REALTY INCOME CORP
Form 10-Q
April 30, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2015, or**

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

**Commission File Number 1-13374**

## REALTY INCOME CORPORATION

(Exact name of registrant as specified in its charter)

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

**11995 El Camino Real, San Diego, California 92130**

(Address of Principal Executive Offices)

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

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

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

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

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

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

There were 232,538,873 shares of common stock outstanding as of April 23, 2015.

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

REALTY INCOME CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

March 31, 2015 and December 31, 2014

(dollars in thousands, except per share data)

| | 2015 (unaudited) | 2014 |
|---|---|---|
| ASSETS | | |
| Real estate, at cost: | | |
| Land | $ 3,081,468 | $ 3,046,372 |
| Buildings and improvements | 8,221,599 | 8,107,199 |
| Total real estate, at cost | 11,303,067 | 11,153,571 |
| Less accumulated depreciation and amortization | (1,459,320) | (1,386,871) |
| Net real estate held for investment | 9,843,747 | 9,766,700 |
| Real estate held for sale, net | 9,394 | 14,840 |
| Net real estate | 9,853,141 | 9,781,540 |
| Cash and cash equivalents | 12,190 | 3,852 |
| Accounts receivable, net | 66,831 | 64,386 |
| Acquired lease intangible assets, net | 1,056,845 | 1,039,724 |
| Goodwill | 15,425 | 15,470 |
| Other assets, net | 87,721 | 107,650 |
| Total assets | $ 11,092,153 | $ 11,012,622 |
| | | |
| LIABILITIES AND EQUITY | | |
| Distributions payable | $ 45,466 | $ 43,675 |
| Accounts payable and accrued expenses | 77,594 | 123,287 |
| Acquired lease intangible liabilities, net | 228,191 | 220,469 |
| Other liabilities | 41,404 | 53,145 |
| Line of credit payable | 370,000 | 223,000 |
| Term loan | 70,000 | 70,000 |
| Mortgages payable, net | 799,318 | 852,575 |
| Notes payable, net | 3,785,718 | 3,785,372 |
| Total liabilities | 5,417,691 | 5,371,523 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders equity: | | |
| Preferred stock and paid in capital, par value $0.01 per share, 69,900,000 shares authorized, 16,350,000 shares issued and outstanding as of March 31, 2015 and December 31, 2014 | 395,378 | 395,378 |
| Common stock and paid in capital, par value $0.01 per share, 370,100,000 shares authorized, 227,031,104 shares issued and outstanding as of March 31, 2015 and 224,881,192 shares issued and outstanding at December 31, 2014 | 6,569,610 | 6,464,987 |
| Distributions in excess of net income | (1,314,952) | (1,246,964) |
| Total stockholders equity | 5,650,036 | 5,613,401 |
| Noncontrolling interests | 24,426 | 27,698 |
| Total equity | 5,674,462 | 5,641,099 |
| Total liabilities and equity | $ 11,092,153 | $ 11,012,622 |

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

For the three months ended March 31, 2015 and 2014

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

| | | 2015 | | 2014 |
|---|---|---|---|---|
| REVENUE | | | | |
| Rental | $ | 235,122 | $ | 214,122 |
| Tenant reimbursements | | 9,963 | | 6,427 |
| Other | | 1,782 | | 1,023 |
| Total revenue | | 246,867 | | 221,572 |
| | | | | |
| EXPENSES | | | | |
| Depreciation and amortization | | 98,037 | | 89,970 |
| Interest | | 58,468 | | 51,720 |
| General and administrative | | 12,862 | | 12,886 |
| Property (including reimbursable) | | 13,976 | | 10,577 |
| Income taxes | | 1,074 | | 1,091 |
| Provisions for impairment | | 2,087 | | 1,683 |
| Total expenses | | 186,504 | | 167,927 |
| Gain on sales of real estate | | 7,218 | | 1,271 |
| Income from continuing operations | | 67,581 | | 54,916 |
| Income from discontinued operations | | - | | 3,077 |
| Net income | | 67,581 | | 57,993 |
| Net income attributable to noncontrolling interests | | (317) | | (332) |
| Net income attributable to the Company | | 67,264 | | 57,661 |
| Preferred stock dividends | | (6,770) | | (10,482) |
| Net income available to common stockholders | $ | 60,494 | $ | 47,179 |
| | | | | |
| Amounts available to common stockholders per common share: | | | | |
| Income from continuing operations, basic and diluted | $ | 0.27 | $ | 0.21 |
| Net income, basic and diluted | $ | 0.27 | $ | 0.23 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | | 225,346,407 | | 207,003,950 |
| Diluted | | 225,825,854 | | 207,324,363 |

