

## REALTY INCOME INVESTMENT GRADE DEBT RATINGS UPGRADED BY STANDARD & POOR'S

ESCONDIDO, CALIFORNIA, June 20, 2013....Realty Income Corporation (Realty Income), The Monthly Dividend Company®, (NYSE:O) today announced that Standard & Poor's Ratings Services upgraded the company's senior unsecured debt ratings to BBB+ from BBB and its preferred stock ratings to BBB- from BB+, with a stable outlook.

Standard & Poor's issued a press release entitled "Realty Income Corp. Is Upgraded to 'BBB+', Outlook is Stable; Senior Unsecured Debt Ratings Are Raised to BBB+", published by Primary Credit Analyst, Elizabeth Campbell and Secondary Credit Analyst, George Skoufis, on June 19, 2013. The press release, in its entirety, is reproduced with permission of Standard & Poor's, a division of the McGraw-Hill Companies, Inc.

### "Overview

- Escondido, Calif.-based Realty Income Corp. is the largest owner of net leased commercial real estate in the U.S. and its portfolio of well-diversified properties maintained high occupancy and steady performance throughout the financial downturn.
- The company has expanded its portfolio, improving diversification by tenant and industry, and increasing exposure to investment grade-rated tenants, which supports our expectation for earnings growth.
- We are raising our ratings on Realty Income, including the corporate credit rating to 'BBB+' from 'BBB'.
- The stable outlook reflects our expectation that portfolio cash flow will continue to exhibit low earnings volatility over the next two years, supported by long-term leases and management's focus on increasing concentrations to investment-grade tenants while maintaining moderate leverage.

### "Rating Action

On June 19, 2013, Standard & Poor's Ratings Services raised its corporate credit rating on Realty Income Corp. (Realty Income) to 'BBB+' from 'BBB'. The outlook is stable. At the same time, we raised our senior unsecured debt ratings to 'BBB+' and our ratings on the company's preferred stock to 'BBB-'. (See ratings list below.) The rating actions affect roughly \$3.0 billion of rated debt and preferred securities.

### "Rationale

The upgrade acknowledges Realty Income's diversified portfolio of triple-net-leased retail and commercial properties and its prudent underwriting to date, which collectively have supported historically stable cash flow and sound debt service coverage measures. The company has executed on a strategic shift over the prior few years to increase investments in properties leased to investment-grade tenants (now contributing roughly 35% of revenue) through recent merger and acquisition activity. We currently consider Realty Income's business profile "strong," an improvement from our prior "satisfactory" assessment, as its large, diversified portfolio (subject to long-term leases) and higher average credit quality tenant base position the portfolio both defensively (to withstand potential protracted tenant stress) and offensively (to continue to pursue accretive investments) over the next few years. We consider Realty Income's financial profile "intermediate" due to a moderately leveraged balance sheet and we consider the company's liquidity position "strong."

"Realty Income invests in single-tenant commercial properties throughout the U.S. The company, an S&P MidCap 400 Index constituent, ended the March 31, 2013, quarter with a portfolio of 3,525 properties dispersed throughout 49 states and Puerto Rico. Realty Income's portfolio assets are leased to 195 different operators across 46 industries, providing strong diversification. Retail continues to comprise the majority of rents (79%) although we expect the company to continue to grow its proportion of nonretail investments (currently 21%) over the next few years.

"We believe the company's \$3.2 billion acquisition of American Realty Capital Trust (ARCT) in a transaction that closed in January 2013 favorably advanced Realty Income's strategic objective of increasing its

investment in nonretail properties that are leased primarily to investment-grade rated tenants subject to long-term leases. Realty Income's total enterprise value (market basis) was \$12.9 billion at March 31, 2013.

"The company now derives roughly 35% of revenue from investment grade-rated tenants, the largest of which are FedEx (5.7% of revenues), Family Dollar Stores (3.5%), and Diageo (3.3%). The ARCT transaction also expanded Realty Income's portfolio to include nonretail commercial properties, which we believe are more exposed to potential residual value erosion (at least expiration) than its retail assets. However, Realty Income continues to employ conservative underwriting, in our view, and its historical recovery rates in tenant bankruptcies have been high. We consider the residual value risk of the ARCT assets is somewhat mitigated by the creditworthy tenant base and the real estate attributes (such as importance to the tenant's business).

"Despite some pressured tenants during the downturn, Realty Income's total portfolio remains well occupied (97.7% at March 31, 2013), under long-term (15- to 20-year) net leases. Lease expirations in the near term are relatively low, as leases for properties that generate 4.3% of rental revenue expire through year-end 2014. Additionally, nearly two-thirds of aggregate lease expirations through year-end 2013 are on subsequent lease renewals, which have historically correlated to a strong likelihood of continued renewal.

"Realty Income maintains a more conservative balance sheet than do most REITs. The company's debt is favorably long term (with a weighted average debt maturity of more than seven years) and is well matched against Realty Income's 11-year weighted average remaining lease term. Additionally, the company's balance sheet is highly transparent because it has no unconsolidated (off-balance-sheet) investments. Realty Income faces no senior unsecured debt maturities until 2015 (when a \$150 million unsecured note matures) and faces roughly \$87 million of mortgage maturities through year-end 2014 (that management intends to pay off at maturity). Standard & Poor's defined leverage (which includes preferred stock and accrued interest as debt) was 47% on a cost basis and 31% on a market capitalization basis.

