

W. P. Carey Inc.  
Form 10-Q  
August 03, 2018

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, 2018  
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

45-4549771

(State of incorporation)

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

50 Rockefeller Plaza

New York, New York

10020

(Address of principal executive offices) (Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant's telephone numbers, including area code)

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

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  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

(Do not check if a smaller reporting company)

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 107,214,394 shares of common stock, \$0.001 par value, outstanding at July 27, 2018.

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INDEX

Page No.	
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
<u>3</u>	<u>Consolidated Balance Sheets</u>
<u>4</u>	<u>Consolidated Statements of Income</u>
<u>5</u>	<u>Consolidated Statements of Comprehensive Income</u>
<u>6</u>	<u>Consolidated Statements of Equity</u>
<u>8</u>	<u>Consolidated Statements of Cash Flows</u>
<u>9</u>	<u>Notes to Consolidated Financial Statements</u>
<u>45</u>	Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>72</u>	Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>76</u>	Item 4. <u>Controls and Procedures</u>
PART II — OTHER INFORMATION	
<u>77</u>	Item 1A. <u>Risk Factors</u>
<u>78</u>	Item 6. <u>Exhibits</u>
<u>79</u>	<u>Signatures</u>

## Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: the Proposed Merger discussed herein, including the impact thereof; our expected range of Adjusted funds from operations, or AFFO; the amount and timing of any future dividends; statements regarding our corporate strategy and estimated or future economic performance and results, including our projected assets under management, 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 future capital expenditure levels, including any plans to fund our future liquidity needs, and future leverage and debt service obligations; capital markets, including our credit ratings and ability to sell shares under our “at-the market” program and the use of proceeds from that program; our capital structure; the outlook for the investment programs that we manage, including their earnings, as well as possible liquidity events for those programs (including the Proposed Merger); statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT, and the recently adopted Tax Cuts and Jobs Act in the United States; the impact of recently issued accounting pronouncements; other regulatory activity, such as the General Data Protection Regulation in the European Union or other data privacy initiatives; and the general economic outlook. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements, or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 23, 2018, or the 2017 Annual Report, and in Part II, Item 1A. Risk Factors herein. 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, 2018	December 31, 2017
Assets		
Investments in real estate:		
Land, buildings and improvements	\$5,651,906	\$5,457,265
Net investments in direct financing leases	705,588	721,607
In-place lease and other intangible assets	1,228,241	1,213,976
Above-market rent intangible assets	631,977	640,480
Investments in real estate	8,217,712	8,033,328
Accumulated depreciation and amortization	(1,445,397 )	(1,329,613 )
Net investments in real estate	6,772,315	6,703,715
Equity investments in the Managed Programs and real estate	363,622	341,457
Cash and cash equivalents	122,430	162,312
Due from affiliates	78,100	105,308
Other assets, net	288,173	274,650
Goodwill	642,060	643,960
Total assets	\$8,266,700	\$8,231,402
Liabilities and Equity		
Debt:		
Senior unsecured notes, net	\$3,018,475	\$2,474,661
Unsecured revolving credit facility	396,917	216,775
Unsecured term loans, net	—	388,354
Non-recourse mortgages, net	985,666	1,185,477
Debt, net	4,401,058	4,265,267
Accounts payable, accrued expenses and other liabilities	245,288	263,053
Below-market rent and other intangible liabilities, net	107,542	113,957
Deferred income taxes	88,871	67,009
Distributions payable	110,972	109,766
Total liabilities	4,953,731	4,819,052
Redeemable noncontrolling interest	965	965
Commitments and contingencies ( <a href="#">Note 11</a> )		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized; 107,200,687 and 106,922,616 shares, respectively, issued and outstanding	107	107
Additional paid-in capital	4,443,374	4,433,573
Distributions in excess of accumulated earnings	(1,132,182 )	(1,052,064 )
Deferred compensation obligation	36,007	46,656
Accumulated other comprehensive loss	(247,402 )	(236,011 )
Total stockholders' equity	3,099,904	3,192,261
Noncontrolling interests	212,100	219,124
Total equity	3,312,004	3,411,385
Total liabilities and equity	\$8,266,700	\$8,231,402

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2018 10-Q – 3

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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,	
	2018	2017	2018	2017
Revenues				
Owned Real Estate:				
Lease revenues	\$162,634	\$158,255	\$325,847	\$314,036
Reimbursable tenant costs	5,733	5,322	11,952	10,543
Operating property revenues	4,865	8,223	12,083	15,203
Lease termination income and other	680	2,247	1,622	3,007
	173,912	174,047	351,504	342,789
Investment Management:				
Asset management revenue	17,268	17,966	34,253	35,333
Reimbursable costs from affiliates	5,537	13,479	10,841	39,179
Structuring revenue	4,426	14,330	6,165	18,164
Dealer manager fees	—	1,000	—	4,325
Other advisory revenue	—	706	190	797
	27,231	47,481	51,449	97,798
	201,143	221,528	402,953	440,587
Operating Expenses				
Depreciation and amortization	64,337	62,849	130,294	125,279
General and administrative	16,442	17,529	35,025	35,953
Reimbursable tenant and affiliate costs	11,270	18,801	22,793	49,722
Property expenses, excluding reimbursable tenant costs	8,908	10,530	18,807	20,640
Stock-based compensation expense	3,698	3,104	11,917	10,014
Merger and other expenses	2,692	1,000	2,655	1,073
Subadvisor fees	1,855	3,672	3,887	6,392
Restructuring and other compensation	—	7,718	—	7,718
Dealer manager fees and expenses	—	2,788	—	6,082
Impairment charges	—	—	4,790	—
	109,202	127,991	230,168	262,873
Other Income and Expenses				
Interest expense	(41,311 )	(42,235 )	(79,385 )	(84,192 )
Equity in earnings of equity method investments in the Managed Programs and real estate	12,558	15,728	27,883	31,502
Other gains and (losses)	10,586	(916 )	7,823	(400 )
	(18,167 )	(27,423 )	(43,679 )	(53,090 )
Income before income taxes and gain on sale of real estate	73,774	66,114	129,106	124,624
Provision for income taxes	(6,262 )	(2,448 )	(260 )	(1,143 )
Income before gain on sale of real estate	67,512	63,666	128,846	123,481
Gain on sale of real estate, net of tax	11,912	3,465	18,644	3,475
Net Income	79,424	67,131	147,490	126,956
Net income attributable to noncontrolling interests	(3,743 )	(2,813 )	(6,535 )	(5,154 )
Net Income Attributable to W. P. Carey	\$75,681	\$64,318	\$140,955	\$121,802
Basic Earnings Per Share	\$0.70	\$0.60	\$1.30	\$1.13
Diluted Earnings Per Share	\$0.70	\$0.59	\$1.30	\$1.13

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Weighted-Average Shares Outstanding

Basic	108,059,394	107,668,218	108,058,671	107,615,644
Diluted	108,234,934	107,783,204	108,243,063	107,801,318

Distributions Declared Per Share	\$1.020	\$ 1.000	\$2.035	\$ 1.995
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See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2018 10-Q – 4

