



BROADSTONE



NET LEASE, INC.

ANNUAL REPORT 2018

Broadstone Net Lease is a publicly reporting, privately offered Real Estate Investment Trust (REIT) that acquires and holds freestanding, single-tenant, net-leased, commercial properties. It is focused on generating predictable, tax-sheltered cash flow and attractive total return for Stockholders.

www.broadstone.com

LETTER FROM OUR CHIEF EXECUTIVE OFFICER, PRESIDENT & DIRECTOR

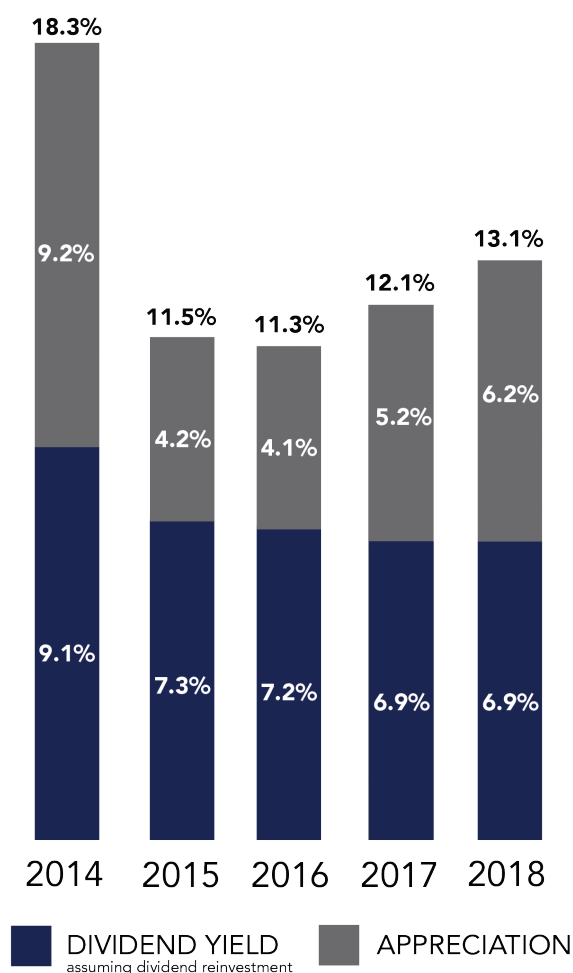
Dear Fellow Stockholders and Unitholders,

Management is tremendously proud of the accomplishments that Broadstone Net Lease ("BNL" or the "REIT") enjoyed in 2018. The year was another productive one in all aspects of the business, including portfolio performance and growth, access to capital, and, most importantly, shareholder returns. When reviewing returns to investors, fiscal year 2018 was one of BNL's most successful in recent years. Below are the key shareholder results for 2018:

- 2018 Total Return assuming dividend reinvestment: 13.08%
- Determined Share Value (DSV) increased three times from \$81 to \$86 per share and unit
- AFFO per share growth (Y/Y): +\$0.28 per share or +5.2% growth (year end 2018 AFFO per share of \$5.66)
- Monthly dividend per share increased by 2.3% at February 2019 Board meeting
- Rent collections exceeding 99% for the year
- Stable portfolio level valuations and a 6.75% (+/-) implied cap rate on portfolio for the year

Ultimately, investing and capital aggregation activities are the drivers of the positive results. The overall mix of capital sourced and deployed proved to be highly favorable and help further the REIT's long-term objectives.

- \$606.8 million of new acquisitions
- \$57.4 million of dispositions
- \$283.7 million of new equity raised, with only \$10.3 million of redemptions
- \$325 million debt private placement



By going a step further and looking beyond the baseline transactional statistics, we can gain a better understanding of the year's positive results. Management believes that the following themes helped drive the positive results for shareholders in 2018.

- **Access to Capital:** The ability to access appropriately priced capital is critically important for a net lease investor operating at BNL's scale. Credibility with debt and equity investors is the first step in the capital sourcing process. The management team has worked hard to bring high levels of professionalism, discipline, and strong process orientation when working with our capital providers. Continuing to improve communication and disclosure was an important focus in 2018 as BNL entered our first full year as a public reporting company. The REIT was rewarded with continued strong support from equity investors and a second successful round of debt capital from the debt private placement market. In addition, BNL had its investment grade credit rating (Baa3) reaffirmed by Moody's Investor Services for the second time.

- **Strong Balance Sheet Management:** The introduction of a monthly equity cap program in November 2017 proved to be tremendously helpful in maintaining balance sheet and leverage control and improving period over period comparability in per share results. BNL was generally able to maintain a leverage profile that was in line with its current optimal range on a consistent basis throughout the year, while still maintaining a strong liquidity profile to support transaction closings.

Continuing to extend out the REIT's debt maturity schedule with longer duration instruments (\$325 million – 10- and 12-year, interest only, private placement notes) was another key focus in 2018. Limiting floating interest rate exposure and favoring long duration debt gives increased security and predictability to all the REIT's capital providers. The private placement channel also helped BNL diversify sources of debt capital as BNL still has its largest weighting of debt capital in the traditional commercial bank market.

- **Acquisition Timing:** Putting capital to work earlier in the year makes a dramatic difference to calendar year per share results. Completing key acquisitions in Q1 and Q2 of 2018 had a meaningful impact on 2018's results. By mid-year, BNL had acquired \$254.8 million of new property, which was higher than the normal historical trend. Historically, approximately 40% of BNL's investing volume occurs during the fourth quarter of the year with much of the activity taking place in December. Although the REIT accrues the benefit of these investments the following year, the current year gets limited to no value from the investments as little rent is collected even though the capital has been deployed. Acquiring assets earlier in the year helps minimize the timing differences between on-going capital raise activities and deployment.

- **Acquisition Flexibility:** The net lease market has evolved so quickly in the past five years that there is almost no REIT that has been able to maintain complete rigidity in its approach to new property acquisitions. With more than 30 active institutional net lease acquirers, our team must continue to search for unique opportunities that are still in line with our core property types. These opportunities of modest differentiation can offer a better return when compared to more commodity-like net lease assets. Management has seen each of its core property types (retail, healthcare, and industrial) mature and become more competitive with each passing year. Having flexibility to think more broadly about acquisition opportunities helps drive better results for BNL over the long run.

