

W. P. Carey Inc.
Form 10-K
March 02, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-13779

W. P. CAREY INC.

(Exact name of registrant as specified in its charter)

Maryland

(State of incorporation)

45-4549771

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

50 Rockefeller Plaza

New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant's telephone numbers, including area code)

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

Title of each class

Name of exchange on which registered

Common Stock, \$0.001 Par Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of last business day of the registrant's most recently completed second fiscal quarter: \$6.4 billion.
As of February 19, 2015 there were 105,186,095 shares of Common Stock of registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference its definitive Proxy Statement with respect to its 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of its fiscal year, into Part III of this Annual Report on Form 10-K.

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Forward-Looking Statements

This Annual Report on Form 10-K, or the Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, in Item 7 of Part II of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding capital markets, tenant credit quality, general economic overview, our expected range of Adjusted funds from operations, or AFFO, our corporate strategy, our capital structure, our portfolio lease terms, our international exposure and acquisition volume, our expectations about tenant bankruptcies and interest coverage, statements regarding estimated or future economic performance and results, including our underlying assumptions, occupancy rate, credit ratings, and possible new acquisitions by us and our investment management programs, the Managed REITs discussed herein, including their earnings, statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT, the amount and timing of any future dividends, our existing or future leverage and debt service obligations, our future prospects for growth, our projected assets under management, our future capital expenditure levels, our historical and anticipated funds from operations, our future financing transactions, our estimates of growth, and our plans to fund our future liquidity needs. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements, or transactions. Information on factors which could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Item 1A. Risk Factors of this Report. Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this presentation, unless noted otherwise. Except as may be required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part II, Item 8. Financial Statements and Supplementary Data.

PART I

Item 1. Business.

General Development of Business

Overview

W. P. Carey Inc., or W. P. Carey, is, together with our consolidated subsidiaries and predecessors, a self-managed diversified REIT and a leading global owner and manager of commercial real estate, primarily net leased to companies on a long-term basis. The majority of our revenues are lease revenues, which are derived from our owned real estate portfolio. In addition, we earn fee revenue by acting as an advisor to a series of income-oriented, non-traded REITs through our investment management business.

Our owned real estate portfolio, which is diversified, by property type, tenant, tenant industry and geographic location, is comprised primarily of single-tenant, office, industrial, warehouse/distribution, and retail facilities that are essential to our corporate tenants' operations. We have 219 corporate tenants over 783 properties in 18 countries. As of December 31, 2014, approximately 65% of our contractual minimum annualized base rent, or ABR, was generated by properties located in the United States and approximately 35% was generated by properties located outside the United States, primarily in Western and Northern European countries.

The vast majority of our leases specify a base rent with scheduled rent increases, either fixed or tied to an inflation-related index, and require our tenants to pay substantially all of the costs associated with operating and maintaining the property, including the real estate taxes, insurance, and maintenance of the facilities. See [Our Portfolio](#) below for more information on the characteristics of our properties. Furthermore, we actively manage our owned real estate portfolio to try to mitigate risk with respect to changes in tenant credit quality and the likelihood of lease renewal.

Originally founded in 1973, we operated primarily as a sponsor of and advisor to a series of income-generating investment programs under the Corporate Property Associates, or CPA[®], brand name until we reorganized as a REIT in September 2012 in connection with our merger with Corporate Property Associates 15 Incorporated, or CPA[®]:15, referred to as the CPA[®]:15 Merger. On January 31, 2014, Corporate Property Associates 16 – Global Incorporated, or CPA[®]:16 – Global, merged with and into us, based on a merger agreement dated as of July 25, 2013, referred to as the CPA[®]:16 Merger (Note 3).

Our shares of common stock are listed on the New York Stock Exchange under the ticker symbol “WPC”.

Headquartered in New York, we also have offices in Dallas, London, Amsterdam, Hong Kong, and Shanghai. At December 31, 2014, we employed 272 individuals.

Financial Information About Segments

Our business operates in two segments – Real Estate Ownership and Investment Management, as described below.

Narrative Description of Business

Business Objectives and Strategy

Our primary business objective is to increase stockholder value through accretive acquisitions for our owned real estate portfolio and to grow the assets managed by our investment management operations, which in turn will allow us to grow earnings and to maintain or increase our dividend.