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three months ended March 31, 2015 and 2014

(dollars in thousands) (unaudited)

| | 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 67,581 | $ 57,993 |
| Adjustments to net income: | | |
| Depreciation and amortization | 98,037 | 89,970 |
| Income from discontinued operations | - | (3,077) |
| Amortization of share-based compensation | 2,552 | 2,697 |
| Non-cash rental adjustments | (2,449) | (1,942) |
| Amortization of net premiums on mortgages payable | (1,962) | (2,385) |
| Amortization of deferred financing costs | 2,228 | 2,585 |
| Gain on sales of real estate | (7,218) | (1,271) |
| Provisions for impairment on real estate | 2,087 | 1,683 |
| Cash provided by discontinued operations | - | 1,290 |
| Change in assets and liabilities | | |
| Accounts receivable and other assets | 892 | 9,600 |
| Accounts payable, accrued expenses and other liabilities | (43,896) | (42,947) |
| Net cash provided by operating activities | 117,852 | 114,196 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment in real estate | (202,781) | (603,980) |
| Improvements to real estate, including leasing costs | (1,345) | (1,369) |
| Proceeds from sales of real estate: | | |
| Continuing operations | 22,274 | 5,772 |
| Discontinued operations | - | 6,918 |
| Restricted escrow deposits for Section 1031 tax-deferred exchanges and pending acquisitions | 18,083 | (460) |
| Net cash used in investing activities | (163,769) | (593,119) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash distributions to common stockholders | (126,682) | (113,414) |
| Cash dividends to preferred stockholders | (6,770) | (10,482) |
| Borrowings on line of credit | 282,000 | 732,800 |
| Payments on line of credit | (135,000) | (120,700) |
| Principal payments on mortgages payable | (51,296) | (1,797) |
| Redemption of preferred units | (6,750) | - |
| Distributions to noncontrolling interests | (428) | (466) |
| Proceeds from dividend reinvestment and stock purchase plan, net | 102,162 | 2,126 |
| Other items, including shares withheld upon vesting | (2,981) | (5,259) |
| Net cash provided by financing activities | 54,255 | 482,808 |
| Net increase in cash and cash equivalents | 8,338 | 3,885 |
| Cash and cash equivalents, beginning of period | 3,852 | 10,257 |
| Cash and cash equivalents, end of period | $ 12,190 | $ 14,142 |

For supplemental disclosures, see note 16.

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

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REALTY INCOME CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015

(unaudited)

**1. Management Statement**

The consolidated financial statements of Realty Income Corporation ( Realty Income , the Company , we , our or us ) were prepare from our books and records without audit and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim periods presented. Readers of this quarterly report should refer to our audited consolidated financial statements for the year ended December 31, 2014, which are included in our 2014 Annual Report on Form 10-K, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

At March 31, 2015, we owned 4,378 properties, located in 49 states and Puerto Rico, containing over 71.6 million leasable square feet.

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

A. The accompanying consolidated financial statements include the accounts of Realty Income and other entities for which we make operating and financial decisions (i.e., control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see note 9). We have no unconsolidated investments.

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

C. We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay rent, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $409,000 at March 31, 2015 and $765,000 at December 31, 2014.

D. We assign a portion of goodwill to our applicable property sales, which results in a reduction of the carrying amount of our goodwill. In order to allocate goodwill to the carrying amount of properties that we sell, we utilize a relative fair value approach based on the original methodology for assigning goodwill. As we sell properties, our goodwill will likely continue to gradually decrease over time.

