REALTY INCOME CORP
Form 424B5
March 23, 2006

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus Supplement dated March 23, 2006

FILED PURSUANT TO RULE 424(b)(5)
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PROSPECTUS SUPPLEMENT
(To prospectus dated March 23, 2004)

4,600,000 Shares

Common Stock

All of the 4,600,000 shares are being sold by us. We currently pay regular monthly distributions to holders of our common stock, which is listed on the New York Stock Exchange, or NYSE, under the symbol "O." On March 22, 2006, the last reported sale price of our common stock on the NYSE was $24.24 per share.

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of December 31, 2005, we owned a diversified portfolio of 1,646 retail properties located in 48 states with over 13.4 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-6 of this prospectus supplement and on page 4 of the accompanying prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Realty Income Corporation	$	$

The underwriters may also purchase up to an additional 690,000 shares from us to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery on or about March , 2006.

Merrill Lynch & Co.

Sole Book-Running Manager

A.G. Edwards **Raymond James** **Wachovia Securities**

Banc of America Securities LLC

BB&T Capital Markets

Robert W. Baird & Co.

Wells Fargo Securities

The date of this prospectus supplement is March , 2006.

TABLE OF CONTENTS

Prospectus Supplement

	Page
Prospectus Supplement Summary	S-1
Risk Factors	S-6
Use of Proceeds	S-9
Price Range of Common Stock and Distribution History	S-10
Properties	S-11
United States Federal Income Tax Considerations	S-15
Underwriting	S-31
Legal Matters	S-34
Experts	S-34
Incorporation by Reference	S-34

Prospectus

The Company	1
Forward-Looking Statements	2
Risk Factors	4
Use of Proceeds	12
Ratios of Earnings to Fixed Charges	12
Description of Debt Securities	13
Description of Common Stock	25
General Description of Preferred Stock	28
Restrictions on Ownership and Transfers of Stock	35
United States Federal Income Tax Considerations Related to Our REIT Election	38
Plan of Distribution	49
Stockholder Rights Plan	49
Experts	50
Legal Matters	50
Where You Can Find More Information	51
Incorporation of Information We File with the SEC	51
Other Information	52

You should rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. When you make a decision about whether to invest in our common stock, you must not rely upon any unauthorized information or representations and, if anyone provides you with unauthorized information or representations, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, including the financial statements and related notes, before making an investment decision. Unless this prospectus supplement otherwise indicates or the context otherwise requires, the terms "Realty Income," "our," "us" and "we" as used in this prospectus supplement refer to Realty Income Corporation and its subsidiaries on a consolidated basis. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the overallotment option granted to the underwriters is not exercised, and information relating to our properties excludes properties owned by our wholly-owned subsidiary Crest Net Lease, Inc. and its wholly-owned subsidiary, CrestNet 1 LLC, which we collectively refer to as Crest Net.

Realty Income

Realty Income is organized to operate as an equity real estate investment trust, commonly referred to as a REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Additionally, we seek to increase distributions to stockholders and FFO per share through both active portfolio management and the acquisition of additional properties.

We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, retail research, real estate research, portfolio management and capital markets expertise. As of December 31, 2005, we owned a diversified portfolio of 1,646 retail properties located in 48 states, with over 13.4 million square feet of leasable space leased to 101 different retail chains doing business in 29 separate retail industries. Of the 1,646 properties in the portfolio, 1,641, or 99.7%, are single-tenant, retail properties and the remaining five are multi-tenant, distribution and office properties. At December 31, 2005, 1,617, or 98.5%, of the 1,641 single-tenant properties were leased with a weighted average remaining lease term (excluding extension options) of approximately 12.4 years.

Recent Developments

Credit Facility

In June 2005, Realty Income entered into a new unsecured $300 million acquisition credit facility to replace our prior $250 million acquisition credit facility that expired in October 2005. Under the terms of the new credit facility, which commenced in October 2005, the borrowing rate was reduced to LIBOR (London Interbank Offered Rate) plus 65 basis points with a facility fee of 15 basis points, for all-in drawn pricing of 80 basis points over LIBOR, based on our current credit ratings. The new credit facility offers us other interest rate options as well. The term of the new facility expires in October 2008, unless extended as provided in the credit agreement.

Common Stock Issuance

In September 2005, we issued 4.1 million shares of common stock. The net proceeds of $92.7 million were used to fund new property acquisitions and for other general corporate purposes.

Credit Ratings Upgrade

In September 2005, our credit ratings were upgraded by Fitch Ratings. Our senior unsecured debt rating was raised to BBB+ from BBB and our preferred stock rating was raised to BBB from BBB-, in each case with a stable outlook.

In February 2006, Moody's Investors Service, Inc. affirmed its ratings on our senior unsecured debt of Baa2 and on our preferred stock of Baa3, and in each case raised the outlook to "positive" from "stable."

The credit ratings on our unsecured debt and our preferred stock are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that these ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant.

Issuance of 12-Year Senior Unsecured Notes

In September 2005, Realty Income issued $175 million in aggregate principal amount of 12-year, 5$^{3}/_{8}$% senior unsecured notes due 2017. The price to the public for the notes was 99.974% of the principal amount for a yield to maturity of 5.378% per annum. The net proceeds from the offering were used to repay borrowings under our unsecured acquisition credit facility, for property acquisitions and for other general corporate purposes. Our outstanding unsecured notes and debentures are rated BBB+ by Fitch Ratings, Baa2 by Moody's Investors Service, Inc. and BBB by Standard & Poor's Ratings Group.

Acquisitions During 2005

During 2005, Realty Income and Crest Net invested in aggregate $486.6 million in 156 new properties and properties under development. These 156 properties are located in 30 states and are 100% leased with an initial average lease term of 15.8 years. As described below, Realty Income acquired 135 properties and Crest Net acquired 21 properties.

Included in the $486.6 million is $430.7 million invested by Realty Income in 135 new properties and properties under development with an initial weighted average contractual lease rate of 8.4%. These 135 properties are located in 28 states, are 100% leased with an initial average lease term of 15.6 years and will contain over 1.7 million leasable square feet. The 135 new properties acquired by Realty Income are net-leased to 13 different retail chains in the convenience store, drug store, financial services, health and fitness, motor vehicle dealership, restaurant and theater industries.

Included in the $486.6 million is $55.9 million invested by Crest Net in 21 new retail properties and properties under development.

Of the $430.7 million Realty Income invested in real estate during 2005, $43.9 million was invested in 10 properties that were leased and under contract for development by the tenant at December 31, 2005 (with development costs funded by Realty Income). Rent on these properties is scheduled to begin at various times during 2006. At December 31, 2005, we also had committed to pay estimated unfunded development costs totaling $42.2 million.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property this is equal to the base rent or, in the case of properties under development, the estimated base rent under the lease) for the first year of each lease, divided by the estimated total costs. Since it is possible that a tenant could default on the payment of contractual rent, we cannot assure you that the actual initial weighted average contractual lease rate will be equal to the percentage set forth above.

Investments in Existing Properties

In 2005, we capitalized costs of $1.6 million on existing properties in our portfolio, consisting of $570,000 for re-leasing costs and $1.0 million for building improvements.

Net Income Available to Common Stockholders

Net income available to common stockholders was $89.7 million in 2005 versus $90.2 million in 2004, a decrease of $452,000. On a diluted per common share basis, net income was $1.12 per share in 2005 as compared to $1.15 per share in 2004.

The calculation to determine net income available to common stockholders includes gains from the sale of investment properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

The gain recognized from the sales of investment properties during 2005 was $6.6 million as compared to $12.7 million during 2004.

Funds from Operations (FFO)

In 2005, our FFO increased by $11.4 million, or 9.6%, to $129.6 million versus $118.2 million in 2004. On a diluted per common share basis, FFO was $1.62 in 2005 compared to $1.50 for 2004, an increase of $0.12, or 8.0%.

See our discussion of FFO in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2005 (which is incorporated by reference in the accompanying prospectus) which includes a reconciliation of net income available to common stockholders to FFO.

Crest Net Property Sales

During 2005, Crest Net sold 12 properties from its inventory for $23.5 million, which resulted in a gain of $3.3 million.

Crest Net's Property Inventory

Crest Net's property inventory at December 31, 2005 and December 31, 2004 totaled $45.7 million and $10.1 million, respectively, and is included in "real estate held for sale, net" on our consolidated balance sheets, which are part of our Annual Report on Form 10-K for the year ended December 31, 2005, incorporated by reference in the accompanying prospectus.

