ii) the CWI REITs based on the value of their lodging-related assets under management, and (iii) CESH based on its gross assets under management at fair value. Asset management revenue may increase or decrease depending upon changes in the Managed Programs' asset bases as a result of purchases, sales, or changes in the appraised value of the real estate-related and lodging-related assets in their investment portfolios. For 2019, (i) we receive asset management fees from CPA:18 – Global 50% in cash and 50% in shares of its common stock, (ii) we receive asset management fees from the CWI REITs in shares of their common stock, and (iii) we receive asset management fees from CESH in cash. As a result of the CPA:17 Merger ([Note 3](#)), we no longer receive asset management revenue from CPA:17 – Global.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, asset management revenue decreased by \$7.5 million and \$14.7 million, respectively, primarily due to decreases in asset management revenue of \$7.5 million and \$15.0 million, respectively, as a result of the cessation of asset management revenue earned from CPA:17 – Global after the CPA:17 Merger on October 31, 2018 ([Note 3](#)).

Reimbursable Costs from Affiliates

Reimbursable costs from affiliates represent costs incurred by us on behalf of the Managed Programs. Following the CPA:17 Merger ([Note 3](#)), we no longer receive reimbursement of certain personnel costs and overhead costs from CPA:17 – Global, which totaled \$1.8 million and \$3.6 million for the three and six months ended June 30, 2018, respectively.

Structuring and Other Advisory Revenue

We earn structuring revenue when we structure investments and debt placement transactions for the Managed Programs. Structuring revenue is dependent on investment activity, which is subject to significant period-to-period variation, and is expected to continue to decline on an annual basis in future periods because the Managed Programs are fully invested, we no longer raise capital for new or existing funds, and as a result of the CPA:17 Merger. Going forward, investment activity for the Managed Programs will be generally limited to capital recycling. In addition, we may earn disposition revenue when we complete dispositions for the Managed Programs.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, structuring and other advisory revenue decreased by \$4.4 million and \$3.8 million, respectively. Structuring and other advisory revenue from CPA:18 – Global decreased by \$4.2 million and \$3.1 million, respectively, while structuring and other advisory revenue from CWI 1 decreased by \$0.3 million and \$0.8 million, respectively.

General and Administrative

General and administrative expenses recorded by our Investment Management segment are allocated based on time incurred by our personnel for the Real Estate and Investment Management segments. As discussed in [Note 3](#), certain personnel costs and overhead costs are charged to CPA:18 – Global based on the trailing 12-month reported revenues of the Managed Programs and us. We allocate certain personnel and overhead costs to the CWI REITs and CESH based on the time incurred by our personnel.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, general and administrative expenses in our Investment Management segment decreased by \$1.1 million and \$1.5 million, respectively, primarily due to a decrease in time spent by management and personnel on Investment Management segment activities.

Subadvisor Fees

Pursuant to the terms of the subadvisory agreements we have with the third-party subadvisors in connection with both CWI 1 and CWI 2, we pay a subadvisory fee equal to 20% of the amount of fees paid to us by CWI 1 and 25% of the amount of fees paid to us by CWI 2, including but not limited to: acquisition fees, asset management fees, loan refinancing fees, property management fees, and subordinated disposition fees, each as defined in the advisory agreements we have with each of CWI 1 and CWI 2. We also pay to each subadvisor 20% and 25% of the net proceeds resulting from any sale, financing, or recapitalization or sale of securities of CWI 1 and CWI 2, respectively, by us, the advisor. In addition, in connection with the multi-family properties acquired on behalf of CPA:18 – Global, we entered into agreements with third-party advisors for the day-to-day management of the properties, for which we paid 100% of asset management fees paid to us by CPA:18 – Global, as well as disposition fees. In 2018, CPA:18 – Global sold five of its six multi-family properties and in January 2019 CPA:18 – Global sold its remaining multi-family property. We also terminated the related subadvisory agreements, so subadvisor fees related to CPA:18 – Global have ceased.

For the three and six months ended June 30, 2019 as compared to the same periods in 2018, subadvisor fees were substantially unchanged.

Stock-based Compensation Expense

For the six months ended June 30, 2019 as compared to the same period in 2018, stock-based compensation expense allocated to our Investment Management segment decreased by \$2.8 million, primarily due to the modification of RSUs and PSUs in connection with the retirement of our former chief executive officer in February 2018 (Note 12), as well as a decrease in time spent by management and personnel on Investment Management segment activities.