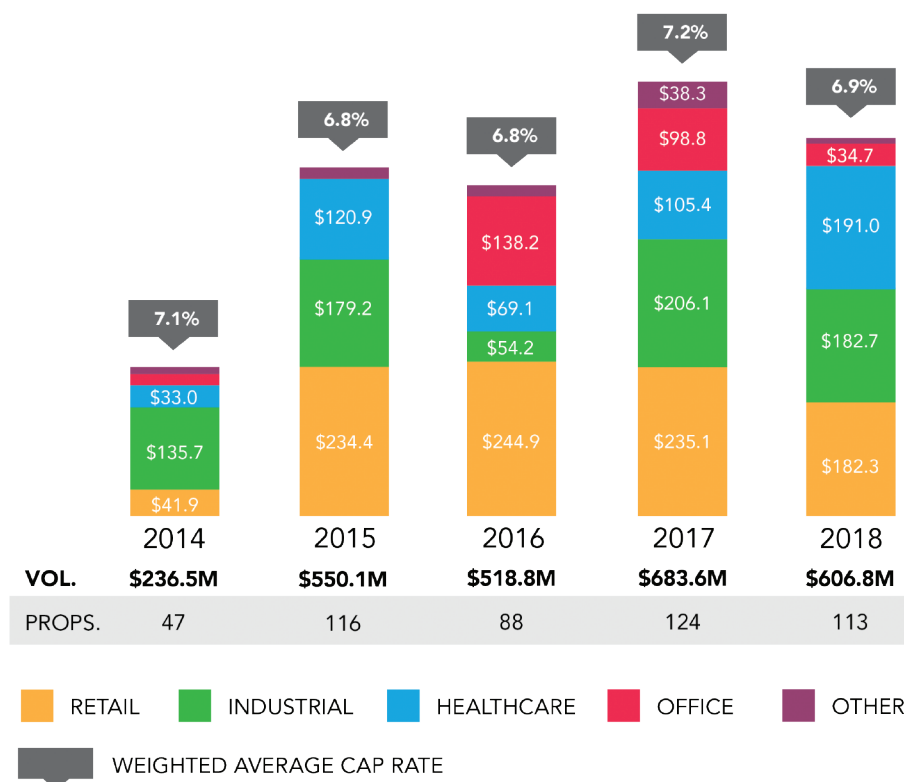
- **Increased Focus on Dispositions:** Every asset sold in 2018 had characteristics that no longer made the property a fit for BNL. Selling lower quality and non-core assets is a sensible strategy as we seek to mitigate risk, but there is more our management can do on the dispositions side of the business. We believe that an expanded and thoughtful approach to dispositions can contribute additional value to shareholders. BNL has grown into a stable and well diversified net lease REIT and as such it is the appropriate time to focus on increasing portfolio turnover. This is undertaken to both reduce risk and incrementally drive potential returns to shareholders through prudent capital recycling. Disposition activity in 2018 was consistently well executed upon and management anticipates this continuing in 2019 at a modestly increased pace.

- **Growth in Team at Broadstone Real Estate, LLC (BRE):** While Broadstone Net Lease is externally managed and does not have any direct employees, it remains vitally important that Broadstone Real Estate continue to invest in its platform to ensure top notch management of the REIT. Today, BRE has more than 100 employees that serve a variety of functions. This collection of talented professionals has grown substantially over the past several years. In 2018, BRE made a number of key hires to better support BNL's acquisitions, portfolio, and property management efforts. In addition, we continue to invest in the shared services functions (e.g., finance, operations, investor relations) of the company to ensure that we are meeting all the needs of BNL.

FISCAL YEAR 2018 RECAP

Acquisitions

As noted above, 2018 was another productive year for BNL on the acquisitions front. During the year, the REIT completed \$606.8 million of new property acquisitions. This acquisition volume was spread over 26 distinct transactions and added 113 properties to the portfolio. The weighted average cash cap rate for the acquisitions was 6.9%. In addition, the acquisitions have weighted average 1.8% annual rent increases and a weighted average of 11 years of remaining lease term. While acquisition volume was down slightly when compared to 2017, the general profile of the acquisitions and initial yields are very much in line with BNL's recent history. BNL also achieved tremendous parity in its 2018 acquisitions with retail, healthcare and industrial assets each comprising between 30%-32% of the year's acquisition volume.



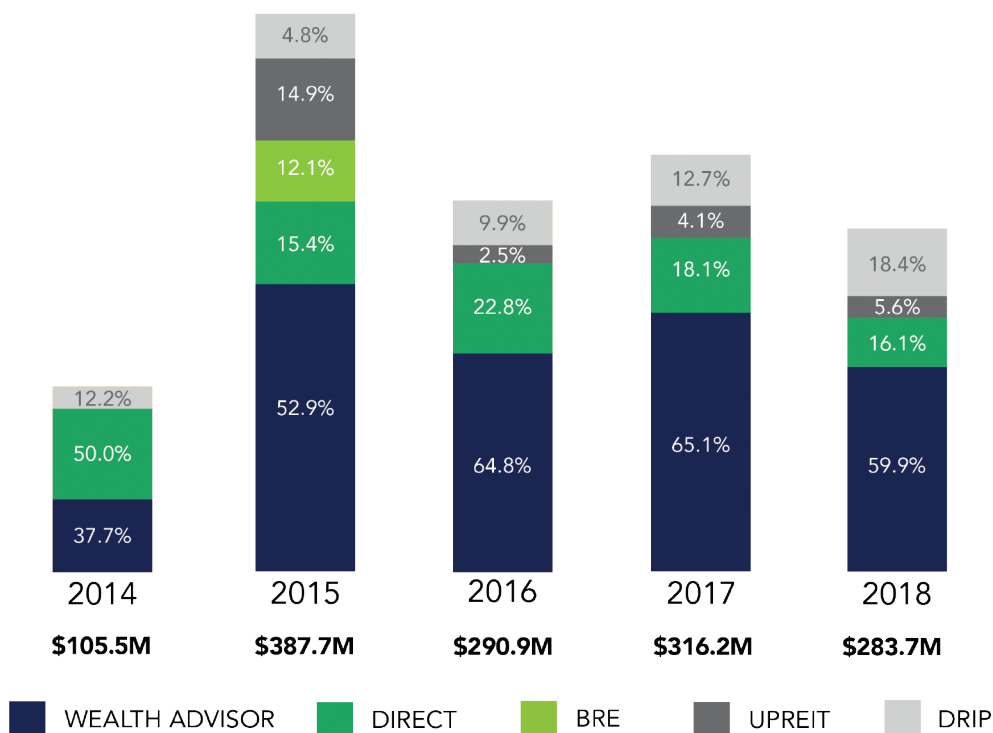
Portfolio & Asset Management

BNL's portfolio performance was exceptional in 2018 with high levels of diversification, rent collection and occupancy experienced across a growing and diversified pool of assets. At year-end 2018, BNL owned 621 assets located in 42 states. Physical occupancy at year end remained high at 99.7%. Rent collections for the full year were 99.3%. BNL's diversification profile remained strong across all meaningful measurements at year end. No tenant exceeded 3.5% of next twelve months (NTM) rent and our top 20 tenants comprised only 37.5% of NTM rents. Texas is our largest state at 10.5% of NTM rents and there were no other state concentrations above 8%. In addition, our single largest lines of tenant businesses are restaurants and healthcare, both at approximately 20% of the portfolio. Finally, the weighted average remaining lease term of the portfolio remained very strong at 12.1 years.