Increases in Monthly Cash Distributions to Common Stockholders

We continue our 36-year policy of paying distributions monthly. On March 15, 2006 our board of directors increased the monthly distribution on our common stock to $0.116875 per share from $0.11625 per share. The next distribution is payable on April 17, 2006 to stockholders of record as of April 3, 2006. Purchasers of shares of common stock in this offering will be entitled to receive the April 17, 2006 distribution, provided they are stockholders of record as of April 3, 2006.

In 2005, we paid the following monthly cash distributions per common share: three in the amount of $0.11, three in the amount of $0.110625, two in the amount of $0.11125, one in the amount of $0.115, and three in the amount of $0.115625 totaling $1.34625. In December 2005, January 2006 and February 2006, we declared distributions of $0.11625 per share, which were paid on January 17, 2006, February 15, 2006 and March 15, 2006, respectively.

The increase in April 2006 was our 34th consecutive quarterly increase and the 38th increase in the amount of our dividend since our listing on the NYSE in 1994. The new monthly distribution of $0.116875 per share represents a current annualized distribution of $1.4025 per share, and an annualized distribution yield of approximately 5.8% based on the last reported sale price of our common stock on the NYSE of $24.24 on March 22, 2006. Although we expect to continue our policy of paying monthly distributions, we cannot guarantee that we will maintain the current level of

distributions, that we will continue our pattern of increasing distributions per share, or what the actual distribution yield will be in any future period.

Expiration of Stockholder Rights Plan

On February 25, 2005, we announced that our board of directors had amended our stockholder rights plan by changing the expiration date of the plan from July 1, 2008 to February 28, 2005. Accordingly, the stockholder rights plan and the related preferred share purchase rights have expired and no preferred share purchase rights will be issued in respect of the shares of common stock sold in this offering. As a result, you should disregard all statements in the accompanying prospectus concerning our stockholder rights plan, including the statements concerning that plan appearing under the captions "Risk Factors Our charter contains provisions that may delay, defer or prevent a change of control transaction" and "Stockholder Rights Plan".

Amendments to our Articles of Incorporation

Our board of directors was previously divided into three classes of directors serving staggered terms of three years each. Following approval by our stockholders at our annual meeting held on May 10, 2005, we filed an amendment to our articles of incorporation that eliminated our classified board of directors and all of our directors currently serve a one year term. As a result of the foregoing amendment, all statements in the accompanying prospectus concerning our previously classified board of directors should be disregarded.

In addition, following approval by our stockholders at that meeting, we filed an additional amendment to our articles of incorporation that increased the total number of authorized shares of our common stock from 100,000,000 shares to 200,000,000 shares.

The Offering

We are selling all of the shares of common stock offered by this prospectus supplement and no shares are being sold by our stockholders. For a description of our common stock, see "Description of Common Stock" and "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus.

Securities Offered	4,600,000 shares of common stock, plus up to an additional 690,000 shares if the underwriters exercise their overallotment option in full.
Shares to be outstanding after this offering(1)	88,489,114
Use of proceeds	We intend to use most or all of the net proceeds from this offering of common stock to repay borrowings outstanding under our $300 million acquisition credit facility and the remaining net proceeds, if any, for other general corporate purposes.
Restrictions on Ownership and Transfer	Our charter contains restrictions on ownership and transfer of our common stock intended to assist us in maintaining our status as a REIT for federal and/or state income tax purposes. For example, our charter restricts any person from acquiring actual or constructive ownership of more than 9.8% (in value or number of shares, whichever is more restrictive) of our outstanding shares of common stock, as more fully described in the section entitled "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus.
NYSE Symbol	"O"

(1) Based on shares outstanding as of March 22, 2006. Does not include, as of March 22, 2006:

(a) 123,736 shares of common stock issuable upon the exercise of outstanding options;

(b) 2,921,215 additional shares of common stock reserved for issuance under our stock incentive plans; or

(c) up to 690,000 shares of common stock issuable upon exercise of the underwriters' over-allotment option.

Our board of directors has declared a distribution of $0.116875 per share of common stock payable on April 17, 2006 to stockholders of record of our common stock on April 3, 2006. Purchasers of shares of common stock in this offering will be entitled to receive the April 17, 2006 distribution provided they are stockholders of record as of April 3, 2006.

As of March 22, 2006, we had 5,100,000 shares of 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock outstanding. In the event that we liquidate, dissolve or wind up Realty Income, the holders of this preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends, before any payment is made to the holders of our common stock. In addition, this preferred stock ranks senior to our common stock with respect to the payment of dividends and distributions.

RISK FACTORS

In evaluating an investment in our common stock, you should carefully consider the following risk factors and the risk factors described in the accompanying prospectus under the caption "Risk Factors," in addition to the other risks and uncertainties described in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference therein, including the information appearing under Item 1A- "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005. As used under the captions "Risk Factors," in this prospectus supplement and in the accompanying prospectus, references to our capital stock include both our common stock, including the common stock offered by this prospectus supplement, and any class or series of our preferred stock and references to our stockholders include holders of our common stock and any class or series of our preferred stock, in each case unless otherwise expressly stated or the context otherwise requires.

Matters pertaining to certain properties and tenants.

Twenty-five of our properties were available for lease or sale at December 31, 2005, of which all but one are single-tenant properties. At December 31, 2005, 17 of our properties under lease were unoccupied and available for sublease by the tenants, all of which were current with their rent and other obligations.

For 2005, our tenants in the convenience store and child care industries accounted for approximately 18.7% and 12.7%, respectively, of our rental revenue. A downturn in either of these industries, whether nationwide or limited to specific sectors of the United States, could adversely affect tenants in these industries, which in turn could have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common stock and preferred stock. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for the year 2005.

In addition, a substantial number of our properties are leased to middle-market retail chains that generally have more limited financial and other resources than certain upper-market retail chains, and therefore they are more likely to be adversely affected by a downturn in their respective businesses or in the regional or national economy.

On March 5, 2006, ProCare Automotive Solutions LLC ("ProCare") filed a petition under chapter 11 of the U.S. Bankruptcy Code. ProCare, which represented 1.2% of our total rental revenue for the three months ended December 31, 2005, is current in its payment of rent on all of its leases with us. We cannot assure you that ProCare will remain current on its lease payments, and it is possible that ProCare could choose to reject all or some of our leases, in which case it would be obliged to vacate the relevant properties. If ProCare rejects any leases and vacates the relevant properties, we will seek to lease those properties to other tenants or sell those properties, but we cannot predict how long such efforts will take or whether we can obtain similar rents or an attractive sales price. Accordingly, we cannot guarantee that ProCare's bankruptcy will not have a material adverse effect on our results of operations or financial condition.

We depend on key personnel.

We depend on the efforts of our executive officers and key employees. The loss of the services of our executive officers and key employees could have a material adverse effect on our results of operations or financial condition and on our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions to our stockholders. It is possible that we will not be able to recruit additional personnel with equivalent experience in the retail, net-leasing industry.

Increases in market interest rates may adversely affect the price of our common stock.

One of the factors that influences the price of our common stock in public trading markets is the annual yield from distributions on our common stock as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the market price of our common stock.

Future issuances of equity securities could dilute the interest of holders of our common stock.

Our future growth will depend, in large part, upon our ability to raise additional capital. If we were to raise additional capital through the issuance of equity securities, we could dilute the interests of holders of our common stock. The interests of our common stockholders could also be diluted by the issuance of shares of common stock upon the exercise of outstanding options or pursuant to stock incentive plans. Likewise, our Board of Directors is authorized to cause us to issue preferred stock of any class or series (with dividend, voting and other rights as determined by the Board of Directors). Accordingly, the Board of Directors may authorize the issuance of preferred stock with voting, dividend and other similar rights that could dilute, or otherwise adversely affect, the interests of holders of our common stock.

We are subject to risks associated with debt financing.

We intend to incur additional indebtedness in the future, including borrowings under our $300 million acquisition credit facility. At March 23, 2006, we had borrowings outstanding under our $300 million acquisition credit facility of $160.4 million and we had a total of $755 million outstanding in unsecured debt securities. To the extent that new indebtedness is added to our current debt levels, the related risks that we now face would increase. As a result, we are and will be subject to risks associated with debt financing, including the risk that our cash flow could be insufficient to meet required payments on our debt. We also face variable interest rate risk as the interest rate on our $300 million credit facility is variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. In addition, our $300 million credit facility contains financial covenants that could limit the amount of distributions payable by us on our capital stock in the event of deterioration in our results of operations or financial condition. Our $300 million credit facility also provides that in the event of a failure to pay principal or interest on borrowings thereunder when due (subject to any applicable grace period), we and our subsidiaries may not pay any dividends on our capital stock, including our outstanding common and preferred stock. If this were to occur, it would likely have an adverse effect on the market price of our outstanding common and preferred stock and on the value of our debt securities.