Equity in Earnings of Equity Method Investments in the Managed Programs

Equity in earnings of equity method investments in the Managed Programs is recognized in accordance with GAAP (Note 7). In addition, we are entitled to receive distributions of Available Cash (Note 3) from the operating partnerships of each of the Managed REITs. The net income of our unconsolidated investments fluctuates based on the timing of transactions, such as new leases and property sales, as well as the level of impairment charges. The following table presents the details of our Equity in earnings of equity method investments in the Managed Programs (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Equity in earnings of equity method investments in the Managed Programs:				
Equity in (losses) earnings of equity method investments in the Managed Programs ^(a)	\$ (44)	\$ 253	\$ (160)	\$ 1,718
Distributions of Available Cash: ^(b)				
CPA:17 – Global ^(c)	—	5,185	—	11,355
CPA:18 – Global	2,105	2,830	3,953	4,735
CWI 1	469	—	2,368	972
CWI 2	1,191	761	3,129	2,216
Equity in earnings of equity method investments in the Managed Programs	<u>\$ 3,721</u>	<u>\$ 9,029</u>	<u>\$ 9,290</u>	<u>\$ 20,996</u>

- (a) Decreases for the three and six months ended June 30, 2019 as compared to the same periods in 2018 were primarily due to decreases of \$0.6 million and \$1.7 million, respectively, as a result of the completion of the CPA:17 Merger on October 31, 2018 (Note 3). We no longer recognize equity income from our investment in shares of common stock of CPA:17 – Global.
- (b) We are entitled to receive distributions of up to 10% of the Available Cash from the operating partnerships of each of the Managed REITs, as defined in their respective operating partnership agreements (Note 3). We are required to pay 20% and 25% of such distributions to the subadvisors of CWI 1 and CWI 2, respectively. Distributions of Available Cash received and earned from the Managed REITs fluctuate based on the timing of certain events, including acquisitions and dispositions.
- (c) As a result of the completion of the CPA:17 Merger on October 31, 2018 (Note 3), we no longer receive distributions of Available Cash from CPA:17 – Global.

(Provision for) Benefit from Income Taxes

For the three and six months ended June 30, 2019, we recognized a provision for income taxes of \$0.1 million and a benefit from income taxes of \$8.2 million, respectively, as compared to provision for income taxes of \$4.9 million and \$2.5 million for the three and six months ended June 30, 2018, respectively, within our Investment Management segment, primarily as a result of lower pre-tax income within that segment. In addition, during the six months ended June 30, 2019, we recognized a current tax benefit of approximately \$6.3 million due to a change in tax position for state and local taxes.

Liquidity and Capital Resources

Sources and Uses of Cash During the Period

We use the cash flow generated from our investments primarily to meet our operating expenses, service debt, and fund dividends to stockholders. Our cash flows fluctuate periodically due to a number of factors, which may include, among other things: the timing of our equity and debt offerings; the timing of purchases and sales of real estate; the timing of the repayment of mortgage loans and receipt of lease revenues; the timing and amount of other lease-related payments; the receipt of the

annual installment of deferred acquisition revenue from CPA:18 – Global; the receipt of the asset management fees in either shares of the common stock or limited partnership units of the Managed Programs or cash; the timing of distributions from equity investments in the Managed Programs and real estate; the receipt of distributions of Available Cash from the Managed REITs; the timing of settlement of foreign currency transactions; and changes in foreign currency exchange rates. We no longer receive certain fees and distributions from CPA:17 – Global following the completion of the CPA:17 Merger on October 31, 2018 ([Note 3](#)). Despite these fluctuations, we believe that we will generate sufficient cash from operations to meet our normal recurring short-term and long-term liquidity needs. We may also use existing cash resources, available capacity under our Senior Unsecured Credit Facility, proceeds from dispositions of properties, net contributions from noncontrolling interests, and the issuance of additional debt or equity securities, such as sales of our stock through our ATM Program, in order to meet these needs. We assess our ability to access capital on an ongoing basis. Our sources and uses of cash during the period are described below.

Operating Activities — Net cash provided by operating activities increased by \$99.2 million during the six months ended June 30, 2019 as compared to the same period in 2018, primarily due to an increase in cash flow generated from properties acquired during 2018 and 2019, including properties acquired in the CPA:17 Merger, partially offset by a decrease in cash flow as a result of property dispositions during 2018 and 2019, as well as an increase in interest expense, primarily due to the assumption of non-recourse mortgage loans in the CPA:17 Merger and the issuance of senior notes in March 2018, October 2018, and June 2019.

Investing Activities — Our investing activities are generally comprised of real estate-related transactions (purchases and sales) and capitalized property-related costs.