Our investment strategy primarily focuses on owning and actively managing a diverse portfolio of commercial real estate that is net leased to credit-worthy companies globally. We believe that many companies prefer to lease rather than own their corporate real estate. We structure long-term financing for our corporate tenants primarily in the form of sale-leaseback transactions, through which we acquire what we believe is a company's essential real estate and then lease it back to them on a long-term net lease basis, which typically produces a more predictable income stream compared to other types of real estate investments and requires minimal capital expenditures.

We actively manage our real estate portfolio to mitigate risk with respect to any changes in tenant credit quality and probability of lease renewal. We believe that diversification with respect to property type, tenant, tenant industry, and geographic location

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is an important component of portfolio risk management and that we own a portfolio of real estate that is well-diversified across each of these categories.

In addition to managing our owned real estate portfolio, we currently act as the advisor to a series of publicly-owned, non-traded REITs for which we raise equity capital through public offerings of their shares, invest those funds and manage their assets in return for fee revenue as specified in our advisory agreements with them. Since 1979, we have sponsored a series of 17 income-generating investment programs under the CPA® brand name that invest primarily in commercial real estate properties net leased to single tenants. At December 31, 2014, we were the advisor to Corporate Property Associates 17 – Global Incorporated, or CPA®:17 – Global, and Corporate Property Associates 18 – Global Incorporated, or CPA®:18 – Global. We were also the advisor to CPA®:16 – Global until the CPA®:16 – Global Merger on January 31, 2014. We refer to CPA®:16 – Global, CPA®:17 – Global, and CPA®:18 – Global together as the CPA® REITs.

At December 31, 2014, we were also the advisor to Carey Watermark Investors Incorporated, or CWI, a publicly-owned, non-traded REIT that invests in lodging and lodging-related properties. Together with the CPA® REITs, we refer to these entities as the Managed REITs (Note 4). Currently, we also serve as the advisor to Carey Watermark Investors 2 Incorporated, or CWI 2, a new non-traded lodging REIT, which commenced its public offering on February 9, 2015. We also have invested in Carey Credit Income Fund, or CCIF, a newly formed business development company, or BDC. We plan to serve as advisor to CCIF and to invest the funds that we raise on behalf of its two feeder funds, which will also be BDCs, in shares of CCIF. We refer collectively to CCIF and the two feeder funds as the BDCs and, together with the Managed REITs, as the Managed Programs. While we have filed registration statements with the SEC for each of the BDCs, none of these registration statements has been declared effective by the SEC, and there can be no assurance as to whether or when the public offerings of shares of the feeder funds will be commenced. See Significant Developments in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, for a summary of the funds we have raised on behalf of the Managed REITs.

We believe that our owned real estate investments provide our stockholders with a stable, growing source of income, primarily from lease revenues. We also believe that the fee income we generate from our advisory contracts with the Managed REITs provides our stockholders with attractive sources of additional income, a portion of which is more variable in nature.

We have two primary reportable segments, Real Estate Ownership and Investment Management. These segments are each described below.

Real Estate Ownership

We own and invest in commercial real estate properties primarily located in the United States and Europe and leased on a triple-net lease basis, which requires the tenant to pay substantially all of the costs associated with operating and maintaining the property (Note 17). We earn revenues or equity income from:

- our wholly-owned commercial real estate investments;
- our co-owned commercial real estate investments;
- our investments in the shares of the Managed REITs; and
- our participation in the cash flows of the Managed REITs.

Investment Management

We earn revenue as the advisor to the Managed REITs. Under the advisory agreements with the Managed REITs, we perform various services, including but not limited to the day-to-day management of the Managed REITs and

transaction-related services, for which we earn revenues as follows:

• We earn dealer manager fees in connection with the public offerings of the Managed REITs;

• We structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue;

• We manage the portfolios of the Managed REITs' real estate investments, for which we earn asset-based management revenue;

The Managed REITs reimburse us for certain costs that we incur on their behalf, consisting primarily of broker-dealer commissions and marketing costs while we are raising funds for their public offerings, and certain personnel and overhead costs; and

• We may also earn incentive and disposition revenue and receive other compensation in connection with providing liquidity alternatives to the Managed REITs' stockholders.

Our business strategy includes exploring alternatives for expanding our investment management operations beyond advising the existing Managed REITs. Any such expansion could involve the purchase of properties or other investments as principal, either for our owned portfolio or with the intention of transferring such investments to a newly-created fund, as well as the sponsorship of one or more funds to make investments other than primarily net-lease investments, for example CWI, CWI2, and the BDCs.