Our indebtedness could also have other important consequences to holders of the common stock, such as:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- requiring the use of a substantial portion of our cash flow from operations to pay principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- placing us at a disadvantage compared to our competitors with less indebtedness.

Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness.

Our ability to make distributions on our common stock and preferred stock and payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock and preferred stock, to pay our indebtedness or to fund our other liquidity needs.

The market value of our capital stock could be substantially affected by various factors.

The market value of our capital stock will depend on many factors, which may change from time to time, including, but not limited to:

- interest rate increases that may have an adverse effect on the market value of our capital stock;
- the market for other similar securities issued by other REITs;
- general economic and financial market conditions;
- the financial condition, performance and prospects of us and our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- changes in our credit ratings; and
- actual or anticipated variations in quarterly operating results.

As a result of these and other factors, investors who purchase our common stock in this offering may experience a decrease, which could be substantial, in the market value of our common stock, including decreases unrelated to our operating performance or prospects.

As a property owner, we may be subject to unknown environmental liabilities.

Investments in real property can create a potential for environmental liability. An owner of property can face liability for environmental contamination created by the presence or discharge of hazardous substances on the property. We can face such liability regardless of:

- our knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

There may be environmental problems of which we are unaware associated with our properties. In that regard, a number of our properties are leased to operators of convenience stores that sell petroleum-based fuels, as well as to operators of oil change and tune-up facilities. These facilities, and some other of our properties, use, or may have used in the past, underground lifts or underground tanks for the storage of petroleum-based or waste products, which could create a potential for release of hazardous substances.

The presence of hazardous substances on a property may adversely affect our ability to sell that property and we may incur substantial remediation costs. Although our leases generally require our tenants to operate in compliance with all applicable federal, state and local environmental laws, ordinances and regulations and to indemnify us against any environmental liabilities arising from the

tenants' activities on the property, we could nevertheless be subject to strict liability by virtue of our ownership interest. There also can be no assurance that our tenants could or would satisfy their indemnification obligations under their leases. The discovery of environmental liabilities attached to our properties could have an adverse effect on our results of operations, our financial condition or our ability to make distributions to stockholders and to pay the principal of and interest on our debt securities and other indebtedness.

In addition, several of our properties were built during the period when asbestos was commonly used in building construction and other facilities with asbestos may be acquired by us in the future. Environmental laws govern the presence, maintenance and removal of asbestos-containing materials, or ACMs, and require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, that they adequately inform or train those who may come into contact with asbestos and that they undertake special precautions, including removal or other abatement in the event that asbestos is disturbed during renovation or demolition of a building. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

Compliance. We have not been notified by any governmental authority, and are not otherwise aware, of any material noncompliance, liability or claim relating to hazardous substances, toxic substances, or petroleum products in connection with any of our present properties. Nevertheless, if environmental contamination should exist, we could be subject to strict liability by virtue of our ownership interest.

Insurance and Indemnity. In June 2005, we entered into a new seven-year environmental insurance policy on our property portfolio which replaced the previous five-year environmental insurance policy. The limits on our new policy are $10 million per occurrence, and $50 million in the aggregate, subject to a $40,000 self insurance retention, per occurrence, for properties with underground storage tanks and a $100,000 self insurance retention, per occurrence, for all other properties. It is possible that our insurance could be insufficient to address any particular environmental situation and that, in the future, we could be unable to obtain insurance for environmental matters at a reasonable cost, or at all.

Our tenants are generally responsible for and indemnify us against liabilities for environmental matters that occur on our properties. For properties that have underground storage tanks, in addition to providing an indemnity in our favor, the tenants generally obtain environmental insurance or rely upon the state funds in the states where these properties are located.

USE OF PROCEEDS

We estimate the net proceeds from the sale of common stock offered by this prospectus supplement will be approximately $ million, or approximately $ million if the underwriters' overallotment option is exercised in full, in each case after deducting the estimated underwriting discount but before estimated expenses payable by us. We intend to use most or all of the net proceeds from the offering of the common stock to repay borrowings outstanding under our $300 million acquisition credit facility and the remaining net proceeds, if any, for other general corporate purposes. The term of the acquisition credit facility expires in 2008, unless extended as provided in the credit agreement. As of March 22, 2006, the acquisition credit facility balance was $160.4 million and the acquisition credit facility currently bears interest at a rate of 5.3%, although the credit facility offers us other interest rate options. These borrowings were generally used to acquire properties. Borrowings we repay under the $300 million acquisition credit facility may be reborrowed, subject to customary conditions.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTION HISTORY

On March 22, 2006, the last reported sales price per share of our common stock on the NYSE was $24.24. The table below sets forth for the periods indicated the high and low sales prices per share of our common stock, as reported by the NYSE, and distributions declared per share of our common stock.

	Price Per Share of Common Stock		Distributions Declared Per Share(1)
	High*	Low*	
2003			
First Quarter	$ 18.48	$ 16.44	$ 0.293125
Second Quarter	19.70	17.81	0.295000
Third Quarter	20.40	18.75	0.296875
Fourth Quarter	20.49	19.58	0.298750
2004			
First Quarter	22.48	19.70	0.300625
Second Quarter	22.33	17.69	0.302500
Third Quarter	22.70	19.71	0.319375
Fourth Quarter	26.08	22.48	0.328750
2005			
First Quarter	25.61	22.00	0.330625
Second Quarter	25.69	22.50	0.332500
Third Quarter	25.65	22.00	0.341875
Fourth Quarter	23.97	21.08	0.347500
2006			
First Quarter, through March 22, 2006	24.93	21.57	0.349375(2)

(1) Common stock cash distributions currently are declared monthly by us, based on financial results for the prior months.

(2) Our board of directors has declared a monthly distribution of $0.116875 per share of common stock, payable April 17, 2006 to stockholders of record on April 3, 2006, which is included in this distributions declared per share amount.

After the market close on December 31, 2004, a 2-for-1 common stock split, declared in November 2004, became effective. Common stockholders received a dividend of one additional share of common stock for each share they owned. Unless otherwise expressly stated or the context otherwise requires, data regarding the number of outstanding shares of our common stock and per share data in this prospectus supplement has been adjusted for the stock split.

Future distributions will be at the discretion of our board of directors and will depend on, among other things, our results of operations, funds from operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, our debt service requirements and any other factors our board of directors deems relevant. In addition, our $300 million acquisition credit facility contains financial covenants that could limit the amount of distributions payable by us on our common stock and preferred stock in the event of a deterioration in our results of operations or financial condition, and our $300 million credit facility provides that, in the event of a failure to pay principal of or interest on borrowings thereunder when due (subject to any applicable grace period), we and our subsidiaries may not pay any dividends on our capital stock, including our outstanding common stock and preferred stock. Accordingly, although we expect to continue our policy of paying monthly distributions on our common stock, we cannot guarantee that we will maintain the current level of distributions, that we will continue our pattern of increasing distributions per share, or what the actual distribution yield will be for any future period.

PROPERTIES

As of December 31, 2005, we owned a diversified portfolio:

- Of 1,646 properties;
- With an occupancy rate of 98.5%, or 1,621 properties occupied of the 1,646 properties in the portfolio;
- Leased to 101 different retail chains doing business in 29 separate retail industries;
- Located in 48 states;
- With over 13.4 million square feet of leasable space; and
- With an average leasable retail space of 8,200 square feet.

In addition to our real estate portfolio at December 31, 2005, our subsidiary, Crest Net, had invested $45.7 million in a portfolio of 17 properties located in nine states. These properties are classified as held for sale. At December 31, 2005, 1,617, or 98.2%, of our 1,646 retail properties were owned under net-lease agreements. Net leases typically require the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, tenants are typically responsible for future rent increases (generally subject to ceilings) based on increases in the consumer price index, fixed increases or, to a lesser degree, additional rent calculated as a percentage of the tenants' gross sales above a specified level.

Our net-leased retail properties primarily are leased to regional and national retail chain store operators. Most buildings are single-story structures with adequate parking on site to accommodate peak retail traffic periods. The properties tend to be on major thoroughfares with relatively high traffic counts and adequate access and proximity to a sufficient population base constituting a suitable market or trade area for the retailer's business.