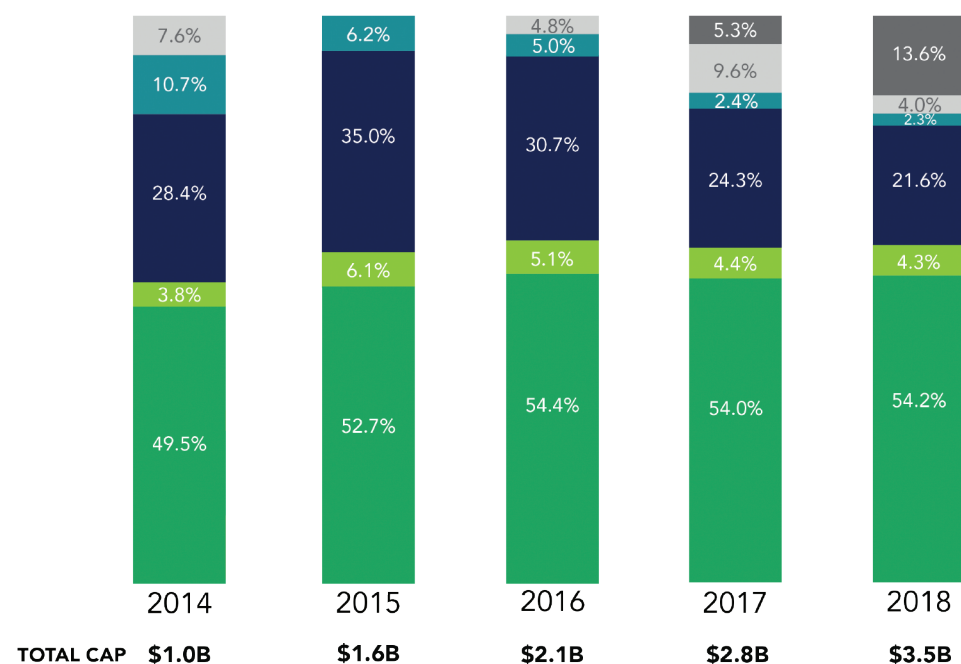
As noted above, a keen focus on asset disposition and capital recycling is of paramount focus for the management team of BNL. In 2018, BNL sold \$57.4 million of property through 20 different transactions. This volume represented 2.0% of the REIT's asset base when measured from the start of the fiscal year. These asset sales were profitable for BNL as these represented an \$8.2 million aggregate gain over the initial purchase prices of the properties and a \$2.6 million gain over the then current valuations. These results help validate BNL's quarterly valuation methodology and the underlying process that is undertaken each quarter in setting the Determined Share Value (DSV). Heading into 2019, management anticipates increasing disposition volume in 2019 and continuing to recycle capital out of non-core assets in an effort to drive incremental value for shareholders.

Capital Sourcing and Balance Sheet Management

BNL remained in an enviable position as the REIT was able to access ample equity capital to fund portfolio growth and maintain its leverage profile consistently. Management was also able to develop better visibility into future equity flows, which aids in balance sheet management. Full year 2018 equity raise totals finished at \$283.9 million, down slightly from 2017 but entirely as a result of having an equity cap in place for the full year. Several times during the year, management elected to adjust the previously announced monthly equity cap based upon the pipeline of acquisitions and the projected timing of property closings. BNL's investor base remains well diversified across many investors. As of year-end 2018, the REIT had 3,116 investors and 67 unit holders.



Management remains strongly committed to maintaining a conservative and consistent leverage profile that is in line with BNL's status as an investment grade issuer/borrower. 2018 was an important year in furthering these objectives. As noted above, BNL returned to the debt private placement market with a second issuance of notes in an aggregate amount of \$325 million spread across 10- and 12-year durations. The REIT received strong interest from the note purchasers



(life insurance companies) and borrowing spreads tightened when compared to BNL's first issuance in this market in 2017. Management continues to monitor all sources of debt capital (bank, mortgage, and unsecured notes) to assess the viability and relative attractiveness of each. Currently, the debt markets for low leverage, conservative real estate borrowers such as BNL remain robust, allowing the REIT to continue to execute on its capital plan, which includes maintaining a strong liquidity profile, minimizing floating rate debt, and extending debt maturities out as far as possible.

Board of Directors Update

I wish to close this year's letter with a note of thanks to our dedicated Independent Directors. BNL's Governance Committee manages the recruitment of talent to the Board and the committee appointment process on an annual basis. At our February 2019 Board meeting, the Board unanimously approved (with a recommendation from the Governance Committee) an important change in a leadership role. The Board elected Laurie Hawkes to succeed Geoff Rosenberger as BNL's Lead Independent Director.

Management would like to take this opportunity to express how incredibly grateful we are for the tremendous service that Geoff Rosenberger has given to the company in his 11 years as Lead Independent Director. We initially asked Geoff to take on this vital role because of his fierce independence, intellectual rigor, and a willingness to ask difficult questions. Broadstone Net Lease truly benefited from these traits. Geoff has also served as an advocate for the REIT and helped bring us many new investors over the years. He has shouldered many challenging projects with a strong sense of duty and a willingness to see each matter through to its proper conclusion. The great news is that Geoff will remain on the Board and continue his important work with BNL.

Having a change in the Lead Independent Director is a healthy transition and a natural progression for any governing body to go through. Laurie Hawkes has an exceptional set of transactional experience in the net lease space and a willingness to use her connections to help us expand BNL's reach. In addition, Laurie's experience in the capital markets and the public REIT space are important as BNL continues to conduct more of our business in these areas. She also has a tremendous working relationship with many of our key executives and the transition has been very natural. Management appreciates her willingness to serve and work more closely with us in the coming years.

CONCLUSION

BNL is well positioned for another successful year in 2019. Management anticipates continued strong access to capital and will remain responsive and thoughtful to a dynamic and competitive acquisitions market as we seek to acquire additional assets that BNL plans to own for the long term. Thank you for all your continued support of Broadstone Net Lease. I look forward to seeing everyone at our Annual Meeting on Tuesday, May 7th, which will take place in Rochester, NY. I hope that you can join us in person or via the online portal for this important event.

Best regards,



Chris J. Czarnecki
CEO, President & Director

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 000-55774

BROADSTONE NET LEASE, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

26-1516177
(I.R.S. Employer
Identification No.)

800 Clinton Square Rochester, New York
(Address of principal executive offices)

14604
(Zip Code)

(585) 287-6500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: Common Stock, par value \$0.001 per share

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

There is no established market for the registrant's shares of common stock. There were approximately 19,485,596.955 shares of common stock held by non-affiliates as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, for an aggregate market value of \$1,617,304,547, assuming a market value of \$83 per share, the offering price per share as of June 30, 2018, in the registrant's ongoing private offering exclusive of any available discounts for certain categories of purchasers.

There were 22,597,882.214 shares of the Registrant's common stock, \$0.001 par value per share, outstanding as of March 1, 2019.

Documents Incorporated by Reference

Part III, Items 10, 11, 12, 13, and 14 of this annual report incorporate by reference certain specific portions of Broadstone Net Lease, Inc.'s definitive proxy statement for its 2019 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year. Only those portions of the proxy statement that are specifically incorporated by reference herein shall constitute a part of this annual report.