Investment Strategies

In analyzing potential investments, we review various aspects of a transaction, including tenant and real estate fundamentals, to determine whether a potential investment and lease will satisfy our investment criteria. In evaluating net-lease transactions, we generally consider, among other things, the following aspects of each transaction:

Tenant/Borrower Evaluation — We evaluate each potential tenant or borrower for its creditworthiness, typically considering factors such as management experience, industry position and fundamentals, operating history, and capital structure, as well as other factors that may be relevant to a particular investment. We seek opportunities in which we believe the tenant may have a stable or improving credit profile or credit potential that has not been fully recognized by the market. Whether a prospective tenant or borrower is creditworthy is evaluated by our investment department and the investment committee, as described below. We define creditworthiness as a risk-reward relationship appropriate to our investment strategies, which may or may not coincide with ratings issued by the credit rating agencies. As such, creditworthy does not mean “investment grade,” as defined by the credit rating agencies.

We generally seek investments in facilities that we believe are critical to a tenant’s current business and that we believe have a low risk of tenant default. We rate each asset based on the asset’s market and liquidity and also based on the strategic value to the tenant in terms of how critical the asset is to the tenant’s operations. We also assess the relative risk of the portfolio quarterly. We evaluate the credit quality of our tenants utilizing an internal five-point credit rating scale, with one representing the highest credit quality (investment grade or equivalent) and five representing the lowest (bankruptcy or foreclosure). Investment grade ratings are provided by third-party rating agencies such as Standard & Poor’s Ratings Services or Moody’s Investors Service, although we may determine that a tenant is equivalent to investment grade even if the credit rating agencies have not made that determination. As of December 31, 2014, we had 37 tenants that were rated investment grade. Ratings for other tenants are generated internally utilizing metrics such as interest coverage and debt-to-earnings before interest, taxes, depreciation and amortization, or EBITDA. These metrics are computed internally based on financial statements obtained from each tenant on a quarterly basis. Under the terms of our lease agreements, tenants are generally required to provide us with periodic financial statements. As of December 31, 2014, we had 181 non-investment grade tenants, with a weighted-average credit rating of 3.2.

Real Estate Evaluation — We review and evaluate the physical condition of the property and the market in which it is located. We consider a variety of factors, including current market rents, replacement cost, residual valuation, property operating history, demographic characteristics of the location and accessibility, competitive properties, and suitability for re-leasing. We obtain third-party environmental and engineering reports and market studies, if needed. We will also consider factors particular to the laws of foreign countries, in addition to the risks normally associated with real property investments, when considering an investment outside the United States.

Properties Critical to Tenant/Borrower Operations — We generally will focus on properties that we believe are critical to the current ongoing operations of the tenant. We believe that these properties provide better protection generally as well as in the event of a bankruptcy, since a tenant/borrower is less likely to risk the loss of a critically important lease or property in a bankruptcy proceeding or otherwise.

Diversification — We attempt to diversify our owned and managed portfolios to avoid dependence on any one particular tenant, borrower, collateral type, geographic location, or tenant/borrower industry. By diversifying these portfolios, we seek to reduce the adverse effect of a single under-performing investment or a downturn in any particular industry or geographic region. While we have not endeavored to maintain any particular standard of diversity in our owned portfolio, we believe that our owned portfolio is reasonably well-diversified.

Lease Terms — Generally, the net-leased properties in which we invest will be leased on a full-recourse basis to the tenants or their affiliates. In addition, we seek to include a clause in each lease that provides for increases in rent over the term of the lease. These increases are fixed or tied generally to increases in indices such as the Consumer Price Index, or CPI, or other similar index in the jurisdiction in which the property is located, but may contain caps or other limitations, either on an annual or overall basis. In the case of retail stores and hotels, the lease may provide for participation in gross revenues of the tenant

above a stated level, which is referred to as a percentage rent increase. Alternatively, a lease may provide for mandated rental increases on specific dates.