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$79,424	\$67,131	\$147,490	\$126,956
Other Comprehensive (Loss) Income				
Foreign currency translation adjustments	(39,815 )	27,957	(21,299 )	42,707
Realized and unrealized gain (loss) on derivative instruments	14,073	(16,631 )	5,681	(22,304 )
Change in unrealized (loss) gain on investments	(58 )	(73 )	370	(326 )
Comprehensive Income	(25,800 )	11,253	(15,248 )	20,077
	53,624	78,384	132,242	147,033
Amounts Attributable to Noncontrolling Interests				
Net income	(3,743 )	(2,813 )	(6,535 )	(5,154 )
Foreign currency translation adjustments	7,634	(8,675 )	3,852	(9,245 )
Realized and unrealized loss on derivative instruments	2	8	5	5
Comprehensive loss (income) attributable to noncontrolling interests	3,893	(11,480 )	(2,678 )	(14,394 )
Comprehensive Income Attributable to W. P. Carey	\$57,517	\$66,904	\$129,564	\$132,639

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2018 10-Q – 5

## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Six Months Ended June 30, 2018 and 2017

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Loss	Total W. P. Carey Stockholders Interests	Noncontrolling Interests	Total
	Common Stock \$0.001 Par Value Shares	Additional Paid-in Capital	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 )
Distributions 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 )	(3,852 )	(21,299 )
Realized and unrealized gain						5,686	5,686	(5 )	5,681

on derivative instruments									
Change in 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

W. P. Carey 6/30/2018 10-Q – 6

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(Continued)

Six Months Ended June 30, 2018 and 2017

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Loss	Total W. P. Carey Stockholders	Noncontrolling Interests	Total
	Common Stock \$0.001 Par Value Shares	Additional Paid-in Capital	Amount						
Balance at January 1, 2017	106,294,162	\$106	\$4,399,961	\$(894,137)	\$50,222	\$(254,485)	\$3,301,667	\$123,473	\$3,425,140
Shares issued under “at-the-market” offering, net	329,753	1	21,872				21,873		21,873
Acquisition of noncontrolling interest			(1,845)				(1,845)	1,845	—
Shares issued upon delivery of vested restricted share awards	204,964	—	(9,458)				(9,458)		(9,458)
Shares issued upon exercise of stock options and purchases under employee share purchase plan	37,744	—	(1,595)				(1,595)		(1,595)
Delivery of deferred vested shares, net			3,734	(3,734)			—		—
Amortization of stock-based compensation expense			10,014				10,014		10,014
Contributions from noncontrolling interests							—	90,484	90,484
Distributions to noncontrolling interests							—	(11,585)	(11,585)
Distributions declared (\$1.995 per share)			1,158	(217,049)	223		(215,668)		(215,668)

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Net income			121,802			121,802	5,154	126,956	
Other comprehensive income:									
Foreign currency translation adjustments					33,462	33,462	9,245	42,707	
Realized and unrealized loss on derivative instruments					(22,299 )	(22,299 )	(5 )	(22,304 )	
Change in unrealized loss on investments					(326 )	(326 )		(326 )	
Balance at June 30, 2017	106,866,623	\$107	\$4,423,841	\$(989,384)	\$46,711	\$(243,648)	\$3,237,627	\$218,611	\$3,456,238

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2018 10-Q – 7

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended	
	June 30,	
	2018	2017
Cash Flows — Operating Activities		
Net income	\$ 147,490	\$ 126,956
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	132,188	129,178
Investment Management revenue received in shares of Managed REITs and other	(30,793 )	(31,879 )
Distributions of earnings from equity method investments	28,361	32,590
Equity in earnings of equity method investments in the Managed Programs and real estate	(27,883 )	(31,502 )
Amortization of rent-related intangibles and deferred rental revenue	23,332	24,753
Gain on sale of real estate	(18,644 )	(3,475 )
Stock-based compensation expense	11,917	10,014
Deferred income taxes	(8,959 )	(6,933 )
Straight-line rent adjustments	(7,503 )	(8,970 )
Impairment charges	4,790	—
Realized and unrealized (gains) losses on foreign currency transactions, derivatives, and other	(4,330 )	7,089
Changes in assets and liabilities:		
Net changes in other operating assets and liabilities	(24,096 )	(5,927 )
Deferred structuring revenue received	5,620	9,927
Increase in deferred structuring revenue receivable	(2,576 )	(4,064 )
Net Cash Provided by Operating Activities	228,914	247,757
Cash Flows — Investing Activities		
Purchases of real estate	(269,890 )	(6,000 )
Proceeds from sales of real estate	77,737	43,809
Funding for real estate construction, redevelopments, and other capital expenditures on owned real estate	(48,888 )	(28,519 )
Proceeds from repayment of short-term loans to affiliates	37,000	214,495
Funding of short-term loans to affiliates	(10,000 )	(48,492 )
Return of capital from equity method investments	6,957	3,836
Other investing activities, net	(3,400 )	1,859
Capital contributions to equity method investments	(715 )	(1,290 )
Capital expenditures on corporate assets	(248 )	(253 )
Net Cash (Used in) Provided by Investing Activities	(211,447 )	179,445
Cash Flows — Financing Activities		
Repayments of Senior Unsecured Credit Facility	(818,895 )	(1,433,091)
Proceeds from issuance of Senior Unsecured Notes	616,355	530,456
Proceeds from Senior Unsecured Credit Facility	592,990	1,009,591
Distributions paid	(219,192 )	(214,117 )
Prepayments of mortgage principal	(164,908 )	(100,647 )
Scheduled payments of mortgage principal	(34,338 )	(287,813 )
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(13,905 )	(11,159 )
Distributions paid to noncontrolling interests	(9,773 )	(11,585 )
Payment of financing costs	(4,286 )	(12,464 )
Other financing activities, net	(3,309 )	557

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Proceeds from mortgage financing	857	—
Contributions from noncontrolling interests	71	90,484
Proceeds from shares issued under “at-the-market” offering, net of selling costs	—	21,864
Net Cash Used in Financing Activities	(58,333 )	(417,924 )
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	(4,992 )	5,217
Net (decrease) increase in cash and cash equivalents and restricted cash	(45,858 )	14,495
Cash and cash equivalents and restricted cash, beginning of period	209,676	210,731
Cash and cash equivalents and restricted cash, end of period	\$163,818	\$225,226

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2018 10-Q – 8

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W. P. CAREY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

W. P. Carey Inc. is a REIT that, together with its consolidated subsidiaries, invests primarily in operationally-critical, single-tenant commercial real estate properties located in North America and Northern and Western Europe. 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.”

On June 17, 2018, we, Corporate Property Associates 17 – Global Incorporated, or CPA:17 – Global, a publicly-held, non-listed REIT advised by us, and certain of our subsidiaries entered into an agreement and plan of merger, or Merger Agreement, pursuant to which CPA:17 – Global will merge with and into one of our subsidiaries in exchange for shares of our common stock, or the Proposed Merger (Note 3). On July 27, 2018, we filed a registration statement on Form S-4 with the SEC to register the shares of our common stock to be issued in the Proposed Merger; upon effectiveness of this registration statement, which is currently under review by the SEC, we and CPA:17 – Global intend to mail the joint proxy statement/prospectus contained therein to our respective stockholders in connection with the Proposed Merger. The Proposed Merger and related transactions are subject to a number of closing conditions, including approvals by our stockholders and the stockholders of CPA:17 – Global. If these approvals are obtained and the other closing conditions are met, we currently expect the transaction to close at or around December 31, 2018, although there can be no assurance that the Proposed Merger will occur at such time or at all.