(This Page Intentionally Left Blank)

BROADSTONE NET LEASE, INC.
TABLE OF CONTENTS

	<u>Page</u>
Cautionary Note Regarding Forward-Looking Statements.....	2
PART I	
Item 1. Business.....	3
Item 1A. Risk Factors	18
Item 1B. Unresolved Staff Comments	36
Item 2. Properties.....	36
Item 3. Legal Proceedings	36
Item 4. Mine Safety Disclosures.....	36
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	37
Item 6. Selected Financial Data	46
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	47
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	68
Item 8. Financial Statements and Supplementary Data	70
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	133
Item 9A. Controls and Procedures.....	133
Item 9B. Other Information.....	133
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	134
Item 11. Executive Compensation	134
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	134
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	134
Item 14. Principal Accountant Fees and Services.....	134
PART IV	
Item 15. Exhibits and Financial Statement Schedules.....	135
Item 16. Form 10-K Summary.....	135

Cautionary Note Regarding Forward-Looking Statements

Except where the context suggests otherwise, as used in this Form 10-K, the terms “we,” “us,” “our,” and “our company” refer to Broadstone Net Lease, Inc., a Maryland corporation, and, as required by context, Broadstone Net Lease, LLC, a New York limited liability company, which we refer to as our “Operating Company,” and to their respective subsidiaries.

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), regarding, among other things, our plans, strategies, and prospects, both business and financial. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results, or other developments. Forward-looking statements can be identified by the use of forward-looking terminology such as, but not limited to, “may,” “will,” “should,” “expect,” “intend,” “anticipate,” “estimate,” “would be,” “believe,” or “continue” or the negative or other variations of comparable terminology.

Forward-looking statements are inherently subject to risks, uncertainties, and assumptions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic, and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. Although we believe that our plans, intentions, and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions, or expectations.

The following are some, but not all, of the assumptions, risks, uncertainties, and other factors that could cause our actual results to differ materially from those presented in our forward-looking statements:

- Our ability to generate cash flows sufficient to pay our dividends to stockholders or meet our debt service obligations.
- Our ability to achieve our investment objectives and growth plans.
- Our dependence upon the financial health and performance of our Manager and Asset Manager and their ability to retain or hire key personnel.
- We may be subject to substantial third-party fees, in some instances to affiliated third parties.
- Potential conflicts of interest because of our UPREIT structure (as defined below) and the relationship with our Manager and Asset Manager.
- General business and economic conditions, fluctuating interest rates, and volatility and uncertainty in the credit markets and broader financial markets.
- Competition in the acquisition and disposition of properties and in the leasing of our properties, which may impact our ability to acquire, dispose of, or lease properties on advantageous terms.
- Risks associated with investing in real estate, including tenant, geographic, and industry concentrations with respect to our properties; bankruptcies or insolvencies of tenants or from tenant defaults generally; impairments in the value of our real estate assets; the illiquidity of our real estate investments; potential liability relating to environmental matters; and potential damages from natural disasters, acts of terrorism, or war.
- Our access to capital and ability to borrow money in sufficient amounts and on favorable terms.
- Our continued qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and compliance with REIT requirements, including the annual distribution requirements.
- Changes in applicable laws, rules, and regulations, including the tax laws.

Additional factors that may cause risks and uncertainties include those discussed in the Item 1. “Business,” Item 1A. “Risk Factors,” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Form 10-K is filed with the Securities and Exchange Commission (the “SEC”). Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this Form 10-K.

Part I.

Item 1. Business

The Company

We are an externally managed real estate investment trust (“REIT”) formed as a Maryland corporation in 2007 to acquire and hold commercial real estate properties throughout the United States, substantially all of which are leased to the properties’ operators under long-term net leases. Under a “net lease,” the tenant occupying the leased property (usually as a single tenant) does so in much the same manner as if the tenant were the owner of the property. There are various forms of net leases, most typically classified as triple-net or double-net. Triple-net leases typically require that the tenant pay all expenses associated with the property (*e.g.*, real estate taxes, insurance, maintenance, repairs, and capital costs). Double-net leases typically require that the tenant pay all operating expenses associated with the property (*e.g.*, real estate taxes, insurance, and maintenance), but exclude some or all major repairs (*e.g.*, roof, structure, and parking lot). Accordingly, the owner receives the rent “net” of these expenses, rendering the cash flow associated with the lease predictable for the term of the lease. Under a net lease, the tenant generally agrees to lease the property for a significant term and agrees that it will either have no ability, or only limited ability, to terminate the lease or abate rent prior to the expiration of the term of the lease as a result of real estate driven events such as casualty, condemnation, or failure by the landlord to fulfill its obligations under the lease.

We focus on real estate that is operated by a single tenant where the real estate is an integral part of the tenant’s business. Our diversified portfolio of real estate includes retail properties (such as quick service and casual dining restaurants), healthcare facilities, industrial manufacturing facilities, warehouse and distribution centers, and corporate offices, among others. We target properties with creditworthy tenants that look to engage in a long-term lease relationship. Through long-term leases, our tenants are able to retain operational control of their mission critical locations, while conserving their debt and equity capital to fund their fundamental business operations.

As of December 31, 2018, we owned a diversified portfolio of 621 individual net leased commercial properties located in 42 states and comprising approximately 19.0 million rentable square feet of operational space. As of December 31, 2018, 100% of our properties were subject to leases and were 99.7% occupied by 161 different commercial tenants, with no single tenant accounting for more than 3.5% of our contractual rental revenue over the next 12 months (“NTM Rent”).

We elected to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), beginning with our taxable year ended December 31, 2008. As a REIT, we are not subject to federal income tax to the extent that we meet certain requirements, including that we distribute at least 90% of our annual taxable income to our stockholders and satisfy other requirements based on the composition of our asset portfolio and sources of income.

We operate under the direction of our board of directors, which is responsible for the management and control of our affairs. Our board of directors has retained Broadstone Real Estate, LLC (the “Manager”), to provide certain property management services for our properties, and Broadstone Asset Management, LLC, a wholly owned subsidiary of the Manager (the “Asset Manager”), to manage our day-to-day affairs and implement our investment strategy, subject to our board of directors’ direction, oversight, and approval. The agreements governing the services provided by the Manager and the Asset Manager have been renewed through the year ending December 31, 2021, and will automatically renew for successive additional three-year terms thereafter, subject to earlier termination as detailed in the respective agreements.

We conduct substantially all of our activities through, and all of our properties are held directly or indirectly by, the Operating Company. We are the sole managing member of the Operating Company and as of December 31, 2018, we owned approximately 92.7% of its issued and outstanding membership units, with the remaining 7.3% of its membership units held by persons who were issued membership units in exchange for their interests in properties acquired by the Operating Company.

As we conduct substantially all of our operations through the Operating Company, we are structured as what is referred to as an Umbrella Partnership Real Estate Investment Trust (“UPREIT”). The UPREIT structure allows a property owner to contribute property to the Operating Company in exchange for membership units in the Operating Company and generally defer taxation of a resulting gain until the contributor later disposes of the membership units or the property is sold in a taxable transaction. The membership units of the Operating Company held by members of the Operating Company other than us are referred to herein and in our consolidated financial statements as “non-controlling interests,” “non-controlling membership units,” or “membership units,” and are convertible into shares of our common stock on a one-for-one basis, subject to certain restrictions. We allocate consolidated earnings to holders of our common stock and non-controlling membership unit holders of the Operating Company based on the weighted average number of shares of our common stock and non-controlling membership units outstanding during the year. For the year ended December 31, 2018, the weighted average number of units outstanding was 1.67 million.