E. In April 2015, the Financial Accounting Standards Board, or FASB, issued ASU 2015-03, which amends Topic 835, *Other Presentation Matters*. The amendments in the ASU require that debt issuance costs be reported on the balance sheet as a direct reduction of the face amount of the debt instrument they relate to, and should not be classified as a deferred charge, as was previously required under the Accounting Standards Codification. ASU 2015-03 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2015; early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

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## 3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

| A. Acquired lease intangible assets, net, consist of the following (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Acquired in-place leases | $ 1,021,247 | $ 1,005,244 |
| Accumulated amortization of acquired in-place leases | (198,976) | (177,722) |
| Acquired above-market leases | 279,650 | 252,581 |
| Accumulated amortization of acquired above-market leases | (45,076) | (40,379) |
| | $ 1,056,845 | $ 1,039,724 |

| B. Other assets, net, consist of the following (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Deferred financing costs, net | $ 22,295 | $ 23,274 |
| Restricted escrow deposits | 18,300 | 36,540 |
| Notes receivable issued in connection with property sales | 18,243 | 18,342 |
| Prepaid expenses | 15,166 | 14,137 |
| Impounds related to mortgages payable | 4,868 | 5,789 |
| Credit facility origination costs, net | 3,403 | 4,171 |
| Corporate assets, net | 2,492 | 2,600 |
| Other items | 2,954 | 2,797 |
| | $ 87,721 | $ 107,650 |

| C. Distributions payable consist of the following declared distributions (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Common stock distributions | $ 43,069 | $ 41,268 |
| Preferred stock dividends | 2,257 | 2,257 |
| Noncontrolling interests distributions | 140 | 150 |
| | $ 45,466 | $ 43,675 |

| D. Accounts payable and accrued expenses consist of the following (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Notes payable - interest payable | $ 34,617 | $ 63,919 |
| Accrued costs on properties under development | 11,498 | 18,011 |
| Property taxes payable | 9,641 | 11,634 |
| Other items | 21,838 | 29,723 |
| | $ 77,594 | $ 123,287 |

| E. Acquired lease intangible liabilities, net, consist of the following (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Acquired below-market leases | $ 254,381 | $ 243,025 |
| Accumulated amortization of acquired below-market leases | (26,190) | (22,556) |
| | $ 228,191 | $ 220,469 |

| F. Other liabilities consist of the following (dollars in thousands) at: | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Rent received in advance | $ 30,933 | $ 36,122 |
| Security deposits | 5,996 | 5,876 |
| Capital lease obligation | 4,475 | 4,397 |
| Preferred units issued upon entity acquisition | - | 6,750 |
| | $ 41,404 | $ 53,145 |

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## 4. Investments in Real Estate

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

*A. Acquisitions during the First Three Months of 2015 and 2014*

During the first three months of 2015, we invested $209.9 million in 83 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.9%. The 83 new properties and properties under development or expansion are located in 24 states, will contain approximately 1.6 million leasable square feet, and are 100% leased with a weighted average lease term of 15.5 years. The tenants occupying the new properties operate in 12 industries and the property types consist of 74.2% retail, and 25.8% industrial and distribution, based on rental revenue. None of our investments during 2015 caused any one tenant to be 10% or more of our total assets at March 31, 2015.

The $209.9 million invested during the first three months of 2015 was allocated as follows: $39.8 million to land, $121.2 million to buildings and improvements, $41.6 million to intangible assets related to leases, $14.1 million to other assets, net, and $6.8 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first three months of 2015 generated total revenues of $1.5 million and income from continuing operations of $712,000.

The purchase price allocation for $197.7 million of the $209.9 million we invested in during the first three months of 2015 is based on a preliminary measurement of fair value that is subject to change. The allocation for these properties represents our current best estimate of fair value and we expect to finalize the valuations and complete the purchase price allocations in 2015. During the first three months of 2015, we finalized the purchase price allocations for $147.1 million invested in the fourth quarter of 2014. There were no material changes to our consolidated balance sheets or income statements as a result of these purchase price allocation adjustments.

In comparison, during the first three months of 2014, we invested $656.7 million in 337 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 7.0%. The 337 new properties and properties under development or expansion, were located in 35 states, contained over 4.5 million leasable square feet and were 100% leased with a weighted average lease term of 14.2 years. The tenants occupying the new properties operate in 15 industries and the property types consist of 87.6% retail, 7.8% industrial and distribution, and 4.6% office, based on rental revenue.