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

Through our TRSs, we also earn revenue as the advisor to publicly owned, non-listed REITs that invested in similar properties, which are sponsored by us under the Corporate Property Associates, or CPA, brand name. At June 30, 2018, we were the advisor to CPA:17 – Global and Corporate Property Associates 18 – Global Incorporated, or CPA:18 – Global. We refer to CPA:17 – Global and CPA:18 – Global together as the CPA REITs.

At June 30, 2018, we were also the advisor to Carey Watermark Investors Incorporated, or CWI 1, and Carey Watermark Investors 2 Incorporated, or CWI 2, two publicly owned, non-listed REITs that invest in lodging and lodging-related properties. We refer to CWI 1 and CWI 2 together as the CWI REITs and, together with the CPA REITs, as the Managed REITs (Note 3).

At June 30, 2018, we were also the advisor to Carey European Student Housing Fund I, L.P., or CESH I, 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 and CESH I collectively as the Managed Programs.

In June 2017, our board of directors, or the Board, approved a plan to exit non-traded retail fundraising activities carried out by our wholly-owned broker-dealer subsidiary, Carey Financial LLC, or Carey Financial, as of June 30, 2017. As a result, we will no longer be raising capital for new or existing funds that we manage, but we do expect to



continue managing our existing Managed Programs through the end of their respective life cycles (Note 3).

In August 2017, we resigned as the advisor to Carey Credit Income Fund (known since October 23, 2017 as Guggenheim Credit Income Fund, or GCIF), or CCIF, and by extension, its feeder funds, or the CCIF Feeder Funds, each of which is a business development company, or BDC (Note 3). We refer to CCIF and the CCIF Feeder Funds collectively as the Managed BDCs. The board of trustees of CCIF approved our resignation and appointed CCIF's subadvisor, Guggenheim Partners Investment Management, LLC, or Guggenheim, as the interim sole advisor to CCIF, effective as of September 11, 2017. The shareholders of CCIF approved Guggenheim's appointment as sole advisor on a permanent basis on October 20, 2017. The Managed BDCs were included in the Managed Programs prior to our resignation as their advisor. We have retained our initial investment in shares of CCIF (now GCIF), which is included within Other assets, net in the consolidated financial statements (Note 7).

W. P. Carey 6/30/2018 10-Q – 9

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Notes to Consolidated Financial Statements (Unaudited)

Reportable Segments

Owned Real Estate — Lease revenues and equity income (Note 7) from our wholly- and co-owned real estate investments generate the vast majority of our earnings. We invest in commercial properties located primarily in North America and Europe, which are leased to companies, primarily on a triple-net lease basis. We also owned one hotel at June 30, 2018, which is considered an operating property. At June 30, 2018, our owned portfolio was comprised of our full or partial ownership interests in 878 properties, totaling approximately 86.6 million square feet, substantially all of which were net leased to 208 tenants, with a weighted-average lease term of 10.0 years and an occupancy rate of 99.6%.

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 also earned asset management revenue from CCIF based on the average of its gross assets at fair value through the effective date of our resignation as its advisor. 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, 2018, the CPA REITs collectively owned all or a portion of 462 properties (including certain properties in which we have an ownership interest), totaling approximately 54.1 million square feet, substantially all of which were net leased to 206 tenants, with an occupancy rate of approximately 99.4%. The Managed Programs also had interests in 167 operating properties, totaling approximately 19.8 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, or GAAP.

In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair statement of financial position, results of operations, and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2017, which are included in the 2017 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire year.

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

## Basis of Consolidation

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

When we obtain an economic interest in an entity, we evaluate the entity to determine if it should be deemed a variable interest entity, or VIE, and, if so, whether we are the primary beneficiary and are therefore required to consolidate the entity. We apply accounting guidance for consolidation of VIEs to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional

W. P. Carey 6/30/2018 10-Q – 10

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## Notes to Consolidated Financial Statements (Unaudited)

subordinated financial support from other parties. Fixed price purchase and renewal options within a lease, as well as certain decision-making rights within a loan or joint-venture agreement, can cause us to consider an entity a VIE. Limited partnerships and other similar entities that operate as a partnership will be considered a VIE unless the limited partners hold substantive kick-out rights or participation rights. Significant judgment is required to determine whether a VIE should be consolidated. We review the contractual arrangements provided for in the partnership agreement or other related contracts to determine whether the entity is considered a VIE, and to establish whether we have any variable interests in the VIE. We then compare our variable interests, if any, to those of the other variable interest holders to determine which party is the primary beneficiary of the VIE based on whether the entity (i) has the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The liabilities of these VIEs are non-recourse to us and can only be satisfied from each VIE's respective assets.

At both June 30, 2018 and December 31, 2017, we considered 28 entities to be VIEs, 21 of which we consolidated as we are considered the primary beneficiary. The following table presents a summary of selected financial data of the consolidated VIEs included in the consolidated balance sheets (in thousands):

	June 30, 2018	December 31, 2017
Land, buildings and improvements	\$893,325	\$916,001
Net investments in direct financing leases	39,167	40,133
In-place lease and other intangible assets	269,371	268,863
Above-market rent intangible assets	101,919	103,081
Accumulated depreciation and amortization	(265,247 )	(251,979 )
Total assets	1,077,356	1,118,727
Non-recourse mortgages, net	\$115,209	\$128,230
Total liabilities	186,648	201,186

At both June 30, 2018 and December 31, 2017, our seven unconsolidated VIEs included our interests in six unconsolidated real estate investments, which we account for under the equity method of accounting, and one unconsolidated entity, which we accounted for at fair value as of June 30, 2018 and under the cost method of accounting as of December 31, 2017 (Note 7), and is included within our Investment Management segment. 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, 2018 and December 31, 2017, the net carrying amount of our investments in these entities was \$152.4 million and \$152.7 million, respectively, and our maximum exposure to loss in these entities was limited to our investments.

At June 30, 2018, we had an investment in a tenancy-in-common interest in various underlying international properties. Consolidation of this investment is not required as such interest does not qualify as a VIE and does not meet the control requirement for consolidation. Accordingly, we account for this investment using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenancy-in-common interest investment provides us with significant influence on the operating and financial decisions of this investment.

At times, the carrying value of our equity investments may fall below zero for certain investments. We intend to fund our share of the jointly owned investments' future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments, nor do we have any legal obligation to fund operating deficits. At June 30, 2018, none of our equity investments had carrying values below zero.

Accounting Policy Update

Distributions from Equity Method Investments — 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.

W. P. Carey 6/30/2018 10-Q – 11

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## Notes to Consolidated Financial Statements (Unaudited)

## Reclassifications

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

Restricted Cash — In connection with our adoption of Accounting Standards Update, or ASU, 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, as described below, we revised our consolidated statements of cash flows to include restricted cash when reconciling the beginning-of-period and end-of-period cash amounts shown on the statement of cash flows. As a result, we retrospectively revised prior periods presented to conform to the current period presentation. Restricted cash primarily consists of security deposits and amounts required to be reserved pursuant to lender agreements for debt service, capital improvements, and real estate taxes. 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, 2018	December 31, 2017
Cash and cash equivalents	\$122,430	\$162,312
Restricted cash <sup>(a)</sup>	41,388	47,364
Total cash and cash equivalents and restricted cash	\$163,818	\$209,676

(a) Restricted cash is included within Other assets, net on our consolidated balance sheets.