We commenced our ongoing private offering of shares of our common stock (our “private offering”) in 2007. The first closing of our private offering occurred on December 31, 2007, and we have conducted additional closings at least once every calendar quarter since then. Currently, we close sales of additional shares of our common stock monthly. In November 2017, we instituted a monthly equity cap and queue program for new and additional investments in our common stock. The cap does not apply to investments made pursuant to our Distribution Reinvestment Plan (“DRIP”) or equity capital received in connection with UPREIT transactions. See Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities” of this Form 10-K for further information.

Shares of our common stock are offered in our private offering at a price equal to a determined share value (the “Determined Share Value”), which is established at least quarterly by the committee of our board of directors comprised of our independent directors (“Independent Directors Committee”) based on the net asset value (“NAV”) of our portfolio, input from management and third-party consultants, and other such factors as the Independent Directors Committee may determine. Our determination of NAV applies valuation definitions and methodologies prescribed by Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, in order to fair value our net assets. Our net assets are primarily comprised of our investment in rental property and debt, as well as other assets and liabilities such as cash, interest rate swaps, and accounts payable. The values ascribed to our mortgages, unsecured notes, and interest rate swaps are marked to market each quarter. See further discussion related to Determined Share Value in Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” of this Form 10-K under the caption *Determined Share Value*. Shares of our common stock are currently being offered in our private offering at \$85.00 per share. For the year ended December 31, 2018, we issued 3.22 million shares of our common stock in our private offering, including 0.64 million shares of common stock issued pursuant to our DRIP. Cash received for newly issued shares totaled \$215.7 million and shares with a value of \$52.2 million were issued pursuant to DRIP transactions. In addition, we issued 194,035 units in our Operating Company valued at \$15.8 million during the year ended December 31, 2018, in exchange for properties contributed through UPREIT transactions. We intend to use substantially all of the net proceeds from our private offering, supplemented with additional borrowings, to continue to invest in additional net leased properties and for general corporate purposes. We conduct our private offering in reliance upon the exemption from registration under the Securities Act of 1933, as amended (the “Securities Act”), provided by Rule 506(c) of Regulation D promulgated under the Securities Act.

As of December 31, 2018, there were 22,013,751 shares of our common stock issued and outstanding, and 1,737,047 non-controlling membership units in the Operating Company issued and outstanding.

2018 Highlights

- Increased total revenues to \$237.5 million, representing growth of 30.8% compared to the year ended December 31, 2017.
- Generated earnings per share on a GAAP (as defined below) basis, including amounts attributable to non-controlling interests, of \$3.43, representing an increase of \$0.22 per diluted share, or 6.9%, compared to the year ended December 31, 2017.
- Generated funds from operations (“FFO”), a non-GAAP financial measure, of \$6.88 per diluted share, representing an increase of \$0.88 per diluted share, or 14.7%. compared to the year ended December 31, 2017.
- Generated adjusted funds from operations (“AFFO”), a non-GAAP financial measure, of \$5.66 per diluted share, representing an increase of \$0.28 per diluted share, or 5.2%, compared to the year ended December 31, 2017.
- Increased our monthly distribution to stockholders from \$0.415 per share at December 31, 2017, to \$0.43 per share in February 2018.
- Increased the Determined Share Value from \$81.00 per share at December 31, 2017, to \$86.00 at December 31, 2018.
- Closed 26 real estate acquisitions totaling \$606.8 million, excluding capitalized acquisition expenses, adding 113 new properties with a weighted average initial cash capitalization rate of 6.9%. The properties acquired had a weighted average remaining lease term of 11.0 years at the time of acquisition and weighted average annual rent increases of 1.8%.
- Received \$283.7 million in investments from new and existing stockholders, including property contributed in exchange for Operating Company membership units through UPREIT transactions, and had more than 3,100 stockholders as of the end of the year.
- Continued to focus on optimizing our portfolio by selectively pruning and strategically disposing of 20 properties, representing approximately 2.0% of our portfolio value as of December 31, 2017, for \$54.0 million in net proceeds.
- Continued to enhance and diversify our sources of debt capital. In July 2018, we issued an aggregate of \$325.0 million of unsecured, fixed-rate, interest-only senior notes through a private placement.
- Collected more than 99% of rents due during 2018 and maintained a 100% leased portfolio throughout the year.

FFO and AFFO are performance measures that are not calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”). We present these non-GAAP measures as we believe certain investors and other users of our financial information use them as part of their evaluation of our historical operating performance. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K under the heading *Net Income and Non-GAAP Measures (FFO and AFFO)*, which includes discussion of the definition, purpose, and use of these non-GAAP measures as well as a reconciliation of each to the most comparable GAAP measure.

Our Properties and Investment Objectives

We target acquisitions of fee simple interests in individual properties priced between \$5 million and \$75 million. Portfolios may be significantly larger, depending on balance sheet capacity and whether the portfolio is diversified or concentrated by tenant, geography, or brand. Our investment policy (“Investment Policy”) has three primary objectives:

- preserve, protect, and return capital to investors,
- realize increased cash available for distributions and long-term capital appreciation from growth in the value of our properties, and
- maximize the level of sustainable cash distributions to our investors.

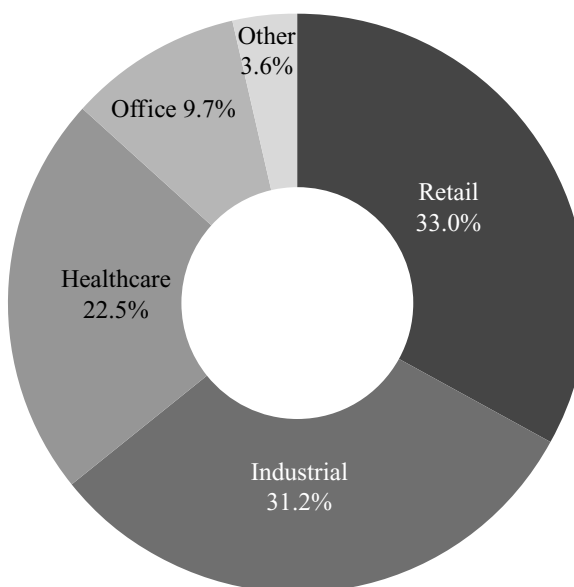
We primarily acquire freestanding, single-tenant commercial properties located in the United States either directly from our creditworthy tenants in sale-leaseback transactions, where they sell us their properties and simultaneously lease them back through long-term, net leases, or through the purchase of properties already under a net lease (*i.e.*, a lease assumption). Under either scenario, our properties are generally under lease and fully occupied at the time of acquisition. Our real estate portfolio as of December 31, 2018, is reflective of our Investment Policy, with a focus on properties in growth markets with at least ten years of lease term remaining that are expected to achieve financial returns on equity of greater than 9.5%, net of fees, calculated based on the average return recognized across all acquisitions during a calendar year, provided that all acquisitions must have a minimum remaining lease term of seven years and a minimum return on equity of 8.5%, net of fees, unless otherwise approved by the Independent Directors Committee. Our criteria for selecting properties are based on the following underwriting principles:

- fundamental value and characteristics of the underlying real estate,
- creditworthiness of the tenant, and
- transaction structure and pricing.