Transaction Provisions to Enhance and Protect Value — We attempt to include provisions in the leases that we believe may help protect an investment from changes in the operating and financial characteristics of a tenant that may affect its ability to satisfy its obligations or reduce the value of the investment. Such provisions include requiring our consent to specified tenant activity, requiring the tenant to provide indemnification protections, requiring the tenant to provide security deposits, and requiring the tenant to satisfy specific operating tests. We may also seek to enhance the likelihood of a tenant's lease obligations being satisfied through a guaranty of obligations from the tenant's corporate parent or other entity or through a letter of credit. This credit enhancement, if obtained, provides additional financial security. However, in markets where competition for net lease transactions is strong, some or all of these provisions may be difficult to negotiate. In addition, in some circumstances, tenants may retain the right to repurchase the property leased by the tenant. The option purchase price is generally the greater of the contract purchase price and the fair market value of the property at the time the option is exercised.

Other Equity Enhancements — We may attempt to obtain equity enhancements in connection with transactions. These equity enhancements may involve stock warrants exercisable at a future time to purchase stock of the tenant or borrower or their parent. If warrants are obtained, and become exercisable, and if the value of the stock subsequently exceeds the exercise price of the warrant, equity enhancements can help achieve the goal of increasing investor returns.

Investment Committee — We have an independent investment committee that provides services to us and to the CPA® REITs. Our investment department, under the oversight of our chief investment officer, is primarily responsible for evaluating, negotiating and structuring potential investment opportunities. The investment committee is not directly involved in originating or negotiating potential investments, but instead functions as a separate and final step in the investment process. We place special emphasis on having experienced individuals serve on our investment committee. The investment committee retains the authority to identify categories of transactions that may be entered into without its prior approval. The investment committee may delegate its authority, such as to investment advisory committees with specialized expertise in a particular geographic market. However, we do not currently expect that any investments delegated to these advisory committees will account for a significant portion of the investments we make in the near term.

Financing Strategies

We seek to maintain a conservative capital structure that enhances equity returns, maintains financial flexibility, and enables us to effectively match our assets and liabilities. Historically, we entered into secured debt such as mortgage financings collateralized by individual property assets to finance our business. In an effort to access a wider range of capital sources, we sought and received investment grade ratings from both Moody's Investors Service and Standard & Poor's Ratings Services. We are actively reducing our reliance on secured debt and increasing the level of unencumbered assets on our balance sheet by paying off individual mortgage loans as they mature. In January 2014, we recast our unsecured line of credit and increased the amounts available to borrow thereunder, as compared to the prior facility, subject to certain covenants ([Note 11](#)). In January 2015, we exercised the Accordion Feature on our Senior Unsecured Credit Facility ([Note 11](#)) to increase the amount available for borrowing and amended the credit agreement to establish a new accordion feature ([Note 19](#)). In addition to funding our working capital needs, this increased line of credit capacity will assist with our transition to becoming more of an unsecured borrower by enhancing our ability to repay a portion of our mortgage debt. During 2014, we also issued corporate bonds ([Note 11](#)) and shares of our common stock ([Note 13](#)) in separate public offerings. In January 2015, we issued additional corporate bonds in two public offerings, one of which was denominated in euros ([Note 19](#)). We expect to continue to have access to a wide variety of capital sources, including the public debt and equity markets.

Asset Management

We believe that effective management of our assets is essential to maintain and enhance property values. Important aspects of asset management include entering into new or modified transactions to meet the evolving needs of current tenants, re-leasing properties, refinancing debt, and selling properties.

We monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of any of our real estate investments. Monitoring involves receiving assurances that each tenant has paid real estate taxes, assessments, and other expenses relating to the properties it occupies and confirming that appropriate insurance coverage is being maintained by the tenant. For international compliance, we often engage third-party asset managers. We review financial statements of tenants and undertake regular physical inspections of the condition and maintenance of properties. Additionally, we periodically analyze each tenant's financial condition, the industry in which each tenant operates, and each tenant's relative strength in its industry.

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Our Portfolio

At December 31, 2014, our portfolio had the following characteristics:

- Number of properties – 783 net-leased properties, two self-storage properties, and two hotels;
- Total net-leased square footage – 87.3 million; and
- Occupancy rate – approximately 98.6%.

For more information about our portfolio, please see [Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Portfolio Overview](#).

Tenant/Lease Information

At December 31, 2014, our tenants/leases had the following characteristics:

- Number of tenants – 219;
- Investment-grade tenants – 26%;
- Weighted-average remaining lease term – 9.1 years;
- 94% of our leases provide rent adjustments as follows:
 - CPI and similar – 71%
 - fixed – 23%

Competition

We face active competition in both our Real Estate Ownership segment and our Investment Management segment from many sources for investment opportunities in commercial properties net leased to tenants both domestically and internationally. In general, we believe that our management's experience in real estate, credit underwriting, and transaction structuring should allow us to compete effectively for commercial properties. However, competitors may be willing to accept rates of return, lease terms, other transaction terms, or levels of risk that we may find unacceptable.