## Recent Accounting Pronouncements

## Pronouncements Adopted as of June 30, 2018

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to our lease revenues, which constitute a majority of our revenues, but will primarily apply to revenues generated from our operating properties and our Investment Management business. We adopted this guidance for our interim and annual periods beginning January 1, 2018 using the modified retrospective transition method applied to any contracts not completed as of that date. There were no changes to the prior period presentations of revenue. Results of operations for reporting periods beginning January 1, 2018 are presented under Topic 606. The adoption of Topic 606 did not have a material impact on our consolidated financial statements.

Revenue 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.

Revenue from contracts under Accounting Standards Codification, or ASC, 606 in our Owned Real Estate segment primarily represented operating property revenues of \$4.9 million and \$8.2 million for the three months ended June 30, 2018 and 2017, respectively, and \$12.1 million and \$15.2 million for the six months ended June 30, 2018 and 2017, respectively. 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 sold one of our two hotels in April 2018 (Note 15). 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.

W. P. Carey 6/30/2018 10-Q – 12

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Notes to Consolidated Financial Statements (Unaudited)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires all equity investments (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value, with changes in the fair value recognized through net income. We adopted this guidance for our interim and annual periods beginning January 1, 2018. The adoption of ASU 2016-01 did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 intends to reduce diversity in practice for certain cash flow classifications, including, but not limited to (i) debt prepayment or debt extinguishment costs, (ii) contingent consideration payments made after a business combination, (iii) proceeds from the settlement of insurance claims, and (iv) distributions received from equity method investees. We retrospectively adopted this guidance for our interim and annual periods beginning January 1, 2018. As a result, we reclassified debt extinguishment costs from net cash provided by operating activities to net cash used in financing activities on the consolidated statement of cash flows for the six months ended June 30, 2017. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 intends to reduce diversity in practice for the classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We retrospectively adopted this guidance for our interim and annual periods beginning January 1, 2018. See Restricted Cash above for additional information.

In February 2017, the FASB issued ASU 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to non-customers, including partial sales. Nonfinancial assets within the scope of this Subtopic include the sale of land, buildings, and intangible assets. ASU 2017-05 further clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term “in substance nonfinancial asset,” in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. This amendment also clarifies that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent company may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. We adopted this guidance for our interim and annual periods beginning January 1, 2018 and applied the modified retrospective transition method (applicable to any contracts not completed as of that date). The adoption of ASU 2017-05 did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when to account for a change to the terms and conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, vesting conditions, or classification of the award (as equity or liability) changes as a result of the change in terms or conditions. We adopted this guidance for our interim and annual periods beginning January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on our consolidated financial statements.



W. P. Carey 6/30/2018 10-Q – 13

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Notes to Consolidated Financial Statements (Unaudited)

Pronouncements to be Adopted after June 30, 2018

In February 2016, the 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, would be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely equivalent to the current model, with the distinction between operating, sales-type, and direct financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard. ASU 2016-02 also replaces existing sale-leaseback guidance with a new model that requires symmetrical accounting between the seller-lessee and buyer-lessor. Additionally, ASU 2016-02 requires lessors to record costs paid directly by a lessee on behalf of a lessor (e.g., real estate taxes and insurance costs) on a gross basis and will require extensive quantitative and qualitative disclosures.

Early application is permitted for all entities. ASU 2016-02 provides two transition methods. The first transition method allows for application of the new model at the beginning of the earliest comparative period presented. Under the second transition method, comparative periods would not be restated, with any cumulative effect adjustments recognized in the opening balance of retained earnings in the period of adoption. In addition, a practical expedient was recently issued by the FASB which allows lessors to combine non-lease components with related lease components if certain conditions are met. Further, in March 2018, the FASB approved, but has not yet finalized or issued, an update to allow lessors to make a policy election to record certain costs (e.g., insurance) paid directly by the lessee net, if the uncertainty regarding these variable amounts is not expected to ultimately be resolved. We will adopt this guidance for our interim and annual periods beginning January 1, 2019 and expect to use the second transition method. ASU 2016-02 is expected to impact our consolidated financial statements as we have certain operating office and land lease arrangements for which we are the lessee and also certain lease arrangements that include common area maintenance services (non-lease components) where we are the lessor. We are evaluating the impact of ASU 2016-02 and have not yet determined if it will have a material impact on our business or our consolidated financial statements.

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess 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. ASU 2017-12 will be effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are in the process of evaluating the impact of adopting ASU 2017-12 on our consolidated financial statements and will adopt the standard for the fiscal year beginning January 1, 2019.

Note 3. Agreements and Transactions with Related Parties

Proposed Merger with CPA:17 – Global

On June 17, 2018, we, CPA:17 – Global, and certain of our subsidiaries entered into the Merger Agreement, pursuant to which CPA:17 – Global will merge with and into one of our subsidiaries in exchange for shares of our common stock, or the Proposed Merger. On July 27, 2018, we filed a registration statement on Form S-4 with the SEC, which is currently under review by the SEC, to register the shares of our common stock to be issued in the Proposed Merger; upon effectiveness, we and CPA:17 – Global intend to mail the joint proxy statement/prospectus contained therein to our respective stockholders in connection with the Proposed Merger. The Proposed Merger and related transactions are subject to a number of closing conditions, including approvals by our stockholders and the stockholders of CPA:17 – Global. If these approvals are obtained and the other closing conditions are met, we currently expect the Proposed Merger to close at or around December 31, 2018, although there can be no assurance that the transaction will close at such time or at all.

W. P. Carey 6/30/2018 10-Q – 14

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Notes to Consolidated Financial Statements (Unaudited)

Subject to the terms and conditions contained in the Merger Agreement, at the effective time of the Proposed Merger, each share of CPA:17 – Global common stock issued and outstanding immediately prior to the effective time of the Proposed Merger will be canceled and, in exchange for cancellation of such share, the rights attaching to such share will be converted automatically into the right to receive 0.160 shares of our common stock, which we refer to herein as the Merger Consideration. Each share of CPA:17 – Global common stock owned by us or any of our subsidiaries immediately prior to the effective time of the Proposed Merger will automatically be canceled and retired, and will cease to exist, for no Merger Consideration.

Through June 30, 2018, we have incurred expenses related to the Proposed Merger totaling approximately \$3.6 million (including expenses incurred in 2017), which are included in Merger and other expenses in the consolidated financial statements. Further details concerning the Proposed Merger are described in a Form 8-K that we filed with the SEC on June 18, 2018.

Advisory Agreements and Partnership Agreements with the Managed Programs

We have advisory agreements with each of the Managed Programs, pursuant to which we earn fees and are entitled to receive reimbursement for certain fund management expenses. The advisory agreements also entitled us to fees for serving as the dealer manager for the offerings of the Managed Programs. However, we ceased all active non-traded retail fundraising activities as of June 30, 2017 and facilitated the orderly processing of sales for CWI 2 and CESH I until their offerings closed on July 31, 2017, at which point we no longer received dealer manager fees. In addition, we resigned as CCIF's advisor in August 2017 and our advisory agreement with CCIF was terminated effective as of September 11, 2017, at which point we no longer earned any fees from CCIF. We currently expect to continue to manage all existing Managed Programs through the end of their respective life cycles (Note 1). The advisory agreements with each of the Managed REITs have one-year terms that are currently scheduled to expire on December 31, 2018, and may be renewed for successive periods. The advisory agreement with CESH I, which commenced on June 3, 2016, will continue until terminated pursuant to its terms.