We believe we can achieve an appropriate risk-adjusted return through these underwriting principles and conservatively project a property’s potential to generate targeted returns from current and future cash flows. We believe targeted returns are achieved through a combination of in-place income at the time of acquisition, rent growth, and a property’s potential for appreciation.

To achieve an appropriate risk-adjusted return, we maintain a diversified portfolio of real estate spread across multiple tenants, industries, and geographic locations. The following charts summarize our portfolio diversification by property type, tenant industry, and geographic location as of December 31, 2018. The percentages below are calculated based on our NTM Rent as of December 31, 2018, divided by total NTM Rent. Late payments, non-payments, or other unscheduled payments are not considered in the calculation. NTM Rent includes the impact of contractual rent escalations.

Property Type, by % of NTM Rent

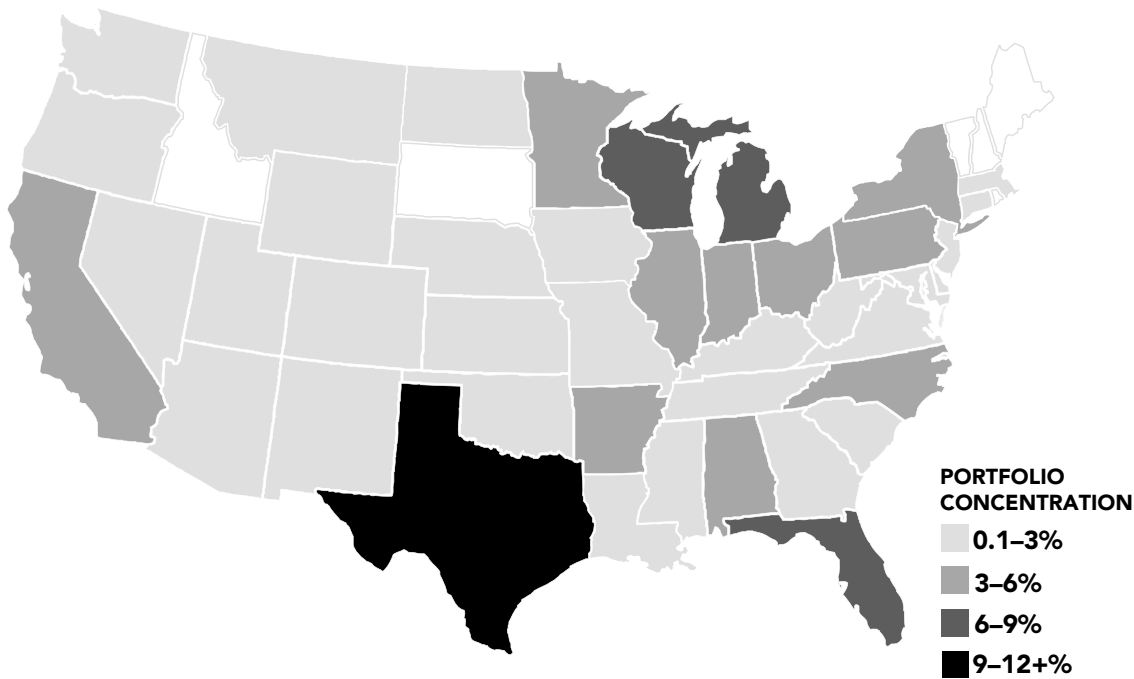


Property Type	% NTM Rent
Retail - other	12.4%
Retail – casual dining	10.5%
Retail – quick service restaurants ("QSR")	10.1%
Retail Total	33.0%
Industrial – warehouse/distribution	12.5%
Industrial – manufacturing	9.5%
Industrial – flex	6.0%
Industrial – other	3.2%
Industrial Total	31.2%
Healthcare – clinical	14.3%
Healthcare – surgical	4.5%
Healthcare – other	3.7%
Healthcare Total	22.5%
Office	9.7%
Other	3.6%
Total	100.0%

Tenant Industry, by % of NTM Rent

Industry	% NTM Rent
Restaurants	20.9%
Healthcare Facilities	20.1%
Home Furnishing Retail	5.1%
Specialized Consumer Services	4.5%
Auto Parts & Equipment	4.3%
Packaged Foods & Meats	3.8%
Air Freight & Logistics	3.2%
Healthcare Services	2.9%
Industrial Machinery	2.3%
Distributors	2.0%
Industrial Conglomerates	1.9%
Multi-line Insurance	1.7%
Life Sciences Tools & Services	1.7%
Application Software	1.6%
Aerospace & Defense	1.5%
Top 15 Tenant Industries	77.5%
Other (31 industries)	22.5%
Total	100.0%

Geographic Diversification, by % of NTM Rent



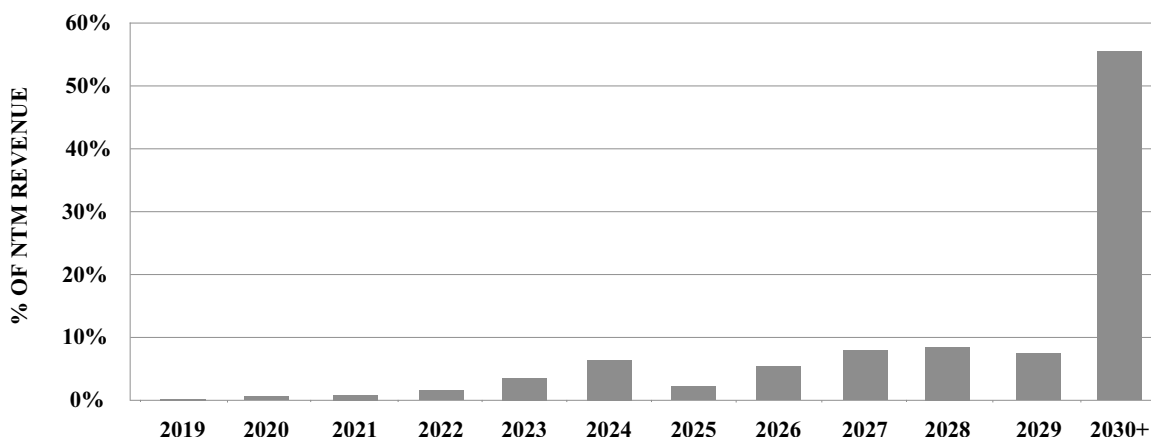
TOTAL PROPERTIES: 621 TOTAL STATES: 42

At December 31, 2018, all of our properties are subject to leases, substantially all of which were net leases. We do not currently engage in the development of real estate, which could cause a delay in timing between the funds used to invest in properties and the corresponding cash inflows from rental receipts. Our cash flows from operations are primarily generated through our real estate investment portfolio and the monthly lease payments under our long-term leases with our tenants.