In our Investment Management segment, we face active competition in raising funds for the Managed REITs, from other funds with similar investment objectives such as publicly registered, non-traded funds, publicly-traded funds, and private funds, including hedge funds. In addition, we face broad competition from other forms of investment. Currently, we raise substantially all of the funds for investment by the Managed REITs within the United States.

Environmental Matters

We and the Managed REITs have invested, and expect to continue to invest, in properties currently or historically used as industrial, manufacturing, and commercial properties. Under various federal, state, and local environmental laws and regulations, current and former owners and operators of property may have liability for the cost of investigating, cleaning-up, or disposing of hazardous materials released at, on, under, in, or from the property. These laws typically impose responsibility and liability without regard to whether the owner or operator knew of or was responsible for the presence of hazardous materials or contamination, and liability under these laws is often joint and several. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous materials. As part of our efforts to mitigate these risks, we typically engage third parties to perform assessments of potential environmental risks when evaluating a new

acquisition of property, and we frequently require sellers to address them before closing or obtain contractual protection (indemnities, cash reserves, letters of credit, or other instruments) from property sellers, tenants, a tenant's parent company, or another third party to address known or potential environmental issues. With respect to our hotels and self-storage investments, which are not subject to net lease arrangements, there is no tenant of the property to provide indemnification, so we may be liable for costs associated with environmental contamination in the event any such circumstances arise after we acquire the property.

Financial Information About Geographic Areas

See Our Portfolio above and Note 17 for financial information pertaining to our geographic operations.

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Available Information

All filings we make with the SEC, including this Report, our quarterly reports on Form 10-Q, and our current reports on Form 8-K, and any amendments to those reports, are available for free on our website, <http://www.wpcarey.com>, as soon as reasonably practicable after they are filed or furnished to the SEC. Our SEC filings are available to be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our filings can also be obtained for free on the SEC's Internet site at <http://www.sec.gov>. We are providing our website address solely for the information of investors. We do not intend our website to be an active link or to otherwise incorporate the information contained on our website into this report or other filings with the SEC. Our Code of Business Conduct and Ethics, which applies to all employees, including our Chief Executive Officer and Chief Financial Officer, is available on our website at www.wpcarey.com. We intend to make available on our website any future amendments or waivers to our Code of Business Conduct and Ethics within four business days after any such amendments or waivers. We will supply to any stockholder, upon written request and without charge, a copy of this Report as filed with the SEC. Generally, we also post the dates of our upcoming scheduled financial press releases, telephonic investor calls, and investor presentations on the Investor Relations portion of our website at least ten days prior to the event. Our investor calls are open to the public and remain available on our website for at least two weeks thereafter.

Item 1A. Risk Factors.

Risks Related to Our Business

Adverse changes in general economic conditions can adversely affect our business.

Our success is dependent upon economic conditions in the United States generally, and in the international geographic areas in which a substantial number of our investments are located. Adverse changes in national economic conditions or in the economic conditions of the regions in which we conduct substantial business likely would have an adverse effect on real estate values and, accordingly, our financial performance, the market prices of our securities, and our ability to pay dividends.

Changes in investor preferences or market conditions could limit our ability to raise funds or make new investments.

The majority of our and the CPA[®] REITs' current investments, as well as the majority of the investments that we expect to originate for the CPA[®] REITs in the near term, are investments in single-tenant commercial properties that are subject to triple-net leases. In addition, we have relied predominantly on raising funds for investment on behalf of the Managed REITs from individual investors through the sale by participating selected dealers to their customers of the publicly-registered, but non-traded, securities of those REITs. Although we have increased the number of broker-dealers we use for fundraising, the majority of our fundraising efforts on behalf of the Managed REITs are through three major selected dealers. If, as a result of changes in market receptivity to investments that are not readily liquid and involve high selected dealer fees, or for other reasons, such as regulatory changes, this capital raising method were to become less available as a source of capital, our ability to raise funds for the Managed REITs, and consequently our ability to make investments on their behalf, could be adversely affected. While we are not limited to this particular method of raising funds for investment (and, among other things, the Managed REITs may themselves be able to borrow additional funds to invest), our experience with other means of raising capital is limited. Also, many factors, including changes in tax laws or accounting rules, may make these types of investments less attractive to potential sellers and lessees, which could negatively affect our ability to increase the amount of assets of this type under management.