During the six months ended June 30, 2019, we used \$289.8 million to acquire nine investments ([Note 4](#)). We used \$76.9 million to fund construction projects and other capital expenditures on certain properties within our real estate portfolio. Additionally, we received \$15.0 million in proceeds from the full repayment of a preferred equity interest ([Note 7](#)) and sold five properties for net proceeds of \$12.6 million ([Note 14](#)). We received \$12.2 million in distributions from equity method investments in the Managed Programs and real estate in excess of cumulative equity income and we used \$10.6 million to fund short-term loans to the Managed Programs ([Note 3](#)). We also received \$9.6 million from the repayment of a loan receivable ([Note 5](#)).

Financing Activities — During the six months ended June 30, 2019, gross borrowings under our Senior Unsecured Credit Facility were \$526.8 million and repayments were \$507.4 million ([Note 10](#)). We made prepaid and scheduled non-recourse mortgage loan principal payments of \$493.3 million and \$57.4 million, respectively. We also received \$392.1 million in net proceeds from the issuance of shares under our ATM Program ([Note 12](#)). We paid dividends to stockholders totaling \$347.4 million related to the fourth quarter of 2018 and first quarter of 2019. Additionally, we received \$321.3 million in net proceeds from the issuance of the 3.850% Senior Notes due 2029 in June 2019, which we used primarily to pay down the outstanding balance on our Unsecured Revolving Credit facility at that time ([Note 10](#)). In connection with the issuances of these notes ([Note 10](#)), we incurred financing costs totaling \$2.9 million, of which we paid \$2.3 million during the six months ended June 30, 2019.

Summary of Financing

The table below summarizes our Senior Unsecured Notes, our non-recourse mortgages, and our Senior Unsecured Credit Facility (dollars in thousands):

	June 30, 2019	December 31, 2018
Carrying Value		
Fixed rate:		
Senior Unsecured Notes ^(a)	\$ 3,861,931	\$ 3,554,470
Non-recourse mortgages ^(a)	1,651,176	1,795,460
	<u>5,513,107</u>	<u>5,349,930</u>
Variable rate:		
Unsecured Revolving Credit Facility	111,227	91,563
Non-recourse mortgages ^(a) :		
Amount subject to interest rate swaps and caps	374,133	561,959
Floating interest rate mortgage loans	178,544	375,239
	<u>663,904</u>	<u>1,028,761</u>
	<u>\$ 6,177,011</u>	<u>\$ 6,378,691</u>
Percent of Total Debt		
Fixed rate	89%	84%
Variable rate	11%	16%
	<u>100%</u>	<u>100%</u>
Weighted-Average Interest Rate at End of Period		
Fixed rate	3.7%	3.7%
Variable rate ^(b)	2.6%	3.4%

(a) Aggregate debt balance includes unamortized discount, net, totaling \$38.7 million and \$37.6 million as of June 30, 2019 and December 31, 2018, respectively, and unamortized deferred financing costs totaling \$21.7 million and \$20.5 million as of June 30, 2019 and December 31, 2018, respectively.

(b) The impact of our derivative instruments is reflected in the weighted-average interest rates.

Cash Resources

At June 30, 2019, our cash resources consisted of the following:

- cash and cash equivalents totaling \$202.3 million. Of this amount, \$126.3 million, at then-current exchange rates, was held in foreign subsidiaries, and we could be subject to restrictions or significant costs should we decide to repatriate these amounts;
- our Unsecured Revolving Credit Facility, with available capacity of \$1.4 billion; and
- unleveraged properties that had an aggregate asset carrying value of \$7.3 billion at June 30, 2019, although there can be no assurance that we would be able to obtain financing for these properties.

We have also accessed the capital markets through additional debt and equity offerings, such as the \$325.0 million of 3.850% Senior Notes due 2029 that we issued in June 2019 ([Note 10](#)) and the shares of common stock issued under our ATM Programs. During the three and six months ended June 30, 2019, we issued 1,116,217 and 5,169,840 shares, respectively, of our common stock under our current and former ATM Programs at a weighted-average price of \$80.33 and \$77.06 per share, respectively, for net proceeds of \$88.3 million and \$392.1 million, respectively. As of June 30, 2019, \$159.2 million remained available for issuance under our current ATM Program ([Note 12](#)).

Our cash resources can be used for working capital needs and other commitments and may be used for future investments.