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest Net) classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

	Percentage of Rental Revenue(1)						
	For the Quarter Ended	For the Years Ended					
Industries	**Dec 31, 2005**	**Dec 31, 2005**	**Dec 31, 2004**	**Dec 31, 2003**	**Dec 31, 2002**	**Dec 31, 2001**	**Dec 31, 2000**
Apparel stores	1.4%	1.6%	1.8%	2.1%	2.3%	2.4%	2.4%
Automotive collision services	1.2	1.3	1.0	0.3			
Automotive parts	3.4	3.4	3.8	4.5	4.9	5.7	6.0
Automotive service	7.0	7.6	7.7	8.3	7.0	5.7	5.8
Automotive tire services	6.5	7.2	7.8	3.1	2.7	2.6	2.3
Book stores	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Business services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Child care	11.8	12.7	14.4	17.8	20.8	23.9	24.7
Consumer electronics	1.2	1.3	2.1	3.0	3.3	4.0	4.9
Convenience stores	17.8	18.7	19.2	13.3	9.1	8.4	8.4
Crafts and novelties	0.4	0.4	0.5	0.6	0.4	0.4	0.4
Drug stores	3.0	2.8	0.1	0.2	0.2	0.2	0.2
Entertainment	1.9	2.1	2.3	2.6	2.3	1.8	2.0
Equipment rental services	0.3	0.4	0.3	0.2			
Financial services	0.1	0.1	0.1				
General merchandise	0.5	0.5	0.4	0.5	0.5	0.6	0.6
Grocery stores	0.6	0.7	0.8	0.4	0.5	0.6	0.6
Health and fitness	3.3	3.7	4.0	3.8	3.8	3.6	2.4
Home furnishings	3.4	3.7	4.1	4.9	5.4	6.0	5.8
Home improvement	1.0	1.1	1.0	1.1	1.2	1.3	2.0
Motor vehicle dealerships	2.9	2.6	0.6				
Office supplies	1.6	1.5	1.6	1.9	2.1	2.2	2.3
Pet supplies and services	1.2	1.3	1.4	1.7	1.7	1.6	1.5
Private education	0.7	0.8	1.1	1.2	1.3	1.5	1.4
Restaurants	9.9	9.4	9.7	11.8	13.5	12.2	12.3
Shoe stores	0.0	0.3	0.3	0.9	0.8	0.7	0.8
Sporting goods	3.1	3.4	3.4	3.8	4.1	0.9	
Theaters	9.9	5.2	3.5	4.1	3.9	4.3	2.7
Travel plazas	0.3	0.3	0.4	0.3			
Video rental	2.3	2.5	2.8	3.3	3.3	3.7	3.9
Other	2.9	3.0	3.4	3.8	4.4	5.2	6.0
Totals	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes rental revenue for all properties owned by Realty Income at the end of each period presented, including revenue from properties reclassified to discontinued operations.

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest Net) regarding the timing of the initial lease term expirations (excluding extension options) on our 1,617 net leased, single-tenant and certain other retail properties as of December 31, 2005 (dollars in thousands):

	Total Portfolio			Initial Expirations(3)			Subsequent Expirations(4)		
Year	**Total Number of Leases Expiring(1)**	**Rental Revenue for the Quarter Ended 12/31/05(2)**	**% of Total Rental Revenue**	**Number of Leases Expiring**	**Rental Revenue for the Quarter Ended 12/31/05**	**% of Total Rental Revenue**	**Number of Leases Expiring**	**Rental Revenue for the Quarter Ended 12/31/05**	**% of Total Rental Revenue**
2006	109	$ 2,373	4.6%	50	$ 1,111	2.2%	59	$ 1,262	2.4%
2007	121	2,265	4.4	87	1,662	3.2	34	603	1.2
2008	104	2,334	4.5	66	1,634	3.2	38	700	1.3
2009	89	1,963	3.8	29	694	1.3	60	1,269	2.5
2010	69	1,527	2.9	43	1,072	2.0	26	455	0.9
2011	44	1,662	3.2	34	1,439	2.8	10	223	0.4
2012	44	1,379	2.7	42	1,329	2.6	2	50	0.1
2013	74	3,251	6.3	66	3,039	5.9	8	212	0.4
2014	48	2,007	3.9	36	1,752	3.4	12	255	0.5
2015	87	1,654	3.2	68	1,200	2.3	19	454	0.9
2016	17	513	1.0	15	431	0.8	2	82	0.2
2017	22	1,527	2.9	18	1,459	2.8	4	68	0.1
2018	23	1,090	2.1	23	1,090	2.1			
2019	95	4,480	8.7	94	4,342	8.4	1	138	0.3
2020	82	2,603	5.0	81	2,593	5.0	1	10	*
2021	126	4,082	7.9	126	4,082	7.9			
2022	96	2,592	5.0	95	2,591	5.0	1	1	*
2023	234	6,440	12.4	233	6,414	12.4	1	26	*
2024	57	1,707	3.3	57	1,707	3.3			
2025	63	5,273	10.2	63	5,273	10.2			
2026	2	89	0.2	2	89	0.2			
2028	2	54	0.1	2	54	0.1			
2030	1	21	*	1	21	*			
2033	3	357	0.7	3	357	0.7			
2034	2	230	0.4	2	230	0.4			
2037	2	325	0.6	2	325	0.6			
2043	1	13	*				1	13	*
Totals	1,617	$ 51,811	100.0%	1,338	$ 45,990	88.8%	279	$ 5,821	11.2%

* Less than 0.1%

(1) Excludes four multi-tenant properties and 25 vacant unleased properties, one of which is a multi-tenant property. The lease expirations for properties under construction are based on the estimated date of completion of those properties.

(2) Includes rental revenue of $59 from properties reclassified to discontinued operations and excludes revenue of $1,852 from four multi-tenant properties and from 25 vacant and unleased properties at December 31, 2005.

(3) Represents leases to the initial tenant of the property that are expiring for the first time.

(4) Represents lease expirations on properties in the portfolio, which have previously been renewed, extended or re-tenanted.

The following table sets forth certain state-by-state information regarding Realty Income's property portfolio (excluding properties owned by Crest Net) as of December 31, 2005 (dollars in thousands):

State	Number of Properties	Percent Leased	Approximate Leasable Square Feet	Rental Revenue For the Quarter Ended Dec 31, 2005(1)	Percentage of Rental Revenue
Alabama	17	94%	146,600	$ 419	0.8%
Alaska	2	100	128,500	259	0.5
Arizona	70	100	335,500	1,900	3.5
Arkansas	8	88	48,800	139	0.3
California	61	100	1,057,100	4,044	7.5
Colorado	46	100	385,700	1,785	3.3
Connecticut	16	100	245,600	929	1.7
Delaware	16	100	29,100	338	0.6
Florida	128	99	1,252,600	4,958	9.2
Georgia	103	99	699,300	2,733	5.1
Idaho	14	93	91,900	371	0.7
Illinois	55	100	696,200	3,184	5.9
Indiana	37	95	349,600	1,516	2.8
Iowa	12	92	63,800	181	0.3
Kansas	20	90	188,300	515	1.0
Kentucky	15	100	51,900	320	0.6
Louisiana	14	100	65,200	285	0.5
Maryland	24	100	218,800	1,182	2.2
Massachusetts	37	100	203,100	994	1.9
Michigan	13	100	81,600	300	0.6
Minnesota	20	100	337,100	1,278	2.4
Mississippi	38	89	205,200	711	1.3
Missouri	32	94	244,500	784	1.5
Montana	2	100	30,000	79	0.1
Nebraska	13	100	104,500	436	0.8
Nevada	15	100	191,000	837	1.6
New Hampshire	10	100	89,600	358	0.7
New Jersey	26	100	200,100	1,069	2.0
New Mexico	7	100	53,300	152	0.3
New York	28	96	386,300	1,871	3.5
North Carolina	50	100	322,800	1,470	2.7
North Dakota	5	100	31,900	35	*
Ohio	105	100	661,500	2,520	4.7
Oklahoma	20	95	99,300	685	1.3
Oregon	17	100	253,300	587	1.1
Pennsylvania	81	100	481,300	2,269	4.2
Rhode Island	1	100	3,500	29	0.1
South Carolina	55	100	215,800	1,416	2.6
South Dakota	7	100	18,300	30	0.1
Tennessee	98	100	451,400	2,199	4.1
Texas	182	98	1,835,500	4,859	9.1
Utah	6	100	35,100	108	0.2
Vermont	1	100	2,500	22	*
Virginia	62	100	431,900	2,309	4.3
Washington	37	100	243,900	783	1.5
West Virginia	2	0	16,800		0.0
Wisconsin	16	94	153,700	370	0.7
Wyoming	2	100	9,300	45	0.1
Totals/Average	1,646	99%	13,448,600	$ 53,663	100.0%

* Less than 0.1%

(1) Includes rental revenue for all properties owned by Realty Income at December 31, 2005, including revenue from properties reclassified to discontinued operations of $59.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the material United States federal income tax consequences to you of purchasing, owning and disposing of our common stock and the material United States federal income tax considerations related to our REIT election. This summary supersedes, in its entirety, the discussion in the accompanying prospectus entitled "United States Federal Income Tax Considerations Related to Our REIT Election." This summary is for general information only and is not tax advice.