We face active competition for investments.

We face active competition for our investments from many sources, including insurance companies, credit companies, pension funds, private individuals, financial institutions, finance companies, and investment companies, among others. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants. In addition, our evaluation of the acceptability of rates of return on behalf of the Managed REITs is affected by such factors as the cost of raising capital, the amount of revenue we can earn, and the performance hurdle rates of the relevant Managed REITs. Such factors may limit the amount of new investments that we make on behalf of the Managed REITs, which will in turn limit the growth of revenues from our investment management operations. The investment community continues to remain risk averse. We believe that the net lease financing market is perceived as a relatively conservative investment vehicle. Accordingly, we expect increased competition for investments, both domestically and internationally. It is possible that further capital inflows into our marketplace will place additional pressure on the returns that we can generate from our investments as well as our willingness and ability to execute transactions.

A significant amount of our leases will expire within the next five years, and we may have difficulty in re-leasing or selling our properties if tenants do not renew their leases.

Within the next five years, approximately 25% of our leases, based on our ABR as of December 31, 2014, are due to expire. If these leases are not renewed, or if the properties cannot be re-leased on terms that yield payments comparable to those currently being received, then our lease revenues could be substantially adversely affected. The terms of any new or renewed leases of these properties may depend on market conditions prevailing at the time of lease expiration. In addition, if properties are vacated by the current tenants, we may incur substantial costs in attempting to re-lease such properties. We may also seek to sell these properties, in which event we may incur losses, depending upon market conditions prevailing at the time of sale.

Real estate investments are generally less liquid compared to many other financial assets, and this may limit our ability to quickly change our portfolio in response to changes in economic or other conditions. Some of our net leases are for properties that are specially suited to the particular needs of the tenant. With these properties, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant. In addition, if we are forced to sell the property, we may have difficulty selling it to a party other than the tenant due to the special purpose for which the property may have been designed. These and other limitations may affect our ability to re-lease or sell properties without adversely affecting returns to stockholders.

There may be competition among us and the Managed REITs for business opportunities.

We currently manage, and may in the future manage, REITs and other entities that have investment and/or rate of return objectives similar to our own. Those entities may be in competition with us with respect to properties, potential purchasers, sellers and lessees of properties, and mortgage financing for properties. We have agreed to implement certain procedures to help manage any perceived or actual conflicts among us and the Managed REITs, including:

- allocating funds based on numerous factors, including cash available, diversification/concentration, transaction size, tax, leverage, and fund life;
- all “split transactions,” where we co-invest with any CPAREIT, are subject to the approval of the independent directors of the CPA® REIT;
- investment allocations are reviewed as part of the annual advisory contract renewal process of each CPA® REIT; and
- quarterly review of all of our investment activities and the investment activities of the CPA® REITs by the independent directors of the CPA® REITs.

We are not required to meet any diversification standards; therefore, our investments may become subject to concentration of risk.

Subject to our intention to maintain our qualification as a REIT, there are no limitations on the number or value of particular types of investments that we may make. We are not required to meet any diversification standards, including geographic diversification standards. Therefore, our investments may become concentrated in type or geographic location, which could subject us to significant concentration of risk with potentially adverse effects on our investment objectives.

Because we invest in properties located outside the United States, we are exposed to additional risks.

We have invested in and may continue to invest in properties located outside the United States. At December 31, 2014, our directly-owned real estate properties located outside of the United States represented 35% of current ABR. These investments may be affected by factors particular to the laws of the jurisdiction in which the property is located. These investments may expose us to risks that are different from and in addition to those commonly found in the

United States, including:

• changing governmental rules and policies;

• enactment of laws relating to the foreign ownership of property and laws relating to the ability of foreign entities to remove invested capital or profits earned from activities within the country to the United States;

• expropriation of investments;

• legal systems under which our ability to enforce contractual rights and remedies may be more limited than would be the case under U.S. law;

• difficulty in conforming obligations in other countries and the burden of complying with a wide variety of foreign laws, which may be more stringent than U.S. laws, including tax requirements and land use, zoning, and environmental la