Cash Requirements

During the next 12 months, we expect that our cash requirements will include payments to acquire new investments; funding capital commitments such as construction projects; paying dividends to our stockholders; paying distributions to our affiliates that hold noncontrolling interests in entities we control; making scheduled interest payments on the Senior Unsecured Notes, scheduled principal and balloon payments on our mortgage loan obligations, and prepayments of certain of our mortgage loan obligations; making loans to certain of the Managed Programs ([Note 3](#)); and other normal recurring operating expenses. We expect to fund these cash requirements through cash generated from operations, cash received from dispositions of properties, the use of our cash reserves or unused amounts on our Unsecured Revolving Credit Facility, issuances of shares through our ATM Program, and/or additional equity or debt offerings.

Our liquidity would be adversely affected by unanticipated costs and greater-than-anticipated operating expenses. To the extent that our working capital reserve is insufficient to satisfy our cash requirements, additional funds may be provided from cash from operations to meet our normal recurring short-term and long-term liquidity needs. We may also use existing cash resources, available capacity under our Unsecured Revolving Credit Facility, net contributions from noncontrolling interests, mortgage loan proceeds, and the issuance of additional debt or equity securities, such as through our ATM Program, to meet these needs.

Off-Balance Sheet Arrangements and Contractual Obligations

The table below summarizes our debt, off-balance sheet arrangements, and other contractual obligations (primarily our capital commitments) at June 30, 2019 and the effect that these arrangements and obligations are expected to have on our liquidity and cash flow in the specified future periods (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Unsecured Notes — principal ^{(a) (b)}	\$ 3,901,000	\$ —	\$ —	\$ 1,069,000	\$ 2,832,000
Non-recourse mortgages — principal ^(a)	2,225,092	291,537	841,902	853,944	237,709
Unsecured Revolving Credit Facility — principal ^{(a) (c)}	111,227	—	111,227	—	—
Interest on borrowings ^(d)	1,026,266	218,679	366,592	262,589	178,406
Capital commitments and tenant expansion allowances ^(e)	218,800	122,319	85,463	3,000	8,018
	<u>\$ 7,482,385</u>	<u>\$ 632,535</u>	<u>\$ 1,405,184</u>	<u>\$ 2,188,533</u>	<u>\$ 3,256,133</u>

(a) Excludes unamortized deferred financing costs totaling \$21.7 million, the unamortized discount on the Senior Unsecured Notes of \$18.1 million in aggregate, and the aggregate unamortized fair market value adjustment of \$20.6 million, primarily resulting from the assumption of property-level debt in connection with business combinations, including the CPA:17 Merger ([Note 3](#)).

(b) Our Senior Unsecured Notes are scheduled to mature from 2023 through 2029 ([Note 10](#)).

(c) Our Unsecured Revolving Credit Facility is scheduled to mature on February 22, 2021 unless extended pursuant to its terms.

(d) Interest on unhedged variable-rate debt obligations was calculated using the applicable annual variable interest rates and balances outstanding at June 30, 2019.

(e) Capital commitments include (i) \$173.2 million related to build-to-suit projects, including \$48.0 million related to projects for which the tenant has not exercised the associated construction option, and (ii) \$45.6 million related to unfunded tenant improvements, including certain discretionary commitments.

Amounts in the table above that relate to our foreign operations are based on the exchange rate of the local currencies at June 30, 2019, which consisted primarily of the euro. At June 30, 2019, we had no material capital lease obligations for which we were the lessee, either individually or in the aggregate.

Supplemental Financial Measures

In the real estate industry, analysts and investors employ certain non-GAAP supplemental financial measures in order to facilitate meaningful comparisons between periods and among peer companies. Additionally, in the formulation of our goals and in the evaluation of the effectiveness of our strategies, we use Funds from Operations (“FFO”) and AFFO, which are non-GAAP measures defined by our management. We believe that these measures are useful to investors to consider because they may assist them to better understand and measure the performance of our business over time and against similar companies. A description of FFO and AFFO and reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are provided below.

Adjusted Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”), an industry trade group, has promulgated a non-GAAP measure known as FFO, which we believe to be an appropriate supplemental measure, when used in addition to and in conjunction with results presented in accordance with GAAP, to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental non-GAAP measure. FFO is not equivalent to nor a substitute for net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as restated in December 2018. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property, impairment charges on real estate, gains or losses on changes in control of interests in real estate, and depreciation and amortization from real estate assets; and after adjustments for unconsolidated partnerships and jointly owned investments. Adjustments for unconsolidated partnerships and jointly owned investments are calculated to reflect FFO. Our FFO calculation complies with NAREIT’s policy described above.