We have partnership agreements with each of the Managed REITs, pursuant to which we are entitled to receive certain cash distributions. We also have a partnership agreement with CESH I, pursuant to which we received limited partnership units of CESH I equal to 2.5% of its gross offering proceeds in lieu of reimbursement of certain organizational expenses prior to the closing of CESH I's offering on July 31, 2017.

## Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Asset management revenue <sup>(a)</sup>	\$17,268	\$17,966	\$34,253	\$35,333
Distributions of Available Cash	8,776	10,728	19,278	22,521
Reimbursable costs from affiliates <sup>(a)</sup>	5,537	13,479	10,841	39,179
Structuring revenue <sup>(a)</sup>	4,426	14,330	6,165	18,164
Interest income on deferred acquisition fees and loans to affiliates	495	432	1,048	1,017
Dealer manager fees <sup>(a)</sup>	—	1,000	—	4,325
Other advisory revenue <sup>(a)</sup>	—	706	190	797
	\$36,502	\$58,641	\$71,775	\$121,336

  

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
CPA:17 – Global	\$14,553	\$23,191	\$30,337	\$40,262
CPA:18 – Global	11,147	6,116	18,034	14,319
CWI 1	5,643	7,254	12,622	14,111
CWI 2	4,408	9,098	9,445	33,563
CCIF	—	6,049	—	10,990
CESH I	751	6,933	1,337	8,091
	\$36,502	\$58,641	\$71,775	\$121,336

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

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

	June 30, December	
	2018	31, 2017
Short-term loans to affiliates, including accrued interest	\$57,919	\$84,031
Deferred acquisition fees receivable, including accrued interest	9,473	12,345
Reimbursable costs	4,158	4,315
Asset management fees receivable	2,980	356
Current acquisition fees receivable	1,835	83
Accounts receivable	1,735	4,089
Organization and offering costs	—	89
	\$78,100	\$105,308

## 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.

W. P. Carey 6/30/2018 10-Q – 16

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## Notes to Consolidated Financial Statements (Unaudited)

## Asset Management Revenue

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

Managed Program	Rate	Payable	Description
CPA:17 – Global	0.5% – 1.75%	In shares of its common stock and/or cash, at the option of CPA:17 – Global; payable in shares of its common stock through May 31, 2018; payable in cash effective as of June 1, 2018 in light of the Proposed Merger	Rate depends on the type of investment and is based on the average market or average equity value, as applicable
CPA:18 – Global	0.5% – 1.5%	In shares of its Class A common stock and/or cash, at the option of CPA:18 – Global; payable in shares of its Class A common stock for 2018 and 2017	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 2018 and 2017	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 2018 and 2017	Rate is based on the average market value of the investment; we are required to pay 25% of the asset management revenue we receive to the subadvisor
CCIF	1.75% – 2.00%	In cash, prior to our resignation as the advisor to CCIF, effective September 11, 2017 ( <u>Note 1</u> )	Based on the average of gross assets at fair value; we were required to pay 50% of the asset management revenue we received to the subadvisor
CESH I	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.

## Notes to Consolidated Financial Statements (Unaudited)

## Structuring Revenue

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

Managed Program	Rate	Payable	Description
CPA:17 – Global	1% – 1.75%, 4.5%	In cash; for non net-lease investments, 1% – 1.75% upon completion; for net-lease investments, 2.5% upon completion, with 2% deferred and payable in three interest-bearing annual installments	Based on the total aggregate cost of the net-lease investments made; also based on the total aggregate cost of the non net-lease investments or commitments made; total limited to 6% of the contract prices in aggregate
CPA:18 – Global	4.5%	In cash; for all investments, other than readily marketable real estate securities for which we will not receive any acquisition fees, 2.5% upon completion, with 2% deferred and payable in three interest-bearing annual installments	Based on the total aggregate cost of the investments or commitments made; total limited to 6% of the contract prices in aggregate
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; total for each CWI REIT limited to 6% of the contract prices in aggregate
CESH I	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.



## Notes to Consolidated Financial Statements (Unaudited)

## Reimbursable Costs from Affiliates

During their respective offering periods, the Managed Programs reimbursed us for certain costs that we incurred on their behalf, which consisted primarily of broker-dealer selling commissions, dealer manager fees, organization and offering costs, marketing costs, and annual distribution and shareholder servicing fees, as applicable. As a result of our exit from non-traded retail fundraising activities in June 2017, we ceased raising funds on behalf of the Managed Programs in the third quarter of 2017 and no longer incur these costs. The Managed Programs will continue to 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:17 – Global and CPA:18 – Global	In cash	Personnel and overhead costs, excluding those related to our legal transactions group, our senior management, and our investments team, are charged to the CPA REITs based on the average of the trailing 12-month aggregate reported revenues of the Managed Programs and us, and are capped at 1.0% and 2.0% of each CPA REIT's pro rata lease revenues for 2018 and 2017, respectively; 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
CCIF and CCIF Feeder Funds	In cash	Actual expenses incurred, excluding those related to their investment management team and senior management team, prior to our resignation as the advisor to CCIF, effective September 11, 2017 ( <a href="#">Note 1</a> )
CESH I	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 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.

## Other Transactions with Affiliates

## Loans to Affiliates

From time to time, our Board has approved the making of secured and unsecured loans 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.

W. P. Carey 6/30/2018 10-Q – 19

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## Notes to Consolidated Financial Statements (Unaudited)

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

Managed Program	Interest Rate at June 30, 2018	Maturity Date at June 30, 2018	Maximum	Principal	
			Loan Amount Authorized at June 30, 2018	Outstanding Balance at <sup>(a)</sup> June 30, 2018	December 31, 2017
CWI 1 <sup>(b)</sup>	LIBOR + 1.00%	9/30/2018; 12/31/2018	\$ 100,000	\$41,637	\$ 68,637
CESH I <sup>(b)</sup>	LIBOR + 1.00%	5/3/2019; 5/9/2019	35,000	14,461	14,461
CPA:18 – Global	N/A	N/A	50,000	—	—
CWI 2	N/A	N/A	25,000	—	—
				\$56,098	\$ 83,098

<sup>(a)</sup> Amounts exclude accrued interest of \$1.8 million and \$0.9 million at June 30, 2018 and December 31, 2017, respectively.

<sup>(b)</sup> LIBOR means London Interbank Offered Rate.

## Other

At June 30, 2018, we owned interests ranging from 3% to 90% in jointly owned investments in real estate, including a jointly controlled tenancy-in-common interest in several properties, with the remaining interests generally held by affiliates. In addition, we owned stock of each of the Managed REITs and limited partnership units of CESH I. We consolidate certain of these investments and account for the remainder under the equity method of accounting or at fair value (Note 7).