The information in this summary is based on:

- the Internal Revenue Code of 1986, as amended (the "Code");
- current, temporary and proposed United States Treasury regulations ("Treasury Regulations") promulgated under the Code;
- the legislative history of the Code;
- current administrative interpretations and practices of the Internal Revenue Service ("IRS"); and
- court decisions;

in each case, as of the date of this prospectus supplement. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings that are not binding on the IRS except with respect to the particular taxpayers who requested and received those rulings. Future legislation, Treasury Regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations described in this prospectus supplement. Any such change could apply retroactively to transactions preceding the date of the change. We have not requested, and do not plan to request, any rulings from the IRS concerning our tax treatment, and the statements in this prospectus supplement are not binding on the IRS or any court. Thus, we can provide no assurance that the tax considerations contained in this summary will not be challenged by the IRS or will be sustained by a court if challenged by the IRS. This summary does not discuss any state, local or foreign tax considerations.

You are urged to consult your tax advisors regarding the tax consequences to you of:

- **the acquisition, ownership and sale or other disposition of the common stock offered under this prospectus supplement, including the federal, state, local, foreign and other tax consequences;**
- **our election to be taxed as a REIT for United States federal income tax purposes; and**
- **potential changes in the tax laws.**

Taxation of Realty Income Corporation

General. We elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our taxable year ended December 31, 1994. We believe we have been organized and have operated in a manner which allows us to qualify for taxation as a REIT under the Code commencing with our taxable year ended December 31, 1994. We currently intend to continue to be organized and operate in this manner. However, our qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code, including through our actual annual operating results, asset composition and distribution levels and the diversity of the ownership of our stock. Accordingly, no assurance can be given that we have been organized and have operated, or will continue to be organized and operate, in a manner so as to qualify or remain qualified as a REIT. See the section below entitled " Failure to Qualify." Further, the anticipated income tax treatment described in this prospectus supplement may be changed, perhaps retroactively, by legislative, administrative or judicial action at any time.

The sections of the Code and the corresponding Treasury Regulations that relate to qualification and taxation as a REIT are highly technical and complex. The following sets forth the material aspects of the sections of the Code that govern the United States federal income tax treatment of a REIT and the holders of its common stock. This summary is qualified in its entirety by the applicable Code provisions, relevant rules and regulations promulgated under the Code, and administrative and judicial interpretations of the Code and these rules and regulations.

Latham & Watkins LLP has acted as our tax counsel in connection with our filing of this prospectus supplement and our election to be taxed as a REIT. As a condition to the closing of the sale of our common stock, Latham & Watkins LLP will render an opinion to our underwriters to the effect that, commencing with our taxable year ended December 31, 1994, we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and our proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT under the Code. It must be emphasized that this opinion will be based on various assumptions and representations as to factual matters, including representations made by us in a factual certificate to be provided by one of our officers. In addition, this opinion will be based upon our factual representations set forth in this prospectus supplement and the accompanying prospectus. Moreover, our qualification and taxation as a REIT depend upon our ability to meet the various qualification tests imposed under the Code discussed below, including through actual annual operating results, asset composition, distribution levels and diversity of stock ownership, the results of which have not been and will not be reviewed or verified by Latham & Watkins LLP. Accordingly, no assurance can be given that our actual results of operation for any particular taxable year have satisfied or will satisfy those requirements. Latham & Watkins LLP has no obligation to update its opinion subsequent to the date it is rendered. See " Failure to Qualify".

Provided we qualify for taxation as a REIT, we generally will not be required to pay federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the "double taxation" that typically results from investment in a C corporation. A C corporation is a corporation that generally is required to pay tax at the corporate level. Double taxation generally means taxation that occurs once at the corporate level when income is earned and once again at the stockholder level when the income is distributed. We will be required to pay United States federal income tax, however, as follows:

- first, we will be required to pay tax at regular corporate tax rates on any undistributed REIT taxable income, including undistributed net capital gains.

- second, we may be required to pay the "alternative minimum tax" on our items of tax preference under some circumstances.

- third, if we have (a) net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from foreclosure property, we will be required to pay tax at the highest corporate rate on this income. Foreclosure property is generally defined as property we acquired through foreclosure or after a default on a loan secured by the property or a lease of the property.

- fourth, we will be required to pay a 100% tax on any net income from prohibited transactions. Prohibited transactions are, in general, sales or other taxable dispositions of property, other than foreclosure property, held as inventory or primarily for sale to customers in the ordinary course of business.

- fifth, if we fail to satisfy the 75% or the 95% gross income tests, as described below, but have otherwise maintained our qualification as a REIT because certain other requirements are met, we will be required to pay a tax equal to (a) the greater of (i) the amount by which 75% of our

gross income exceeds the amount qualifying under the 75% gross income test described below and (ii) the amount by which 95% of our gross income exceeds the amount qualifying under the 95% gross income test, multiplied by (b) a fraction intended to reflect our profitability.

sixth, if we fail to satisfy any of the REIT asset tests (other than a de minimis failure of the 5% or 10% asset tests), as described below, due to reasonable cause and not due to willful neglect, and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets that caused us to fail such test.

seventh, if we fail to satisfy any provision of the Code that would result in our failure to qualify as a REIT (other than a violation of the REIT gross income tests or certain violations of the asset tests described below) and the violation is due to reasonable cause and not due to willful neglect, we may retain our REIT qualification but will be required to pay a penalty of $50,000 for each such failure.

eighth, we will be required to pay a 4% excise tax to the extent we fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for the year, (b) 95% of our REIT capital gain net income for the year, and (c) any undistributed taxable income from prior periods.

ninth, if we acquire any asset from a corporation which is or has been a C corporation in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and we subsequently recognize gain on the disposition of the asset during the ten-year period beginning on the date on which we acquired the asset, then we will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (a) the fair market value of the asset over (b) our adjusted basis in the asset, in each case determined as of the date on which we acquired the asset. The results described in this paragraph with respect to the recognition of such gain assume that we or the C corporation from whom we acquire the assets will make or refrain from making the appropriate elections under the applicable Treasury Regulations then in effect.

tenth, we will be subject to a 100% tax on any "redetermined rents," "redetermined deductions" or "excess interest." In general, redetermined rents are rents from real property that are overstated as a result of services furnished by a "taxable REIT subsidiary" of ours to any of our tenants. Redetermined deductions and excess interest generally represent amounts that are deducted by a taxable REIT subsidiary of ours for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's length negotiations. See " Penalty Tax" below.

Requirements for Qualification as a Real Estate Investment Trust. The Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;

(3) that would be taxable as a domestic corporation but for Sections 856 through 860 of the Code;

(4) that is not a financial institution or an insurance company within the meaning of the Code;

(5) that is beneficially owned by 100 or more persons;

(6) not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals, as defined in the Code to include certain entities, during the last half of each taxable year; and

(7) that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. For purposes of condition (6), pension funds and other specified tax-exempt entities generally are treated as individuals, except that a "look-through" exception applies with respect to pension funds.

We believe that we have been organized, have operated and have issued sufficient shares of capital stock with sufficient diversity of ownership to allow us to satisfy conditions (1) through (7), inclusive, during the relevant time periods. In addition, our charter provides for restrictions regarding the ownership and transfer of our shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6) above. These stock ownership and transfer restrictions are described in "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in conditions (5) and (6) above. If we fail to satisfy these share ownership requirements, except as provided in the next sentence, our status as a REIT will terminate. If, however, we comply with the rules contained in the applicable Treasury Regulations that require us to ascertain the actual ownership of our shares, and we do not know, and would not have known through the exercise of reasonable diligence, that we failed to meet the requirement described in condition (6) above, we will be treated as having met this requirement. See " Failure to Qualify."

In addition, we may not maintain our status as a REIT unless our taxable year is the calendar year. We have and will continue to have a calendar taxable year.

Ownership of Partnership and Limited Liability Company Interests. We may from time to time own and operate one or more properties through partnerships and limited liability companies. Treasury Regulations provide that if we are a partner in a partnership, we will be deemed to own our proportionate share of the assets of the partnership based on our interest in partnership capital, subject to special rules relating to the 10% REIT asset test described below. We will also be deemed to be entitled to our proportionate share of the income of the partnership. The character of the assets and gross income of the partnership retains the same character in our hands for purposes of Section 856 of the Code, including satisfying the gross income tests and the asset tests. In addition, the assets and items of income of any partnership in which we own a direct or indirect interest include such partnership's share of assets and items of income of any partnership in which it owns an interest. We have included a brief summary of the rules governing the United States federal income taxation of partnerships and their partners below in " Tax Aspects of the Partnerships." The treatment described above also applies with respect to the ownership of interests in limited liability companies or other entities that are treated as partnerships for United States federal income tax purposes.