We modify the NAREIT computation of FFO to include other adjustments to GAAP net income to adjust for certain non-cash charges such as amortization of real estate-related intangibles, deferred income tax benefits and expenses, straight-line rents, stock-based compensation, non-cash environmental accretion expense, and amortization of deferred financing costs. Our assessment of our operations is focused on long-term sustainability and not on such non-cash items, which may cause short-term fluctuations in net income but have no impact on cash flows. Additionally, we exclude non-core income and expenses such as gains or losses from extinguishment of debt, restructuring and other compensation-related expenses, and merger and acquisition expenses. We also exclude realized and unrealized gains/losses on foreign exchange transactions (other than those realized on the settlement of foreign currency derivatives), which are not considered fundamental attributes of our business plan and do not affect our overall long-term operating performance. We refer to our modified definition of FFO as AFFO. We exclude these items from GAAP net income to arrive at AFFO as they are not the primary drivers in our decision-making process and excluding these items provides investors a view of our portfolio performance over time and makes it more comparable to other REITs which are currently not engaged in acquisitions, mergers, and restructuring which are not part of our normal business operations. AFFO also reflects adjustments for unconsolidated partnerships and jointly owned investments. We use AFFO as one measure of our operating performance when we formulate corporate goals, evaluate the effectiveness of our strategies, and determine executive compensation.

We believe that AFFO is a useful supplemental measure for investors to consider as we believe it will help them to better assess the sustainability of our operating performance without the potentially distorting impact of these short-term fluctuations. However, there are limits on the usefulness of AFFO to investors. For example, impairment charges and unrealized foreign currency losses that we exclude may become actual realized losses upon the ultimate disposition of the properties in the form of lower cash proceeds or other considerations. We use our FFO and AFFO measures as supplemental financial measures of operating performance. We do not use our FFO and AFFO measures as, nor should they be considered to be, alternatives to net income computed under GAAP or as alternatives to net cash provided by operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

Consolidated FFO and AFFO were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income attributable to W. P. Carey	\$ 66,038	\$ 75,681	\$ 134,532	\$ 140,955
Adjustments:				
Depreciation and amortization of real property	112,360	63,073	223,463	127,653
Loss (gain) on sale of real estate, net	362	(11,912)	(571)	(18,644)
Impairment charges	—	—	—	4,790
Proportionate share of adjustments to equity in net income of partially owned entities	4,489	902	8,913	2,154
Proportionate share of adjustments for noncontrolling interests	(31)	(2,729)	(61)	(5,511)
Total adjustments	117,180	49,334	231,744	110,442
FFO (as defined by NAREIT) attributable to W. P. Carey	183,218	125,015	366,276	251,397
Adjustments:				
Above- and below-market rent intangible lease amortization, net	16,450	12,303	32,377	24,105
Straight-line and other rent adjustments	(7,975)	(2,637)	(14,233)	(4,933)
Other (gains) and losses ^(a)	5,724	(6,845)	10,654	(1,556)
Stock-based compensation	4,936	3,698	9,101	11,917
Amortization of deferred financing costs	2,774	1,905	5,498	1,711
Other amortization and non-cash items	1,706	35	2,273	(14)
Tax (benefit) expense — deferred and other ^(b)	(933)	3,028	(5,861)	(9,127)
Merger and other expenses ^(c)	696	2,692	842	2,655
Proportionate share of adjustments to equity in net income of partially owned entities	1,876	3,635	3,337	5,387
Proportionate share of adjustments for noncontrolling interests	(7)	(230)	(32)	(573)
Total adjustments	25,247	17,584	43,956	29,572
AFFO attributable to W. P. Carey	\$ 208,465	\$ 142,599	\$ 410,232	\$ 280,969
Summary				
FFO (as defined by NAREIT) attributable to W. P. Carey	\$ 183,218	\$ 125,015	\$ 366,276	\$ 251,397
AFFO attributable to W. P. Carey	\$ 208,465	\$ 142,599	\$ 410,232	\$ 280,969