## Note 4. Land, Buildings and Improvements

## 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, 2018	December 31, 2017
Land	\$ 1,109,427	\$ 1,125,539
Buildings and improvements	4,456,810	4,208,907
Real estate under construction	43,382	39,772
Less: Accumulated depreciation	(671,504 )	(613,543 )
	\$4,938,115	\$4,760,675

During the six months ended June 30, 2018, 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 2.8% to \$1.1658 from \$1.1993. As a result of this fluctuation in foreign exchange rates, the carrying value of our Land, buildings and improvements subject to operating leases decreased by \$44.8 million from December 31, 2017 to June 30, 2018.

Depreciation expense, including the effect of foreign currency translation, on our buildings and improvements subject to operating leases was \$36.6 million and \$35.8 million for the three months ended June 30, 2018 and 2017, respectively, and \$73.9 million and \$71.2 million for the six months ended June 30, 2018 and 2017, respectively.

Acquisitions of Real Estate

During the six months ended June 30, 2018, we entered into the following investments, which were deemed to be real estate asset acquisitions, at a total cost of \$357.3 million, including land of \$30.7 million, buildings of \$281.0 million (including capitalized acquisition-related costs of \$1.7 million), net lease intangibles of \$50.6 million, and net other liabilities assumed of \$5.0 million:

- an investment of \$6.1 million for a warehouse facility in Sellersburg, Indiana, on February 21, 2018;
- an investment of \$79.1 million for one warehouse facility in Waukesha, Wisconsin, and two retail facilities in Appleton and Madison, Wisconsin, on March 15, 2018;

W. P. Carey 6/30/2018 10-Q – 20

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## Notes to Consolidated Financial Statements (Unaudited)

an investment of \$85.5 million for a manufacturing facility in Bessemer, Alabama, on June 5, 2018; the property was acquired as part of a nonmonetary transaction in exchange for 23 manufacturing facilities in various locations in the United States and Canada leased to the same tenant; this swap was recorded based on the fair value of the property acquired and was a non-cash investing activity ([Note 15](#)); and

an investment of \$186.6 million for 14 logistics facilities and one office building in various locations in Denmark on June 28, 2018. In addition, we recorded an estimated deferred tax liability of \$33.2 million, with a corresponding increase to the asset value, since we assumed the tax basis of the acquired portfolio.

The acquired net lease intangibles are comprised of in-place lease intangible assets totaling \$50.1 million, which have a weighted-average expected life of 22.4 years, and an above-market rent intangible asset of \$0.5 million, which has an expected life of 14.3 years.

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

### Real Estate Under Construction

During the six months ended June 30, 2018, we capitalized real estate under construction totaling \$34.5 million. The number of construction projects in progress with balances included in real estate under construction was four and five as of June 30, 2018 and December 31, 2017, respectively. Aggregate unfunded commitments totaled approximately \$131.6 million and \$147.9 million as of June 30, 2018 and December 31, 2017, respectively.

During the six months ended June 30, 2018, we completed the following construction projects, at a total cost of \$38.2 million, of which \$23.8 million was capitalized during 2017:

- an expansion project at an education facility in Houston, Texas, in January 2018 at a cost totaling \$21.1 million, including capitalized interest;
- a build-to-suit project for an industrial facility in Zawiercie, Poland, in April 2018 at a cost totaling \$11.4 million, including capitalized interest;
- a renovation project at two industrial facilities in Albemarle and Old Fort, North Carolina, in April 2018 at a cost totaling \$2.2 million; and
- a renovation project at an industrial facility in Chicago, Illinois, in June 2018 at a cost totaling \$3.5 million.

During the six months ended June 30, 2018, we committed to fund an aggregate of \$20.0 million (based on the exchange rate of the euro at June 30, 2018) for an expansion project for an existing tenant at a warehouse facility in Rotterdam, the Netherlands. We currently expect to complete the project in the third 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, 2018, we sold five properties and completed a nonmonetary transaction, which included the disposition of 23 properties in exchange for the acquisition of one property (as described in Acquisitions of Real Estate above), all of which were 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 \$86.3 million from December 31, 2017 to June 30, 2018.

### Future Dispositions of Real Estate

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As of June 30, 2018, one of our tenants had exercised its option to repurchase the property it is leasing for \$8.0 million, but there can be no assurance that such repurchase will be completed. At June 30, 2018, this property had an aggregate asset carrying value of \$6.1 million.

W. P. Carey 6/30/2018 10-Q – 21

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## Notes to Consolidated Financial Statements (Unaudited)

## Land, Buildings and Improvements — Operating Properties

At June 30, 2018 and December 31, 2017, Land, buildings and improvements attributable to operating properties consisted of our investments in one hotel and two hotels, respectively. In April 2018, we sold one hotel, and as a result, the carrying value of our Land, buildings and improvements attributable to operating properties decreased by \$33.2 million from December 31, 2017 to June 30, 2018 (Note 15). Below is a summary of our Land, buildings and improvements attributable to operating properties (in thousands):

	June 30, 2018	December 31, 2017
Land	\$3,874	\$ 6,041
Buildings and improvements	38,413	77,006
Less: Accumulated depreciation	(7,493 )	(16,419 )
	\$34,794	\$ 66,628

Depreciation expense on our buildings and improvements attributable to operating properties was \$0.4 million and \$1.1 million for the three months ended June 30, 2018 and 2017, respectively, and \$1.5 million and \$2.1 million for the six months ended June 30, 2018 and 2017, respectively.

## 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, note receivable, and deferred acquisition fees. Operating leases are not included in finance receivables as such amounts are not recognized as assets in the consolidated financial statements.

## Net Investments in Direct Financing Leases

Interest income from direct financing leases, which was included in Lease revenues in the consolidated financial statements, was \$16.9 million and \$16.3 million for the three months ended June 30, 2018 and 2017, respectively, and \$34.1 million and \$32.5 million for the six months ended June 30, 2018 and 2017, respectively.

During the six months ended June 30, 2018, the U.S. dollar strengthened against the euro, resulting in a \$11.2 million decrease in the carrying value of Net investments in direct financing leases from December 31, 2017 to June 30, 2018. During the six months ended June 30, 2018, we sold a property accounted for as a direct financing lease that had a net carrying value of \$5.1 million.

## Note Receivable

At June 30, 2018 and December 31, 2017, we had a note receivable with an outstanding balance of \$9.6 million and \$10.0 million, respectively, representing the expected future payments under a sales type lease, which was included in Other assets, net in the consolidated financial statements. Earnings from our note receivable are included in Lease termination income and other in the consolidated financial statements.

## Deferred Acquisition Fees Receivable

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

the consolidated financial statements.

Credit Quality of Finance Receivables

We generally 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, 2018 and December 31, 2017, none of the balances of our finance receivables were past due. There were no material modifications of finance receivables during the six months ended June 30, 2018.

W. P. Carey 6/30/2018 10-Q – 22

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## Notes to Consolidated Financial Statements (Unaudited)

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 the CPA REITs are expected to have the available cash to make such payments.

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

Internal Credit Quality Indicator	Number of Tenants / Obligors at		Carrying Value at	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
1 - 3	26	24	\$631,831	\$ 608,101
4	6	8	83,394	123,477
5	—	—	—	—
			\$715,225	\$ 731,578

## 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 one year to 40 years. In addition, we have several ground lease intangibles that are being amortized over periods of up to 99 years. In-place lease and below-market ground lease (as lessee) intangibles, at cost are included in In-place lease and other intangible assets 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, below-market ground lease (as lessee), 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, above-market ground lease (as lessee), and below-market purchase option intangibles are included in Below-market rent and other intangible liabilities, net in the consolidated financial statements.