We have direct or indirect control of certain partnerships and limited liability companies and intend to continue to operate them in a manner consistent with the requirements for our qualification as a REIT. From time to time we may be a limited partner or non-managing member in certain partnerships and limited liability companies. If a partnership or limited liability company in which we own an interest were to take actions which could jeopardize our status as a REIT or require us to pay tax, we could be forced to dispose of our interest in that entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a REIT income or asset test, and that we would not become aware of such action in time to dispose of our interest in the applicable entity or take other corrective action on a timely basis. In such a case, unless we were entitled to relief, as described below, we could fail to qualify as a REIT.

Ownership of Interests in Qualified REIT Subsidiaries. We currently own and may from time to time own and operate certain properties through wholly-owned subsidiaries that we intend to be treated as "qualified REIT subsidiaries" under the Code. A corporation will qualify as our qualified REIT subsidiary if we own 100% of its outstanding stock and if we do not elect with the subsidiary to treat it as a "taxable REIT subsidiary," described below. A corporation that is a qualified REIT subsidiary is not treated as a separate corporation for United States federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as assets, liabilities and items of income, deduction and credit (as the case may be) of the parent REIT for all purposes under the Code (including all REIT qualification tests). Thus, in applying the federal tax requirements described in this prospectus supplement, the subsidiaries in which we own a 100% interest (other than any taxable REIT subsidiaries) are ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiaries are treated as our assets, liabilities, and items of income, deduction and credit. A qualified REIT subsidiary is not required to pay United States federal income tax, and our ownership of the stock of such a qualified REIT subsidiary does not violate the restrictions on ownership of securities, as described below under " Asset Tests."

Ownership of Interests in Taxable REIT Subsidiaries. A taxable REIT subsidiary is a corporation other than a REIT in which a REIT directly or indirectly holds stock and that has made a joint election with the REIT to be treated as a taxable REIT subsidiary. A taxable REIT subsidiary also includes any corporation other than a REIT with respect to which a taxable REIT subsidiary owns, directly or indirectly, securities possessing more than 35% of the total voting power or value of the outstanding securities of such corporation. A taxable REIT subsidiary generally may engage in any business, including the provision of customary or noncustomary services to tenants of its parent REIT, except that a taxable REIT subsidiary may not directly or indirectly operate or manage a lodging or health care facility or directly or indirectly provide to any other person (under a franchise, license or otherwise) rights to any brand name under which any lodging or health care facility is operated. A taxable REIT subsidiary is subject to United States federal income tax, and state and local income tax where applicable, as a regular C corporation. In addition, a taxable REIT subsidiary of ours may be prevented from deducting interest on debt that we directly or indirectly fund if certain tests regarding the taxable REIT subsidiary's debt-to-equity ratio and interest expense are not satisfied. We currently own 100% of the stock of a taxable REIT subsidiary and may from time to time acquire interests in additional taxable REIT subsidiaries. See " Asset Tests."

Income Tests. We must satisfy two gross income requirements annually to maintain our qualification as a REIT:

- first, in each taxable year, we must derive directly or indirectly at least 75% of our gross income, excluding gross income from prohibited transactions, from (a) certain investments relating to real property or mortgages on real property, including "rents from real property" and, in some circumstances, interest, or (b) some types of temporary investments; and

- second, in each taxable year, we must derive at least 95% of our gross income, excluding gross income from prohibited transactions, from (a) the real property investments described above, and (b) dividends, interest and gain from the sale or disposition of stock or securities.

For these purposes, the term "interest" generally does not include any amount received or accrued, directly or indirectly, if the determination of all or some of the amount depends in any way on the income or profits of any person. An amount received or accrued generally will not be excluded from the term "interest," however, solely by reason of being based on a fixed percentage or percentages of receipts or sales.

Rents we receive from a tenant will qualify as "rents from real property" for the purpose of satisfying the gross income requirements for a REIT described above only if all of the following conditions are met:

- the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales;

- we, or an actual or constructive owner of 10% or more of our stock, must not actually or constructively own 10% or more of the interests in the assets or net profits of the tenant, or, if the tenant is a corporation, 10% or more of the voting power or total value of all classes of stock of the tenant. Rents we receive from such a tenant that is a taxable REIT subsidiary of ours, however, will not be excluded from the definition of "rents from real property" if at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the taxable REIT subsidiary are substantially comparable to rents paid by our other tenants for comparable space. Whether rents paid by a taxable REIT subsidiary are substantially comparable to rents paid by other tenants is determined at the time the lease with the taxable REIT is entered into, extended, and modified, if such modification increases the rents due under such lease. Notwithstanding the foregoing, however, if a lease with a "controlled taxable REIT subsidiary" is modified and such modification results in an increase in the rents payable by such taxable REIT subsidiary, any such increase will not qualify as "rents from real property." For purpose of this rule, a "controlled taxable REIT subsidiary" is a taxable REIT subsidiary in which we own stock possessing more than 50% of the voting power or more than 50% of the total value of the outstanding stock of such taxable REIT subsidiary;

- rent attributable to personal property leased in connection with a lease of real property must not be greater than 15% of the total rent we receive under the lease. If this requirement is not met, then the portion of the rent attributable to personal property will not qualify as "rents from real property;" and

- we generally must not operate or manage our property or furnish or render services to the tenants of the property, subject to a 1% *de minimis* exception and except as provided below. We may, however, directly perform certain services that are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant" of the property. Examples of such services include the provision of light, heat, or other utilities, trash removal and general maintenance of common areas. In addition, we may employ an independent contractor from whom we derive no revenue to provide customary services, or a taxable REIT subsidiary, which may be wholly or partially owned by us, to provide both customary and non-customary services, to our tenants without causing the rent we receive from those tenants to fail to qualify as "rents from real property." Any amounts we receive from a taxable REIT subsidiary with respect to its provision of non-customary services will, however, be nonqualifying income under the 75% gross income test and, except to the extent received through the payment of dividends, the 95% gross income test.

We generally do not intend to receive rent which fails to satisfy any of the above conditions. Notwithstanding the foregoing, we may have taken and may in the future take actions which fail to satisfy one or more of the above conditions to the extent that we determine, based on the advice of our tax counsel, that those actions will not jeopardize our tax status as a REIT.

We believe that the aggregate amount of our nonqualifying income, from all sources, in any taxable year will not exceed the limits on nonqualifying income under the gross income tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are entitled to relief under certain provisions of the Code. Commencing with our taxable year beginning January 1, 2005, we generally may avail ourselves of the relief provisions if:

following our identification of the failure to meet the 75% or 95% gross income test for any taxable year, we file a schedule with the IRS setting forth each item of our gross income for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury Regulations to be issued; and

the failure to meet these tests was due to reasonable cause and not due to willful neglect.

It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally accrue or receive exceeds the limits on nonqualifying income, the IRS could conclude that our failure to satisfy the tests was not due to reasonable cause. If these relief provisions do not apply to a particular set of circumstances, we will not qualify as a REIT. As discussed above in " Taxation of Realty Income Corporation General," even if these relief provisions apply, and we retain our status as a REIT, a tax would be imposed with respect to our nonqualifying income. We may not always be able to comply with the gross income tests for REIT qualification despite our periodic monitoring of our income.

Prohibited Transaction Income. Any gain that we realize on the sale of property held as inventory or otherwise held primarily for sale to customers in the ordinary course of business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Our gain would include any gain realized by our qualified REIT subsidiaries and our share of any gain realized by any of the partnerships or limited liability companies in which we own an interest. This prohibited transaction income may also adversely affect our ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. We intend to hold our properties for investment with a view to long-term appreciation and to engage in the business of acquiring, developing and owning our properties. We have made, and may in the future make, occasional sales of the properties as are consistent with our investment objectives. We do not intend to enter into any sales that are prohibited transactions. The IRS may successfully contend, however, that one or more of these sales is a prohibited transaction subject to the 100% penalty tax.

Penalty Tax. Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by one of our taxable REIT subsidiaries to any of our tenants, and redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's length negotiations. Rents we receive will not constitute redetermined rents if they qualify for the safe harbor provisions contained in the Code.

We do not believe that we have been, and do not expect to be, subject to this penalty tax, although our rental or service arrangements may not satisfy the safe-harbor provisions described above. These determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay this 100% penalty tax on the excess of an arm's length fee for tenant services over the amount actually paid.