To mitigate the impact of inflation on our fixed revenue streams and increase value to our stockholders, we strive to implement periodic rent escalations within our leases. As of December 31, 2018, substantially all of our leases had contractual rent escalations, with an annual weighted average of 2.0%. A majority of our leases have fixed annual rent increases, and the remaining leases have annual lease escalations based on increases in the Consumer Price Index (“CPI”), or periodic escalations over the term of the lease (*e.g.*, a 10% increase every five years). These lease escalations mitigate the risk of earnings erosion on our fixed revenue streams in the case of an inflationary economic environment, and provide increased return in otherwise stable market conditions. Our focus on single-tenant, net leases shifts certain risks to the tenant and shelters us from volatility in the cost of taxes, insurance, services, and maintenance of the property. For a portion of our portfolio, we have leases that are not fully triple-net, and, therefore, we bear responsibility for certain maintenance and structural component replacements (*e.g.*, roof, structure, or parking lot) that may be required in the future, although the tenants are still required to pay all operating expenses associated with the property (*e.g.*, real estate taxes, insurance, and maintenance). In circumstances where we cannot implement a triple-net lease, we attempt to limit our exposure through the use of warranties and other remedies that reduce the likelihood of a significant capital outlay during the term of the lease. We will also occasionally incur other property-level expenses that are not paid by our tenants. We do not currently anticipate making significant capital expenditures or incurring other significant property costs on an aggregate basis during the term of the property leases in our current portfolio.

Due to the fact that substantially all of our properties are leased under long-term leases, we are not currently required to perform significant ongoing leasing activities on our properties. The leases for eight of our properties, representing less than 1% of our annual rental streams (calculated based on NTM Rent), will expire before 2021. As of December 31, 2018, the weighted average remaining term of our leases (calculated based on NTM Rent) was approximately 12.1 years, excluding renewal options, which are exercisable at the option of our tenants upon expiration of their base lease term. Approximately 5% of the properties in our portfolio are subject to leases without at least one renewal option. Furthermore, the weighted average remaining lease term on the \$606.8 million in properties acquired during the year ended December 31, 2018, was 11.0 years at the time of acquisition. More than 55% of our rental revenue is derived from leases that expire during 2030 and thereafter. As of December 31, 2018, no more than 9% of our rental revenue is derived from leases that expire in any single year in the next ten years. The following chart sets forth our lease expirations based upon the terms of our leases in place as of December 31, 2018.

Lease Maturity Schedule, by % of NTM Rent



The following table presents the lease expirations by year, including the number of tenants and properties with leases expiring, the square footage covered by the leases expiring, the NTM Rent, and the percentage of NTM Rent for the leases expiring. Late payments, non-payments or other unscheduled payments are not considered in the NTM Rent amounts. NTM Rent includes the impact of contractual rent escalations. Amounts are in thousands, except the number of tenants and properties.

Year	Number of Tenants	Number of Properties	Square Footage	NTM Rent	Percentage of NTM Rent
2019	2	3	21	\$ 259	0.1%
2020	5	5	112	1,374	0.6%
2021	8	12	101	2,092	0.9%
2022	6	5	127	3,402	1.4%
2023	13	14	705	6,998	3.0%
2024	13	16	1,787	14,557	6.2%
2025	10	18	271	4,352	1.8%
2026	19	30	832	12,688	5.4%
2027	22	34	1,970	19,986	8.5%
2028	21	34	1,869	20,905	8.9%
2029	14	61	2,474	18,097	7.7%
2030 and thereafter	87	389	8,713	131,092	55.5%

Our top tenants and brands at December 31, 2018, are listed in the tables below. The percentages are calculated based on the NTM Rent associated with the tenant or brand, divided by total NTM Rent. Late payments, non-payments, or other unscheduled payments are not considered in the calculation. NTM Rent includes the impact of contractual rent escalations.

Top Ten Tenants, by % of NTM Rent

Tenant	Property Type	% NTM Rent	Properties
Art Van Furniture, LLC	Retail	3.5%	10
Red Lobster Hospitality LLC & Red Lobster Restaurants LLC	Retail	3.1%	25
Jack's Family Restaurants LP	Retail	2.5%	36
Outback Steakhouse of Florida, LLC ⁽¹⁾	Retail	2.3%	24
Krispy Kreme Doughnut Corporation	Industrial/Retail	2.1%	27
BluePearl Holdings, LLC	Healthcare	2.1%	12
Big Tex Trailer Manufacturing Inc.	Industrial/Retail/Office	2.0%	17
Siemens Medical Solutions USA, Inc. & Siemens Corporation	Industrial	1.9%	2
Nestle' Dreyer's Ice Cream Company	Industrial	1.8%	1
WendPartners & Subsidiaries	Retail	1.7%	28
Total Top Ten		23.0%	182
All Other		77.0%	439
Total		100.0%	621

⁽¹⁾ Tenant's properties include 22 Outback Steakhouse restaurants and two Carrabba's Italian Grill restaurants.

Top Ten Brands, by % of NTM Rent

Brand	Property Type	% NTM Rent	Properties
Art Van Furniture	Retail	3.5%	10
Bob Evans Farms ⁽¹⁾	Industrial/Retail	3.2%	27
Red Lobster	Retail	3.1%	25
Wendy's	Retail	2.5%	41
Jack's Family Restaurants	Retail	2.5%	36
Taco Bell	Retail	2.2%	41
Krispy Kreme	Industrial/Retail	2.1%	27
BluePearl Veterinary Partners	Healthcare	2.1%	12
Outback Steakhouse	Retail	2.0%	22
Big Tex Trailers	Industrial/Retail/Office	2.0%	17
Total Top Ten		25.2%	258
All Other		74.8%	363
Total		100.0%	621

⁽¹⁾ Brand includes two BEF Foods, Inc. properties and 25 Bob Evans Restaurants, LLC properties.

Our Investment Policy generally requires us to seek diversification of our investments. Based on the NTM Rent of the properties in the portfolio, determined as of the date of the prior quarter end, new investments may not cause us to exceed:

- 5% in any single property;
- 8% leased to any single tenant or brand;
- 10% located in any single metropolitan statistical area; or
- 20% located in any single state.

We may exceed these diversification targets from time to time with the approval of the Independent Directors Committee. To avoid undue risk concentrations in any single asset class or category, long-term asset allocation will be set with the following target percentages and within the following ranges, although these ranges may be temporarily waived by the Independent Directors Committee:

Asset Category	Target	Range
Retail	30%	15-45%
Healthcare	20%	15-45%
Industrial	25%	15-45%
Office	15%	10-20%
Other	10%	5-15%

While the Independent Directors Committee establishes diversification thresholds to manage risk, the management team does not review discrete financial information at this level. Refer to our discussion regarding segment reporting under the caption *Segment Reporting* in Note 2, “Summary of Significant Accounting Policies” within the Notes to the Consolidated Financial Statements within Item 8. “Financial Statements and Supplementary Data” of this Form 10-K.