FFO and AFFO from Real Estate were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income from Real Estate attributable to W. P. Carey	\$ 60,768	\$ 59,316	\$ 114,176	\$ 104,616
Adjustments:				
Depreciation and amortization of real property	112,360	63,073	223,463	127,653
Loss (gain) on sale of real estate, net	362	(11,912)	(571)	(18,644)
Impairment charges	—	—	—	4,790
Proportionate share of adjustments to equity in net income of partially owned entities	4,489	902	8,913	2,154
Proportionate share of adjustments for noncontrolling interests	(31)	(2,729)	(61)	(5,511)
Total adjustments	117,180	49,334	231,744	110,442
FFO (as defined by NAREIT) attributable to W. P. Carey — Real Estate	177,948	108,650	345,920	215,058
Adjustments:				
Above- and below-market rent intangible lease amortization, net	16,450	12,303	32,377	24,105
Straight-line and other rent adjustments	(7,975)	(2,637)	(14,233)	(4,933)
Other (gains) and losses ^(a)	5,888	(6,599)	9,817	(1,673)
Stock-based compensation	3,482	1,990	6,282	6,296
Amortization of deferred financing costs	2,774	1,905	5,498	1,711
Other amortization and non-cash items	1,510	56	2,012	7
Tax benefit — deferred and other	(853)	(1,767)	(363)	(11,285)
Merger and other expenses ^(c)	696	2,692	842	2,655
Proportionate share of adjustments to equity in net income of partially owned entities	(89)	99	26	28
Proportionate share of adjustments for noncontrolling interests	(7)	(230)	(32)	(573)
Total adjustments	21,876	7,812	42,226	16,338
AFFO attributable to W. P. Carey — Real Estate	\$ 199,824	\$ 116,462	\$ 388,146	\$ 231,396
Summary				
FFO (as defined by NAREIT) attributable to W. P. Carey — Real Estate	\$ 177,948	\$ 108,650	\$ 345,920	\$ 215,058
AFFO attributable to W. P. Carey — Real Estate	\$ 199,824	\$ 116,462	\$ 388,146	\$ 231,396

FFO and AFFO from Investment Management were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income from Investment Management attributable to W. P. Carey	\$ 5,270	\$ 16,365	\$ 20,356	\$ 36,339
FFO (as defined by NAREIT) attributable to W. P. Carey — Investment Management	5,270	16,365	20,356	36,339
Adjustments:				
Stock-based compensation	1,454	1,708	2,819	5,621
Other amortization and non-cash items	196	(21)	261	(21)
Other (gains) and losses ^(a)	(164)	(246)	837	117
Tax (benefit) expense — deferred and other ^(b)	(80)	4,795	(5,498)	2,158
Proportionate share of adjustments to equity in net income of partially owned entities	1,965	3,536	3,311	5,359
Total adjustments	3,371	9,772	1,730	13,234
AFFO attributable to W. P. Carey — Investment Management	\$ 8,641	\$ 26,137	\$ 22,086	\$ 49,573
Summary				
FFO (as defined by NAREIT) attributable to W. P. Carey — Investment Management	\$ 5,270	\$ 16,365	\$ 20,356	\$ 36,339
AFFO attributable to W. P. Carey — Investment Management	\$ 8,641	\$ 26,137	\$ 22,086	\$ 49,573

- (a) Primarily comprised of unrealized gains and losses on derivatives, and gains and losses from foreign currency movements, extinguishment of debt, and marketable securities. Beginning in the second quarter of 2019, we aggregated (gain) loss on extinguishment of debt and realized (gains) losses on foreign currency (both of which were previously disclosed as separate AFFO adjustment line items), as well as certain other adjustments, within this line item, which is comprised of adjustments related to Other gains and (losses) on our consolidated statements of income. Prior period amounts have been reclassified to conform to the current period presentation.
- (b) Amount for the six months ended June 30, 2019 includes a current tax benefit, which is excluded from AFFO as it was incurred as a result of the CPA:17 Merger.
- (c) Amounts are primarily comprised of costs incurred in connection with the CPA:17 Merger ([Note 3](#)).

While we believe that FFO and AFFO are important supplemental measures, they should not be considered as alternatives to net income as an indication of a company's operating performance. These non-GAAP measures should be used in conjunction with net income as defined by GAAP. FFO and AFFO, or similarly titled measures disclosed by other REITs, may not be comparable to our FFO and AFFO measures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, and equity prices. The primary risks that we are exposed to are interest rate risk and foreign currency exchange risk. We are also exposed to further market risk as a result of tenant concentrations in certain industries and/or geographic regions, since adverse market factors can affect the ability of tenants in a particular industry/region to meet their respective lease obligations. In order to manage this risk, we view our collective tenant roster as a portfolio and we attempt to diversify such portfolio so that we are not overexposed to a particular industry or geographic region.

Generally, we do not use derivative instruments to hedge credit/market risks or for speculative purposes. However, from time to time, we may enter into foreign currency forward contracts and collars to hedge our foreign currency cash flow exposures.

Interest Rate Risk

The values of our real estate and related fixed-rate debt obligations, as well as the values of our unsecured debt obligations, are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled, if we do not choose to repay the debt when due. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the fair value of our owned and managed assets to decrease, which would create lower revenues from managed assets and lower investment performance for the Managed REITs. Increases in interest rates may also have an impact on the credit profile of certain tenants.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we generally seek long-term debt financing on a fixed-rate basis. However, from time to time, we or our joint investment partners obtained, and may in the future 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. See [Note 9](#) for additional information on our interest rate swaps and caps.