Asset Tests. At the close of each quarter of our taxable year, we also must satisfy four tests relating to the nature and diversification of our assets:

first, at least 75% of the value of our total assets, including assets held by our qualified REIT subsidiaries and our allocable share of the assets held by the partnerships and limited liability companies in which we own an interest, must be represented by real estate assets, cash, cash items and government securities. For purposes of this test, the term "real estate assets" generally means real property (including interests in real property and interests in mortgages on real property) and shares (or transferable certificates of beneficial interest) in other REITs, as well as any stock or debt instrument attributable to the investment of the proceeds of a stock offering or a public debt offering with a term of at least five years, but only for the one-year period beginning on the date the REIT receives such proceeds;

second, not more than 25% of the value of our total assets may be represented by securities other than those securities included in the 75% asset test;

third, of the investments included in the 25% asset class and except for investments in other REITs and our qualified REIT subsidiaries and taxable REIT subsidiaries, the value of any one issuer's securities may not exceed 5% of the value of our total assets, and we may not own more than 10% of the total voting power or value of the outstanding securities of any one issuer except, in the case of the 10% value test, certain "straight debt" securities having specified characteristics. Certain types of securities are disregarded as securities solely for the 10% value test, including, but not limited to, any loan to an individual or an estate, any obligation to pay rents from real property and any security issued by a REIT. In addition, commencing with our taxable year beginning January 1, 2005, solely for the purposes of the 10% value test, the determination of our interest in the assets of a partnership or limited liability company in which we own an interest will be based on our proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Code; and

fourth, not more than 20% of the value of our total assets may be represented by the securities of one or more taxable REIT subsidiaries.

As of the date of this prospectus supplement, we own 100% of the outstanding stock of Crest Net Lease, Inc. Crest Net Lease has elected, together with us, to be treated as a taxable REIT subsidiary. So long as Crest Net Lease qualifies as our taxable REIT subsidiary, we will not be subject to the 5% asset test, the 10% voting securities limitation or the 10% value limitation with respect to our ownership of its securities. We or Crest Net Lease may acquire securities in other taxable REIT subsidiaries in the future. We believe that the aggregate value of our taxable REIT subsidiaries has not exceeded and will not exceed 20% of the aggregate value of our gross assets. With respect to each issuer in which we currently own an interest that does not qualify as a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary, we believe that our ownership of the securities of any such issuer has complied with the 5% asset test, the 10% voting securities limitation and the 10% value limitation with respect to our ownership of its securities. No independent appraisals have been obtained to support these conclusions, and there can be no assurance that the IRS will not disagree with our determinations of value.

The asset tests described above must be satisfied at the close of each calendar quarter of our taxable year in which we (directly or through our qualified REIT subsidiaries, partnerships or limited liability companies) acquire securities in the applicable issuer, and also at the close of each calendar quarter in which we increase our ownership of securities of such issuer, including as a result of increasing our interest in a partnership or limited liability company which owns such securities, or acquiring other assets. For example, our indirect ownership of securities of an issuer may increase as a result of our capital contributions to, or the redemption of other partners' or members' interests in, a partnership or limited liability company in which we have an ownership interest. After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy

the asset tests at the end of a later quarter solely by reason of changes in asset values. If we fail to satisfy an asset test because we acquire securities or other property during a quarter (including as a result of an increase in our interests in a partnership or limited liability company), we may cure this failure by disposing of sufficient nonqualifying assets within 30 days after the close of that quarter. We believe that we have maintained and we intend to continue to maintain adequate records of the value of our assets to ensure compliance with the asset tests. In addition, we intend to take such actions within 30 days after the close of any quarter as may be required to cure any noncompliance.

Commencing with our calendar year beginning January 1, 2005, certain relief provisions may be available to us if we discover a failure to satisfy the asset tests described above after the 30-day cure period. Under these provisions, we will be deemed to have met the 5% and 10% asset tests if the value of our nonqualifying assets (i) does not exceed the lesser of (a) 1% of the total value of our assets at the end of the applicable quarter or (b) $10,000,000 and (ii) we dispose of the nonqualifying assets or otherwise meet the asset tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the time period prescribed by Treasury Regulations to be issued. For violations of any of the asset tests due to reasonable cause and not due to willful neglect and that are, in the case of the 5% and 10% asset tests, in excess of the *de minimis* exception described above, we may avoid disqualification as a REIT after the 30-day cure period by taking steps including (i) the disposition of sufficient nonqualifying assets to meet the asset tests or the taking any other actions so as to enable us to meet the asset tests within (a) six months after the last day of the quarter in which the failure to satisfy the asset tests is discovered or (b) the time period prescribed by Treasury Regulations to be issued, (ii) paying a tax equal to the greater of (a) $50,000 or (b) the highest corporate tax rate multiplied by the net income generated by the nonqualifying assets, and (iii) disclosing certain information to the IRS.

Although we believe that we have satisfied the asset tests described above and we plan to take steps to ensure that we satisfy such tests for any quarter with respect to which retesting is to occur, there can be no assurance that such steps will always be successful or will not require a reduction in our overall interest in an issuer (including in a taxable REIT subsidiary). If we fail to timely cure any noncompliance with the asset tests in a timely manner, and cannot avail ourselves of the relief provisions described above, we will cease to qualify as a REIT.

Annual Distribution Requirements. To maintain our qualification as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to the sum of:

- 90% of our "REIT taxable income"; and
- 90% of our after tax net income, if any, from foreclosure property; minus
- the excess of the sum of specified items of our non-cash income items over 5% of "REIT taxable income" as described below.

Our "REIT taxable income" is computed without regard to the dividends paid deduction and our net capital gain. In addition, for purposes of this test, non-cash income means income attributable to leveled stepped rents, original issue discount on purchase money debt, cancellation of indebtedness, and any like-kind exchanges that are later determined to be taxable.

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation, within the ten-year period following our acquisition of such asset, we would be required to distribute at least 90% of the after-tax gain, if any, we recognized on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset over (b) our adjusted basis in the asset, in each case, on the date we acquired the asset.

We generally must pay, or be treated as paying, the distributions described above in the taxable year to which they relate. At our election, a distribution will be treated as paid in a taxable year if it is declared before we timely file our tax return for such year and paid on or before the first regular dividend payment following such declaration, provided such payment is made during the 12-month period following the close of such year. Except as provided below, these distributions are taxable to our stockholders, other than tax-exempt entities, in the year in which paid. This is so even though these distributions relate to the prior year for purposes of our 90% distribution requirement. The amount distributed must not be preferential, which means that every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated other than according to its dividend rights as a class. To the extent that we do not distribute all of our net capital gain, or distribute at least 90%, but less than 100%, of our "REIT taxable income," as adjusted, we will be required to pay tax on the undistributed amount at regular corporate tax rates. We believe we have made, and intend to continue to make, timely distributions sufficient to satisfy these annual distribution requirements and to minimize our corporate tax obligations.

We anticipate that we will generally have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements because of timing differences between the actual receipt of income and actual payment of deductible expenses, and the inclusion of income and deduction of expenses in determining our taxable income. If these timing differences occur, we may be required to borrow funds to pay dividends or pay dividends in the form of taxable stock dividends in order to meet the distribution requirements.

Under certain circumstances, we may be able to rectify an inadvertent failure to meet the 90% distribution requirement for a year by paying "deficiency dividends" to stockholders in a later year, which we may include in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we will be required to pay interest to the IRS based upon the amount of any deduction claimed for deficiency dividends.

In addition, we will be required to pay a 4% excise tax to the extent we fail to distribute during each calendar year, at least the sum of 85% of our REIT ordinary income for such year, 95% of our REIT net capital gain income for such year and any undistributed taxable income from prior periods. Any REIT taxable income and net capital gain income on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

For purposes of the 90% distribution requirement and excise tax described above, distributions declared during the last three months of the calendar year, which are payable to our stockholders of record on a specified date during such period and which are paid during January of the following year, will be treated as having been paid by us and received by our stockholders on December 31 of the year in which they are declared.

Like-Kind Exchanges. We may dispose of properties in transactions intended to qualify as like-kind exchanges under the Code. Like-kind exchanges are intended to result in the deferral of gain for United States federal income tax purposes. The failure of any such transaction to qualify as a like-kind exchange could subject us to United States federal income tax, possibly including the 100% prohibited transaction tax, depending on the facts and circumstances surrounding the particular transaction.