Goodwill within our Owned Real Estate segment decreased by \$1.9 million during the six months ended June 30, 2018 due to foreign currency translation adjustments, from \$580.4 million as of December 31, 2017 to \$578.5 million as of June 30, 2018. Goodwill within our Investment Management segment was \$63.6 million as of June 30, 2018, unchanged from December 31, 2017.

## Notes to Consolidated Financial Statements (Unaudited)

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

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Finite-Lived Intangible Assets</b>						
Internal-use software development costs	\$ 18,755	\$ (9,265 )	\$ 9,490	\$ 18,649	\$ (7,862 )	\$ 10,787
Trade name	3,975	(798 )	3,177	3,975	(401 )	3,574
	22,730	(10,063 )	12,667	22,624	(8,263 )	14,361
<b>Lease Intangibles:</b>						
In-place lease	1,208,904	(462,113 )	746,791	1,194,055	(421,686 )	772,369
Above-market rent	631,977	(302,227 )	329,750	640,480	(276,110 )	364,370
Below-market ground lease	18,379	(2,060 )	16,319	18,936	(1,855 )	17,081
	1,859,260	(766,400 )	1,092,860	1,853,471	(699,651 )	1,153,820
<b>Indefinite-Lived Goodwill and Intangible Assets</b>						
Goodwill	642,060	—	642,060	643,960	—	643,960
Below-market ground lease	958	—	958	985	—	985
	643,018	—	643,018	644,945	—	644,945
<b>Total intangible assets</b>	<b>\$ 2,525,008</b>	<b>\$ (776,463 )</b>	<b>\$ 1,748,545</b>	<b>\$ 2,521,040</b>	<b>\$ (707,914 )</b>	<b>\$ 1,813,126</b>
<b>Finite-Lived Intangible Liabilities</b>						
Below-market rent	\$ (133,535 )	\$ 52,530	\$ (81,005 )	\$ (135,704 )	\$ 48,657	\$ (87,047 )
Above-market ground lease	(13,176 )	3,350	(9,826 )	(13,245 )	3,046	(10,199 )
	(146,711 )	55,880	(90,831 )	(148,949 )	51,703	(97,246 )
<b>Indefinite-Lived Intangible Liabilities</b>						
Below-market purchase option	(16,711 )	—	(16,711 )	(16,711 )	—	(16,711 )
<b>Total intangible liabilities</b>	<b>\$ (163,422 )</b>	<b>\$ 55,880</b>	<b>\$ (107,542 )</b>	<b>\$ (165,660 )</b>	<b>\$ 51,703</b>	<b>\$ (113,957 )</b>

Net amortization of intangibles, including the effect of foreign currency translation, was \$39.0 million and \$38.0 million for the three months ended June 30, 2018 and 2017, respectively, and \$77.7 million and \$75.7 million for the six months ended June 30, 2018 and 2017, 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 is included in Property expenses, excluding reimbursable tenant costs.

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

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



## Notes to Consolidated Financial Statements (Unaudited)

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,	
	2018	2017	2018	2017
Distributions of Available Cash ( <u>Note 3</u> )	\$8,776	\$10,728	\$19,278	\$22,521
Proportionate share of equity in earnings of equity investments in the Managed Programs	1,167	1,603	3,030	3,802
Amortization of basis differences on equity method investments in the Managed Programs	(914 )	(324 )	(1,312 )	(614 )
Total equity in earnings of equity method investments in the Managed Programs	9,029	12,007	20,996	25,709
Equity in earnings of equity method investments in real estate	4,084	4,216	7,987	7,160
Amortization of basis differences on equity method investments in real estate	(555 )	(495 )	(1,100 )	(1,367 )
Total equity in earnings of equity method investments in real estate	3,529	3,721	6,887	5,793
Equity in earnings of equity method investments in the Managed Programs and real estate	\$12,558	\$15,728	\$27,883	\$31,502

## 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 on, 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 Managed Programs (dollars in thousands):

Fund	% of Outstanding Interests Owned at				Carrying Amount of Investment at	
	June 30, 2018		December 31, 2017		June 30, 2018	December 31, 2017
CPA:17 – Global <sup>(a)</sup>	4.571	%	4.186	%	\$ 133,843	\$ 125,676
CPA:17 – Global operating partnership	0.009	%	0.009	%	—	—
CPA:18 – Global <sup>(a)</sup>	3.000	%	2.540	%	33,008	28,433
CPA:18 – Global operating partnership	0.034	%	0.034	%	209	209
CWI 1 <sup>(a)</sup>	2.597	%	2.119	%	33,095	26,810
CWI 1 operating partnership	0.015	%	0.015	%	186	186
CWI 2 <sup>(a)</sup>	2.304	%	1.786	%	21,018	16,495
CWI 2 operating partnership	0.015	%	0.015	%	300	300
CESH I <sup>(b)</sup>	2.430	%	2.430	%	3,666	3,299
					\$ 225,325	\$ 201,408

During 2018, we received asset management revenue from the Managed REITs in shares of their common stock, (a) which increased our ownership percentage in each of the Managed REITs. Effective as of June 1, 2018, we began receiving asset management revenue from CPA:17 – Global in cash in light of the Proposed Merger (Note 3).

(b) Investment is accounted for at fair value.

CPA:17 – Global — We received distributions from this investment during the six months ended June 30, 2018 and 2017 of \$4.9 million and \$4.0 million, respectively. We received distributions from our investment in the CPA:17 – Global

operating partnership during the six months ended June 30, 2018 and 2017 of \$11.4 million and \$13.8 million, respectively (Note 3).

W. P. Carey 6/30/2018 10-Q – 25

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## Notes to Consolidated Financial Statements (Unaudited)

CPA:18 – Global — The carrying value of our investment in CPA:18 – Global at June 30, 2018 includes asset management fees receivable, for which 119,695 shares of CPA:18 – Global Class A common stock were issued during the third quarter of 2018. We received distributions from this investment during the six months ended June 30, 2018 and 2017 of \$1.2 million and \$0.7 million, respectively. We received distributions from our investment in the CPA:18 – Global operating partnership during the six months ended June 30, 2018 and 2017 of \$4.7 million and \$3.9 million, respectively (Note 3).

CWI 1 — The carrying value of our investment in CWI 1 at June 30, 2018 includes asset management fees receivable, for which 113,184 shares of CWI 1 common stock were issued during the third quarter of 2018. We received distributions from this investment during the six months ended June 30, 2018 and 2017 of \$0.9 million and \$0.5 million, respectively. We received distributions from our investment in the CWI 1 operating partnership during the six months ended June 30, 2018 and 2017 of \$1.0 million and \$3.2 million, respectively (Note 3).

CWI 2 — The carrying value of our investment in CWI 2 at June 30, 2018 includes asset management fees receivable, for which 78,215 shares of CWI 2 Class A common stock were issued during the third quarter of 2018. We received distributions from this investment during the six months ended June 30, 2018 and 2017 of \$0.5 million and \$0.1 million, respectively. We received distributions from our investment in the CWI 2 operating partnership during the six months ended June 30, 2018 and 2017 of \$2.2 million and \$1.6 million, respectively (Note 3).