The $656.7 million invested during the first three months of 2014 was allocated as follows: $132.2 million to land, $455.3 million to buildings and improvements, $74.0 million to intangible assets related to leases, $901,000 to other assets, net, and $8.5 million to intangible liabilities related to leases and other assumed liabilities. We also recorded mortgage discounts of $2.8 million associated with the $45.9 million of mortgages acquired during the first three months of 2014. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first three months of 2014 contributed total revenues of $7.9 million and income from continuing operations of $3.2 million for the three months ended March 31, 2014.

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

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the $209.9 million we invested during the first three months of 2015, $15.3 million was invested in 25 properties under development or expansion with an estimated initial weighted average contractual lease rate of 9.0%. Of the $656.7 million we invested during the first three months of 2014, $13.4 million was invested in 13 properties under development or expansion with an estimated initial weighted average contractual lease rate of 8.4%.

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*B. Acquisition Transaction Costs*

Acquisition transaction costs of $94,000 and $454,000 were recorded to general and administrative expense on our consolidated statements of income during the first three months of 2015 and 2014, respectively.

*C. Investments in Existing Properties*

During the first three months of 2015, we capitalized costs of $1.3 million on existing properties in our portfolio, consisting of $313,000 for re-leasing costs and $1.0 million for building and tenant improvements. In comparison, during the first three months of 2014, we capitalized costs of $1.4 million on existing properties in our portfolio, consisting of $192,000 for re-leasing costs and $1.2 million for building and tenant improvements.

*D. Properties with Existing Leases*

Of the $209.9 million we invested during the first three months of 2015, approximately $114.2 million was used to acquire 14 properties with existing leases. In comparison, of the $656.7 million we invested in the first three months of 2014, approximately $403.8 million was used to acquire 90 properties with existing leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheets, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheets. The values recorded to all of these intangible values for properties acquired during the first quarter of 2015 are based on a preliminary measurement of fair value that is subject to change.

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for the first three months of 2015 and 2014, were $21.6 million and $20.1 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for the first three months of 2015 and 2014 were $1.7 million and $2.0 million, respectively. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense as appropriate.

The following table presents the estimated impact during the next five years and thereafter related to the amortization of the acquired above-market and below-market lease intangibles and the amortization of the in-place lease intangibles for properties held for investment at March 31, 2015 (in thousands):

| | | **Net increase (decrease) to rental revenue** | | **Increase to amortization expense** |
|---|---|---|---|---|
| 2015 | $ | (5,889) | $ | 65,083 |
| 2016 | | (7,864) | | 86,533 |
| 2017 | | (7,809) | | 85,333 |
| 2018 | | (7,549) | | 82,889 |
| 2019 | | (6,563) | | 72,831 |

| | | | | |
|---|---|---|---|---|
| Thereafter | | 29,291 | | 429,602 |
| Totals | $ | (6,383) | $ | 822,271 |

**5. Credit Facility**

We have a $1.5 billion unsecured acquisition credit facility with an initial term that expires in May 2016 and includes, at our election, a one-year extension option. Under this credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 1.075% with a facility commitment fee of 0.175%, for all-in drawn pricing of 1.25% over LIBOR. The borrowing rate is not subject to an interest rate floor or ceiling. We also have other interest rate options available to us under this credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

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At March 31, 2015, credit facility origination costs of $3.4 million are included in other assets, net, on our consolidated balance sheet. These costs are being amortized over the remaining term of our $1.5 billion credit facility.

At March 31, 2015, we had a borrowing capacity of $1.13 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $370.0 million, as compared to an outstanding balance of $223.0 million at December 31, 2014.

The weighted average interest rate on outstanding borrowings under our credit facilities was 1.2% during the first three months of 2015 and 2014. At March 31, 2015, the effective interest rate was 1.2%. Our current credit facility is subject to various leverage and interest coverage ratio limitations, and at March 31, 2015, we remain in compliance with these covenants. We regularly review our credit facility and may seek to extend, renew or replace our credit facility, to the extent we deem appropriate.

**6. Mortgages Payable**

During the first three months of 2015, we made $51.3 million in principal payments, including the repayment of three mortgages in full for $49.4 million. No mortgages were assumed during the first three months of 2015.