Failure to Qualify

Commencing with our taxable year beginning January 1, 2005, specified cure provisions are available to us in the event that we discover a violation of a provision of the Code that would result in our failure to qualify as a REIT. Except with respect to violations of the REIT income tests and asset tests (for which the cure provisions are described above), and provided the violation is due to reasonable cause and not due to willful neglect, these cure provisions generally impose a $50,000 penalty for each violation in lieu of a loss of REIT status. If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions of the Code do not apply, we will be required to pay tax, including applicable alternative minimum tax, on our taxable income at regular corporate tax rates. Distributions to our stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, and we will not be required to distribute any amounts to our stockholders. As a result, we anticipate that our failure to qualify as a REIT would reduce our cash available for distribution to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to our stockholders will be taxable at rates applicable to regular corporate dividends to the extent of our current and accumulated earnings and profits. In this event, subject to certain limitations under the Code, corporate distributees may be eligible for the dividends-received deduction. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year in which we lost our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

Tax Aspects of the Partnerships

General. From time to time, we may own, directly or indirectly, interests in various partnerships and limited liability companies. We expect these will be treated as partnerships (or disregarded entities) for United States federal income tax purposes. In general, entities that are classified as partnerships (or disregarded entities) for United States federal income tax purposes are "pass-through" entities which are not required to pay United States federal income tax. Rather, partners or members of such entities are allocated their shares of the items of income, gain, loss, deduction and credit of the entity, and are potentially required to pay tax on such income without regard to whether the partners or members receive a distribution of cash from the entity. We include in our income our allocable share of the foregoing items for purposes of computing our REIT taxable income, based on the partnership agreement. For purposes of applying the REIT income and asset tests, we include our pro rata share of the income generated by and the assets held by the partnerships and limited liability companies in which we own an interest, including their shares of the income and assets of any subsidiary partnerships and limited liability companies based on our capital interests. See " Taxation of Realty Income Corporation."

Our ownership interests in such partnerships and limited liability companies involve special tax considerations, including the possibility that the IRS might challenge the status of these entities as partnerships (or disregarded entities), as opposed to associations taxable as corporations, for United States federal income tax purposes. If a partnership or limited liability company in which we own an interest, or one or more of its subsidiary partnerships or limited liability companies, were treated as an association, it would be taxable as a corporation and therefore be subject to an entity-level tax on its income. In this situation, the character of our assets and items of gross income would change, and could prevent us from satisfying the REIT asset tests and/or the REIT income tests (see " Taxation of Realty Income Corporation Asset Tests" and " Taxation of Realty Income Corporation Income Tests"). This, in turn, could prevent us from qualifying as a REIT. See " Failure to Qualify" for a discussion of the effect of our failure to meet these tests. In addition, a change in the tax status of one or more of the partnerships or limited liability companies in which we own an interest might be treated as a taxable event. If so, we might incur a tax liability without any related cash distributions.

Treasury Regulations that apply for tax periods beginning on or after January 1, 1997 provide that a domestic business entity not otherwise organized as a corporation may elect to be treated as a partnership or disregarded entity for United States federal income tax purposes. Unless it elects otherwise, an eligible entity in existence prior to January 1, 1997, will have the same classification for United States federal income tax purposes that it claimed under the entity classification Treasury Regulations in effect prior to this date. In addition, an eligible entity that did not exist or did not claim a classification prior to January 1, 1997 will be classified as a partnership or disregarded entity for United States federal income tax purposes unless it elects otherwise. All of the partnerships in which we own an interest intend to claim classification as partnerships or disregarded entities under these Treasury Regulations. As a result, we believe that these partnerships will be classified as partnerships or disregarded entities for United States federal income tax purposes. The treatment described above also applies with respect to our ownership of interests in limited liability companies that are treated as partnerships for tax purposes.

Allocations of Income, Gain, Loss and Deduction. A partnership or limited liability company agreement will generally determine the allocation of income and losses among partners or members. These allocations, however, will be disregarded for tax purposes if they do not comply with the provisions of Section 704(b) of the Code and the related Treasury Regulations. Generally, Section 704(b) of the Code and the related Treasury Regulations require that partnership and limited liability company allocations respect the economic arrangement of their partners or members. If an allocation is not recognized for United States federal income tax purposes, the relevant item will be reallocated according to the partners' or members' interests in the partnership or limited liability company, as the case may be. This reallocation will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners or members with respect to such item. The allocations of taxable income and loss in each of the partnerships and limited liability companies in which we own an interest are intended to comply with the requirements of Section 704(b) of the Code and the Treasury Regulations promulgated thereunder.

Tax Allocations With Respect to the Properties. Under Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership or limited liability company in exchange for an interest in the partnership or limited liability company must be allocated in a manner so that the contributing partner or member is charged with the unrealized gain or benefits from the unrealized loss associated with the property at the time of the contribution, as adjusted from time to time. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value or book value and the adjusted tax basis of the contributed property at the time of contribution. These allocations are solely for United States federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners or members. Some of the partnerships and/or limited liability companies in which we own an interest were formed by way of contributions of appreciated property. The relevant partnership and/or limited liability company agreements require that allocations be made in a manner consistent with Section 704(c) of the Code.

United States Federal Income Tax Considerations for Holders of Our Common Stock

The following summary describes the principal United States federal income tax consequences to you of purchasing, owning and disposing of our common stock. This summary deals only with common stock held as a "capital asset" (generally, property held for investment within the meaning of Section 1221 of the Code). It does not address all the tax consequences that may be relevant to you in light of your particular circumstances. In addition, this discussion does not address the tax consequences relevant to persons who receive special treatment under the United States federal income tax law, except where specifically noted. Holders receiving special treatment include, without limitation:

- financial institutions, banks and thrifts;

- insurance companies;
- tax-exempt organizations;
- "S" corporations;
- traders in securities that elect to mark to market;
- persons holding the common stock through a partnership or other pass-through entity;
- stockholders subject to the alternative minimum tax;
- regulated investment companies and real estate investment trusts;
- broker-dealers or dealers in securities or currencies;
- United States expatriates;
- persons holding our common stock as a hedge against currency risks, as part of a "conversion" or "integrated transaction," or as a position in a straddle; and
- U.S. stockholders (as defined below) whose functional currency is not the United States dollar.

If you are considering purchasing our common stock, you should consult your tax advisors concerning the application of United States federal income tax laws to your particular situation as well as any consequences of the purchase, ownership and disposition of our common stock arising under the laws of any state, local or foreign taxing jurisdiction.

When we use the term "U.S. stockholder," we mean a holder of shares of our common stock who, for United States federal income tax purposes:

- is a citizen or resident of the United States;
- is a corporation, partnership, limited liability company or other entity created or organized in or under the laws of the United States or of any state thereof or in the District of Columbia unless, in the case of a partnership or limited liability company, Treasury Regulations provide otherwise;
- is an estate the income of which is subject to United States federal income taxation regardless of its source; or
- is a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in the Treasury Regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to this date that elect to continue to be treated as United States persons, shall also be considered U.S. stockholders.

If you hold shares of our common stock and are not a U.S. stockholder, you are a "non-U.S. stockholder."

Taxation of Taxable U.S. Stockholders Generally

Distributions Generally. Distributions out of our current or accumulated earnings and profits will be treated as dividends and, other than with respect to capital gain dividends and certain amounts which have previously been subject to corporate level tax discussed below, will be taxable to our taxable U.S. stockholders as ordinary income. See " Tax Rates" below. As long as we qualify as a REIT, these distributions will not be eligible for the dividends-received deduction in the case of U.S. stockholders that are corporations. For purposes of determining whether distributions to holders of common stock are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to our outstanding preferred stock and then to our outstanding common stock.

To the extent that we make distributions on our common stock in excess of our current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to a U.S. stockholder. This treatment will reduce the adjusted tax basis which the U.S. stockholder has in its shares of common stock by the amount of the distribution, but not below zero. Distributions in excess of our current and accumulated earnings and profits and in excess of a U.S. stockholder's adjusted tax basis in its shares will be taxable as capital gain. Such gain will be taxable as long-term capital gain if the shares have been held for more than one year. Dividends we declare in October, November, or December of any year and which are payable to a stockholder of record on a specified date in any of these months will be treated as both paid by us and received by the stockholder on December 31 of that year, provided we actually pay the dividend on or before January 31 of the following year. U.S. stockholders may not include in their own income tax returns any of our net operating losses or capital losses.

Capital Gain Dividends. Dividends that we properly designate as capital gain dividends will be taxable to our taxable U.S. stockholders as a gain from the sale or disposition of a capital asset, to the extent that such gain does not exceed our actual net capital gain for the taxable year. These gains may be taxable to non-corporate U.S. stockholders at a 15% or 25% rate. U.S. stockholders that are corporations may, however, be required to treat up to 20% of some capital gain dividends as ordinary income. If, for any taxable year, we designate as a "capital gain dividend," as defined in Section 857 of the Code, any portion (the "Capital Gains Amount") of the dividends, as determined for United States federal income tax purposes, paid or made available for that year to holders of all classes of our stock, then, except as otherwise required by applicable law, the portion of the Capital Gains Amount that shall be allocable to the holders of the common stock will be in proportion to the amount that the total dividends, as determined for United States federal income tax purposes, paid or made available to holders of common stock for the year bear to the total dividends paid or made available for that year to holders of all classes of our stock. In addition, except as otherwise required by applicable law, we will make a similar allocation with respect to any undistributed