At June 30, 2019, a significant portion (approximately 95.3%) of our long-term debt either bore interest at fixed rates or was swapped or capped to a fixed rate. Our debt obligations are more fully described in [Note 10](#) and [Liquidity and Capital Resources — Summary of Financing](#) in Item 2 above. The following table presents principal cash flows based upon expected maturity dates of our debt obligations outstanding at June 30, 2019 (in thousands):

	2019 (Remainder)	2020	2021	2022	2023	Thereafter	Total	Fair value
Fixed-rate debt ^{(a) (b)}	\$ 49,390	\$ 318,516	\$ 299,954	\$ 470,954	\$ 819,052	\$ 3,614,016	\$ 5,571,882	\$ 5,794,523
Variable-rate debt ^(a)	\$ 9,594	\$ 127,761	\$ 316,012	\$ 68,678	\$ 108,182	\$ 35,210	\$ 665,437	\$ 663,593

(a) Amounts are based on the exchange rate at June 30, 2019, as applicable.

(b) Amounts after 2023 are primarily comprised of principal payments for our Senior Unsecured Notes ([Note 10](#)).

The estimated fair value of our fixed-rate debt and our variable-rate debt that currently bears interest at fixed rates or has effectively been converted to a fixed rate through the use of interest rate swaps, or that has been subject to interest rate caps, is affected by changes in interest rates. Annual interest expense on our unhedged variable-rate debt that does not bear interest at fixed rates at June 30, 2019 would increase or decrease by \$1.5 million for our euro-denominated debt, by \$1.0 million for our U.S. dollar-denominated debt, by \$0.2 million for our Japanese yen-denominated debt, and by \$0.2 million for our British pound sterling-denominated debt for each respective 1% change in annual interest rates.

Foreign Currency Exchange Rate Risk

We own international investments, primarily in Europe, Canada, and Japan, and as a result are subject to risk from the effects of exchange rate movements in various foreign currencies, primarily the euro, the British pound sterling, the Danish krone, the Canadian dollar, and the Japanese yen, which may affect future costs and cash flows. We have obtained, and may in the future obtain, non-recourse mortgage financing in the local currency. We have also completed four offerings of euro-denominated senior notes, and have borrowed under our Unsecured Revolving Credit Facility in foreign currencies, including the euro and Japanese yen ([Note 10](#)). To the extent that currency fluctuations increase or decrease rental revenues, as translated to U.S. dollars, the change in debt service, as translated to U.S. dollars, will partially offset the effect of fluctuations in revenue and, to some extent, mitigate the risk from changes in foreign currency exchange rates. In addition, we may use currency hedging to further reduce the exposure to our equity cash flow. We are generally a net receiver of these currencies (we receive more cash than we pay out), and therefore our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar, relative to the foreign currency.

We enter into foreign currency forward contracts and collars to hedge certain of our foreign currency cash flow exposures. See [Note 9](#) for additional information on our foreign currency forward contracts and collars.

Scheduled future lease payments, exclusive of renewals, under non-cancelable operating leases for our consolidated foreign operations as of June 30, 2019 are as follows (in thousands):

Lease Revenues ^(a)	2019 (Remainder)	2020	2021	2022	2023	Thereafter	Total
Euro ^(b)	\$ 152,332	\$ 303,694	\$ 300,653	\$ 290,253	\$ 288,633	\$2,010,145	\$3,345,710
British pound sterling ^(c)	19,345	38,743	38,963	39,091	39,269	244,110	419,521
Japanese yen ^(d)	1,426	2,837	2,830	683	—	—	7,776
Other foreign currencies ^(e)	11,676	23,631	23,994	23,914	24,346	272,425	379,986
	<u>\$ 184,779</u>	<u>\$ 368,905</u>	<u>\$ 366,440</u>	<u>\$ 353,941</u>	<u>\$ 352,248</u>	<u>\$2,526,680</u>	<u>\$4,152,993</u>

Scheduled debt service payments (principal and interest) for our Senior Unsecured Notes, Unsecured Revolving Credit Facility, and non-recourse mortgage notes payable for our consolidated foreign operations as of June 30, 2019 are as follows (in thousands):

Debt Service ^{(a) (f)}	2019 (Remainder)	2020	2021	2022	2023	Thereafter	Total
Euro ^(b)	\$ 47,128	\$ 244,941	\$ 331,290	\$ 145,790	\$ 764,806	\$1,827,773	\$3,361,728
British pound sterling ^(c)	616	1,232	17,365	796	796	9,399	30,204
Japanese yen ^(d)	113	225	22,496	—	—	—	22,834
	<u>\$ 47,857</u>	<u>\$ 246,398</u>	<u>\$ 371,151</u>	<u>\$ 146,586</u>	<u>\$ 765,602</u>	<u>\$1,837,172</u>	<u>\$3,414,766</u>