During the first three months of 2014, we made $1.8 million in principal payments and assumed mortgages totaling $45.9 million, excluding net discounts. The mortgages are secured by the properties on which the debt was placed. We expect to pay off the mortgages as soon as prepayment penalties make it economically feasible to do so.

During the first three months of 2014, aggregate net discounts totaling $2.8 million were recorded upon assumption of mortgages with below-market interest rates. Amortization of our net premiums is recorded as a reduction to interest expense over the remaining term of the respective mortgages, using a method that approximates the effective-interest method.

These mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage without the prior consent of the lender. At March 31, 2015, we remain in compliance with these covenants.

We did not incur any deferred financing costs on our mortgages assumed in 2014. The balance of our deferred financing costs, which are classified as part of other assets, net, on our consolidated balance sheets, was $750,000 at March 31, 2015 and $827,000 at December 31, 2014. These costs are being amortized over the remaining term of each mortgage.

The following is a summary of all our mortgages payable as of March 31, 2015 and December 31, 2014, respectively (dollars in thousands):

| As Of | Number of Properties(1) | Weighted Average Stated Interest Rate(2) | Weighted Average Effective Interest Rate(3) | Weighted Average Remaining Years Until Maturity | Remaining Principal Balance | Unamortized Premium Balance, net | Mortgage Payable Balance |
|---|---|---|---|---|---|---|---|
| 3/31/15 | 238 | 5.0% | 4.0% | 3.7 | $ 784,715 | $ 14,603 | $ 799,318 |
| 12/31/14 | 241 | 5.0% | 4.0% | 3.7 | $ 836,011 | $ 16,564 | $ 852,575 |

(1) At March 31, 2015, there were 54 mortgages on the 238 properties, while at December 31, 2014, there were 57 mortgages on the 241 properties. The mortgages require monthly payments, with principal payments due at maturity. The mortgages are at fixed interest rates, except for four mortgages on 13 properties totaling $50.9 million at March 31, 2015, including net unamortized discounts. At December 31, 2014, five mortgages on 14 properties totaling $74.5 million, including net unamortized discounts, were at variable interest rates. All of these variable rate mortgages were acquired with arrangements which limit our exposure to interest rate risk.

(2) Stated interest rates ranged from 2.0% to 6.9% at March 31, 2015 and December 31, 2014.

(3) Effective interest rates ranged from 2.2% to 9.0% at March 31, 2015 and December 31, 2014.

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The following table summarizes the maturity of mortgages payable, excluding net premiums of $14.6 million, as of March 31, 2015 (dollars in millions):

| **Year of Maturity** | | |
|---|---|---|
| 2015 | $ | 68.4 |
| 2016 | | 248.4 |
| 2017 | | 142.5 |
| 2018 | | 15.1 |
| 2019 | | 26.0 |
| Thereafter | | 284.3 |
| Totals | $ | 784.7 |

**7. Term Loan**

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a $70 million senior unsecured term loan maturing January 21, 2018. Borrowing under the term loan bears interest at the current one month LIBOR, plus 1.2%. In conjunction with this term loan, we also acquired an interest rate swap which essentially fixes our per annum interest rate on the term loan at 2.15%. Deferred financing costs of $303,000 are being amortized over the remaining term of the term loan. The net balance of these deferred financing costs, which was $172,000 at March 31, 2015, and $187,000 at December 31, 2014, is included in other assets, net on our consolidated balance sheets.

**8. Notes Payable**

*A. General*

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

| | | March 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| 5.5% notes, issued in November 2003 and due in November 2015 | $ | 150 | $ | 150 |
| 5.95% notes, issued in September 2006 and due in September 2016 | | 275 | | 275 |
| 5.375% notes, issued in September 2005 and due in September 2017 | | 175 | | 175 |
| 2.0% notes, issued in October 2012 and due in January 2018 | | 350 | | 350 |
| 6.75% notes, issued in September 2007 and due in August 2019 | | 550 | | 550 |
| 5.75% notes, issued in June 2010 and due in January 2021 | | 250 | | 250 |
| 3.25% notes, issued in October 2012 and due in October 2022 | | 450 | | 450 |
| 4.65% notes, issued in July 2013 and due in August 2023 | | 750 | | 750 |
| 3.875% notes, issued in June 2014 and due in July 2024 | | 350 | | 350 |