CESH I — Under the limited partnership agreement we have with CESH I, we paid all organization and offering costs on behalf of CESH I, and instead of being reimbursed by CESH I for actual costs incurred, we received limited partnership units of CESH I equal to 2.5% of its gross offering proceeds (Note 3). In connection with the end of active fundraising by Carey Financial on June 30, 2017, we facilitated the orderly processing of sales in the CESH I offering through July 31, 2017, which then closed its offering on that date (Note 3). We have elected to account for our investment in CESH I at fair value by selecting the equity method fair value option available under GAAP. We record our investment in CESH I on a one quarter lag; therefore, the balance of our equity method investment in CESH I recorded as of June 30, 2018 is based on the estimated fair value of our equity method investment in CESH I as of March 31, 2018. We did not receive distributions from this investment during the six months ended June 30, 2018 or 2017.

CCIF — In August 2017, we resigned as the advisor to CCIF, effective as of September 11, 2017 (Note 1). As such, we reclassified our investment in CCIF (known since October 23, 2017 as GCIF) from Equity investments in the Managed Programs and real estate to Other assets, net in our consolidated balance sheets and accounted for it under the cost method, since we no longer shared decision-making responsibilities with the third-party investment partner. Following our adoption of ASU 2016-01, effective January 1, 2018 (Note 2), we account for our investment in GCIF at fair value. Our investment in GCIF had a carrying value of \$23.8 million and \$23.3 million at June 30, 2018 and December 31, 2017, respectively, and is included in our Investment Management segment. We received distributions from our equity method investment in CCIF during the six months ended June 30, 2017 of \$0.5 million. Following our resignation as the advisor to CCIF in the third quarter of 2017, distributions of earnings from GCIF are recorded within Other gains and (losses) in the consolidated financial statements.

At June 30, 2018 and December 31, 2017, the aggregate unamortized basis differences on our equity investments in the Managed Programs were \$66.4 million and \$55.2 million, respectively.

## Interests in Other Unconsolidated Real Estate Investments

We own equity interests in single-tenant net-leased properties that are generally leased to companies through noncontrolling interests (i) in partnerships and limited liability companies that we do not control but over which we

exercise significant influence or (ii) as tenants-in-common subject to common control. Generally, the underlying investments are jointly owned with affiliates. We account for these investments under the equity method of accounting. Operating results of our unconsolidated real estate investments are included in the Owned Real Estate segment.

## Notes to Consolidated Financial Statements (Unaudited)

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, 2018	December 31, 2017
The New York Times Company <sup>(a)</sup>	CPA:17 – Global	45%	\$ 69,115	\$ 69,401
Frontier Spinning Mills, Inc.	CPA:17 – Global	40%	24,085	24,153
Beach House JV, LLC <sup>(b)</sup>	Third Party	N/A	15,105	15,105
ALSO Actebis GmbH <sup>(c)</sup>	CPA:17 – Global	30%	11,564	12,009
Jumbo Logistiek Vastgoed B.V. <sup>(c) (d)</sup>	CPA:17 – Global	15%	9,670	10,661
Wagon Automotive GmbH <sup>(c)</sup>	CPA:17 – Global	33%	7,700	8,386
Wanbishi Archives Co. Ltd. <sup>(e)</sup>	CPA:17 – Global	3%	1,058	334
			\$ 138,297	\$ 140,049

In January 2018, this tenant exercised its option to repurchase the property it is leasing from the jointly owned (a) investment with our affiliate, CPA:17 – Global, for \$250.0 million (our proportionate share would be \$112.5 million). There can be no assurance that such repurchase will be completed.

(b) This investment is in the form of a preferred equity interest.

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

This investment represents a tenancy-in-common interest, whereby the property is encumbered by the debt for (d) which we are jointly and severally liable. The co-obligor is CPA:17 – Global and the amount due under the arrangement was approximately \$73.3 million at June 30, 2018. Of this amount, \$11.0 million represents the amount we are liable for and is included within the carrying value of the investment at June 30, 2018.

The carrying value of this investment is affected by fluctuations in the exchange rate of the yen. In January 2018, (e) we contributed \$0.7 million to this jointly owned investment in connection with the repayment of the non-recourse mortgage loan encumbering the investment.

We received aggregate distributions of \$8.6 million and \$8.1 million from our other unconsolidated real estate investments for the six months ended June 30, 2018 and 2017, 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.



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

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

## Notes to Consolidated Financial Statements (Unaudited)

active market. The stock warrants were measured at fair value using valuation models that incorporate market inputs and our own assumptions about future cash flows. We classified these assets as Level 3 because these assets are not traded in an active market.

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

**Equity Investment in CESH I** — We have elected to account for our investment in CESH I, 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.

**Equity Investment in GCIF** — We account for our investment in GCIF, which is included in Other assets, net in the consolidated financial statements, at fair value (Note 7). We classified this investment as Level 2 because we used a quoted price from an inactive market to determine its fair value.

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, 2018 or 2017. 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, except for gains and losses recognized on our equity investment in CESH I, which are reported within Other comprehensive (loss) income.

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

	Level	June 30, 2018		December 31, 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Unsecured Notes, net <sup>(a) (b) (c)</sup>	2	\$3,018,475	\$3,082,974	\$2,474,661	\$2,588,032
Non-recourse mortgages, net <sup>(a) (b) (d)</sup>	3	985,666	984,992	1,185,477	1,196,399
Note receivable <sup>(d)</sup>	3	9,637	9,312	9,971	9,639

The carrying value of Senior Unsecured Notes, net (Note 10) includes unamortized deferred financing costs of \$17.4 million and \$14.7 million at June 30, 2018 and December 31, 2017, respectively. The carrying value of Non-recourse mortgages, net includes unamortized deferred financing costs of \$1.0 million at both June 30, 2018 and December 31, 2017.

The carrying value of Senior Unsecured Notes, net includes unamortized discount of \$12.8 million and \$9.9 million at June 30, 2018 and December 31, 2017, respectively. The carrying value of Non-recourse mortgages, net includes unamortized discount of \$1.9 million and \$1.7 million at June 30, 2018 and December 31, 2017, respectively.

We determined the estimated fair value of the Senior Unsecured Notes using observed market prices in an open market with limited trading volume.

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, 2018 and December 31, 2017.

W. P. Carey 6/30/2018 10-Q – 28

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Notes to Consolidated Financial Statements (Unaudited)

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

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

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 likely 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.

We did not recognize any impairment charges during the three or six months ended June 30, 2017.

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, Australia, and Asia 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 a derivative designated, and that qualified, as a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in Other comprehensive (loss) income until the hedged item is recognized in earnings. For a derivative designated, and that qualified, as a net investment hedge, the effective portion of the change in the fair value and/or

## Notes to Consolidated Financial Statements (Unaudited)

the net settlement of the derivative is reported in Other comprehensive (loss) income as part of the cumulative foreign currency translation adjustment. The ineffective portion of the change in fair value of any derivative is immediately recognized in earnings.

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, 2018 and December 31, 2017, no cash collateral had been posted nor received for any of our derivative positions.

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

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value		Liability Derivatives Fair Value	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Foreign currency forward contracts	Other assets, net	\$ 15,039	\$ 12,737	\$ —	\$ —
Foreign currency collars	Other assets, net	5,899	4,931	—	—
Interest rate swaps	Other assets, net	1,359	523	—	—
Interest rate cap	Other assets, net	6	20		