- (a) Amounts are based on the applicable exchange rates at June 30, 2019. Contractual rents and debt obligations are denominated in the functional currency of the country of each property.
- (b) We estimate that, for a 1% increase or decrease in the exchange rate between the euro and the U.S. dollar, there would be a corresponding change in the projected estimated cash flow at June 30, 2019 of \$0.2 million, excluding the impact of our derivative instruments. Amounts included the equivalent of \$2.3 billion of euro-denominated senior notes maturing from 2023 through 2027, and the equivalent of \$88.8 million borrowed in euro under our Unsecured Revolving Credit Facility, which is scheduled to mature on February 22, 2021 (unless extended pursuant to its terms) but may be prepaid prior to that date pursuant to its terms (Note 10).
- (c) We estimate that, for a 1% increase or decrease in the exchange rate between the British pound sterling and the U.S. dollar, there would be a corresponding change in the projected estimated cash flow at June 30, 2019 of \$3.9 million, excluding the impact of our derivative instruments.
- (d) We estimate that, for a 1% increase or decrease in the exchange rate between the Japanese yen and the U.S. dollar, there would be a corresponding change in the projected estimated cash flow at June 30, 2019 of \$0.2 million. Amounts included the equivalent of \$22.5 million borrowed in Japanese yen under our Unsecured Revolving Credit Facility, which is scheduled to mature on February 22, 2021 (unless extended pursuant to its terms) but may be prepaid prior to that date pursuant to its terms (Note 10).
- (e) Other foreign currencies for future lease payments consist of the Danish krone, the Norwegian krone, the Canadian dollar, and the Swedish krona.
- (f) Interest on unhedged variable-rate debt obligations was calculated using the applicable annual interest rates and balances outstanding at June 30, 2019.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants are engaged in similar business activities or have similar economic risks or conditions that could cause them to default on their lease obligations to us. We regularly monitor our portfolio to assess potential concentrations of credit risk. While we believe our portfolio is well-diversified, it does contain concentrations in certain areas. There have been no material changes in our concentration of credit risk from what was disclosed in the 2018 Annual Report.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our disclosure controls and procedures include internal controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the required time periods specified in the SEC’s rules and forms; and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company’s objectives and that future events may impact the effectiveness of a system of controls.

Our chief executive officer and chief financial officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2019, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of June 30, 2019 at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 6. Exhibits.

The following exhibits are filed with this Report. Documents other than those designated as being filed herewith are incorporated herein by reference.

Exhibit No.	Description	Method of Filing
4.1	Fifth Supplemental Indenture, dated June 14, 2019, by and between W. P. Carey Inc., as issuer, and U.S. Bank National Association, as trustee	Incorporated by reference to Exhibit 4.2 of W. P. Carey Inc.'s Current Report on Form 8-K filed June 14, 2019
4.2	Form of Note representing \$325 Million Aggregate Principal Amount of 3.850% Senior Notes due 2029	Incorporated by reference to Exhibit 4.3 of W. P. Carey Inc.'s Current Report on Form 8-K filed June 14, 2019
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. P. Carey Inc.

Date: August 2, 2019

By: /s/ ToniAnn Sanzone

ToniAnn Sanzone

Chief Financial Officer

(Principal Financial Officer)

Date: August 2, 2019

By: /s/ Arjun Mahalingam

Arjun Mahalingam

Chief Accounting Officer

(Principal Accounting Officer)

EXHIBIT INDEX

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Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason E. Fox, certify that:

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

Date: August 2, 2019

/s/ Jason E. Fox
Jason E. Fox
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, ToniAnn Sanzone, certify that:

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

Date: August 2, 2019

/s/ ToniAnn Sanzone

ToniAnn Sanzone
Chief Financial Officer

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of W. P. Carey Inc. on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of W. P. Carey Inc., does hereby certify, to the best of such officer's knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of W. P. Carey Inc.

Date: August 2, 2019

/s/ Jason E. Fox
Jason E. Fox
Chief Executive Officer

Date: August 2, 2019

/s/ ToniAnn Sanzone
ToniAnn Sanzone
Chief Financial Officer

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report as a separate disclosure document of W. P. Carey Inc. or the certifying officers.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to W. P. Carey Inc. and will be retained by W. P. Carey Inc. and furnished to the Securities and Exchange Commission or its staff upon request.