"For the quarter ended March 31, 2013, Standard & Poor's calculation of debt service coverage for Realty Income was 3.9x, and fixed-charge coverage (FCC), including preferred dividends, was 3.0x. Current coverage levels remain favorably supported by a fixed-rate debt structure and a revenue stream that consists solely of recurring income. Funds from operations coverage of all fixed charges, including the common dividend, is 1.2x.

"Our scenario analysis assumes that earnings erosion from a modest level of unexpected tenant vacancies would be offset by the company's contractual rent growth from in-place leases and contributions from accretive acquisitions (estimated to total \$550 million in 2013, in addition to the ARCT transaction). We believe that Realty Income continues to finance acquisitions in a leverage-neutral manner and that asset sales for 2013 will total roughly \$100 million. Under this scenario, the company's debt service and FCC measures will strengthen during 2013 from year-end 2012 levels, to the high-3x and low-3x areas, respectively. Total coverage remains stable, in the 1.1x area. Realty Income was among the few REITs to continue to pay its common dividend in cash during the downturn.

#### **"Liquidity**

Realty Income's current liquidity is strong, in our view, relative to the company's capital needs through year-end 2014. The company had a modest (\$4.2 million) cash balance at March 31, 2013 and has access to a \$1 billion unsecured acquisition credit facility (\$117 million of borrowings outstanding at March 31, 2013).

"The company's debt maturities over the next two years are modest and consist solely of mortgage debt (\$24.8 million due 2013 and \$62.1 million due 2014). We expect Realty Income to continue to generate roughly \$70 million of free cash flow after dividends (preferred and common) that we expect to total roughly \$475 million in 2013, following the most recent dividend increase. We assume the company raises its dividend in 2014, but at a rate below its earnings growth.

"Despite the assumption of mortgage debt (8.7% secured debt to total assets) along with the ARCT transaction, Realty Income's property portfolio remains largely unencumbered. While a large unencumbered pool provides additional financial flexibility, in that the company could mortgage assets to raise capital, it is Realty Income's intent to repay mortgages as they mature.

"The triple-net-lease structure results in low capital-expenditure requirements. We expect portfolio-related capital expenditures to rise modestly (to the \$10 million to \$15 million range, annually) with the company's

recent portfolio expansion. If portfolio vacancy rate increases, sourcing new tenants could require the payment of leasing commissions, and vacant properties would likely need retrofitting in order to accommodate new tenants.

“We expect Realty Income to fund acquisitions (which we estimate at \$550 million this year, in addition to the \$3.2 billion ARCT acquisition, at average yields in the low-7% area) in a leverage-neutral manner, as it has done historically, through a mix of issuance of common equity, long-term senior unsecured debt or preferred stock, and sales proceeds (that we estimate at roughly \$100 million this year).

**“Outlook**

The outlook is stable. We expect portfolio cash flow will continue to exhibit modest steady growth over the next two years, supported by long-term leases and Realty Income's focus on increasing concentrations to investment-grade tenants. We also expect Realty Income to maintain its moderate leverage, above-average debt protection measures and strong liquidity as it continues to pursue a moderate level of acquisition-oriented growth.

“We see limited downside risk to the ratings at this time, given Realty Income's strong balance sheet, liquidity, and debt coverage measures. However, we would consider revising our outlook to negative if the company struggles to manage potential large tenant losses such that FCC drops below 2.7x and/or total coverage of the common dividend dips below 1.0x.

“Given the recent upgrade and our expectation for key credit measures to remain steady, we do not foresee any additional ratings improvement over the two-year time horizon of our ratings outlook.

**“Related Criteria And Research**

- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov.13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011

**“Ratings List**

Upgraded

	To	From
Realty Income Corp.		
Corporate Credit Rating	BBB+/Stable/ - -	BBB/Stable/ - -
Senior Unsecured	BBB+	BBB
Preferred Stock	BBB-	BB+”

Realty Income, The Monthly Dividend Company<sup>®</sup>, is a New York Stock Exchange real estate company dedicated to providing shareholders with dependable monthly income. To date the company has declared 516 consecutive common stock monthly dividends throughout its 44-year operating history and increased the dividend 72 times since Realty Income’s listing on the New York Stock Exchange in 1994. The monthly income is supported by the cash flow from over 3,500 properties owned under long-term lease agreements with regional and national retail chains and other commercial enterprises. The company is an active buyer of net-leased properties nationwide. Additional information about the company can be obtained from the corporate website at [www.realtyincome.com](http://www.realtyincome.com) or [www.twitter.com/realtyincome](http://www.twitter.com/realtyincome).

**Note to Editors:**

Realty Income press releases are available on the Internet at [www.realtyincome.com/invest/newsroom-library/press-releases.shtml](http://www.realtyincome.com/invest/newsroom-library/press-releases.shtml).