We do not currently engage in the development of real estate, but may do so in the future. Our Investment Policy provides the Asset Manager with the authority to make, on our behalf, and without approval of the Independent Directors Committee: (i) any acquisition or sale transaction of any property or portfolio of related properties involving a purchase or sale price up to \$100 million, and (ii) any acquisition of an individual property or portfolio of properties that would result in less than a 4% concentration in any tenant or less than a 5% concentration in any brand, each on an NTM Rent basis, provided that the transaction otherwise meets our Investment Policy, and any financing related to any such acquisition does not violate our Leverage Policy (as defined below), as established by the Independent Directors Committee from time to time. In addition to the foregoing thresholds, individual property and portfolio acquisitions that do not meet the criteria set forth in the Investment Policy must be approved by the Independent Directors Committee: (i) for individual property acquisitions, when the purchase price exceeds \$15 million, and (ii) for portfolio acquisitions, where one or more of the properties included in the portfolio do not meet the criteria set forth in the Investment Policy, when the aggregate purchase price allocated in the transaction to those non-conforming properties exceeds \$15 million. For any calendar year, the aggregate amount of non-conforming properties that may be acquired pursuant to these latter terms, is limited to an aggregate amount, based on purchase price, equal to 1.5% of the approximate market value of our assets as measured as of the first day of the calendar year.

Underwriting Criteria

When evaluating a property acquisition, our underwriting guidelines require that we consider the condition of the property, the creditworthiness of the tenant, the strength of any personal or corporate guarantees, the tenant’s historic performance at the property or similar properties, the location of the property, the overall economic condition of the community in which the property is located, and the property’s potential for appreciation. We apply our credit underwriting guidelines prior to acquiring a property, periodically throughout the lease term, and when we are re-leasing properties in our portfolio. While we seek creditworthy tenants, we do not require them to be investment grade credit rated. Our credit review process includes analyzing a tenant’s financial statements and other available information. When we obtain guarantees on our leases, we also analyze the creditworthiness of the guarantors. Depending on the circumstances, our process will include discussions with the tenant’s management team surrounding their business plan and strategy.

We evaluate the creditworthiness of our existing tenants on an ongoing basis by holding regularly scheduled real estate portfolio reviews, reviewing updated tenant financial statements on a quarterly or annual basis, depending on the terms of the lease, analyzing updated tenant credit ratings, and reviewing our ongoing analysis of the economy and trends in the industries in which our tenants operate. Our portfolio review committee, which includes members of our Manager's senior management and asset and portfolio management teams, performs an in-depth review of each property in our portfolio at least once every 18 months. The review includes a review of real estate fundamentals and an analysis of the tenant's recent financial statements, including key metrics such as rent coverage and leverage ratios, among other applicable credit metrics, credit ratings, and economic considerations relevant to the tenant. The Manager's asset management team also periodically reviews tenant financial statements and relevant credit performance metrics. Our credit monitoring procedures also include regular communications with tenants, who are required to notify us of certain events under the terms of our leases, such as events of default and property damage. We believe our ongoing credit monitoring will enable us to identify material changes to a tenant's credit quality in a timely basis and preserve our financial position. We have not identified any material changes to the credit quality of the tenants in our real estate portfolio as of December 31, 2018.

Leverage Policy

Moody's Investors Service ("Moody's") has assigned the Operating Company an investment grade credit rating of Baa3 with a stable outlook, which allows us to take advantage of preferential borrowing margins and provides more attractive access to the debt markets, including the debt private placement market. The Operating Company's credit rating is based on a number of factors, including an assessment of our financial strength, portfolio size and diversification, credit and operating metrics, corporate governance policies, and sustainability of cash flow and earnings. While Moody's utilizes other factors outside of our leverage ratio in assigning ratings, we are strongly committed to maintaining a modest leverage profile commensurate with our investment grade rating. Our leverage policy ("Leverage Policy") is to maintain a leverage ratio in the 35% to 45% range based on the approximate market value of our assets, recognizing that the actual leverage ratio may vary over time and there may be opportunistic reasons to exceed a 45% leverage ratio; provided, however, that we cannot exceed a 50% leverage ratio without the approval of the Independent Directors Committee. The Independent Directors Committee reviews our Leverage Policy at least annually; however, depending on market conditions and other factors, they may change our Leverage Policy from time to time.

We primarily utilize our unsecured revolving line of credit to finance acquisitions and manage our liquidity profile. Longer dated unsecured debt in the form of term loans and private placement notes are used as the primary sources of debt capital. Unsecured term loans are variable-rate debt for which we mitigate interest rate risk through the use of interest rate derivatives discussed below. The debt private placement market allows us to issue unsecured long-term, fixed-rate notes to help mitigate interest rate risk, lengthen our maturity profile, and diversify our sources of debt capital. The mix of financing sources may change over time based on market conditions. The unsecured borrowings generally contain affirmative and negative covenants which are tested against our financial performance.

While we do not use mortgage loans and notes payable ("mortgage financing") as a strategic source of debt capital, we will occasionally utilize mortgage financing for a single property or a group of related properties acquired from a single seller. These loans may be further secured by guarantees from us, provided that we attempt to limit the use of guarantees to the extent possible. We may assume debt when conducting a transaction or we may mortgage existing properties. As of December 31, 2018, 11 of our 621 properties were secured by mortgage financing, and the aggregate outstanding principal balance of mortgage loans and notes payable was approximately \$79.5 million.

To reduce our exposure to variable-rate debt, we enter into interest rate swap agreements to fix the rate of interest as a hedge against interest rate fluctuations on floating-rate debt. These interest rate hedges have staggered maturities to reduce the exposure to interest rate fluctuations in any one year, and generally extend up to 10 years. The interest rate swaps are applied against a pool of variable-rate debt, which offers flexibility in maintaining our hedge designation concurrent with our ongoing capital markets activity. We attempt to limit our total exposure to floating-rate debt to no more than 5% of the approximate market value of our assets, measured at quarter end.

To reduce counterparty concentration risk with respect to our interest rate hedges, we diversify the institutions that serve as swap counterparties, and no more than 30% of the nominal value of our total hedged debt may be with any one institution, to be measured at the time we enter into an interest rate swap transaction and at quarter end.

As of December 31, 2018, our total outstanding indebtedness was \$1,450.6 million and the ratio of our total indebtedness to the approximate market value of our assets was 41.5%.

Corporate Governance

We operate under the direction of our board of directors, which is responsible for the management and control of our affairs. Our board of directors has retained the Manager and the Asset Manager to manage our day-to-day affairs, to implement our investment strategy, and to provide certain property management services for our properties, with both subject to our board of directors' direction, oversight, and approval. All of our officers are employees of the Manager.

Our board of directors is currently comprised of nine directors, six of whom are independent directors and serve on the Independent Directors Committee. The Independent Directors Committee reviews our relationship with, and the performance of, the Manager and the Asset Manager, and approves the terms of any affiliate transactions. In addition, the Independent Directors Committee is responsible for, among other things, approving our property and portfolio valuation policy, setting the Determined Share Value for our ongoing private offering, approving and setting our Investment Policy and Leverage Policy, and approving acquisitions above certain thresholds or outside of the criteria set forth in our Investment Policy.

Management and Our Structure

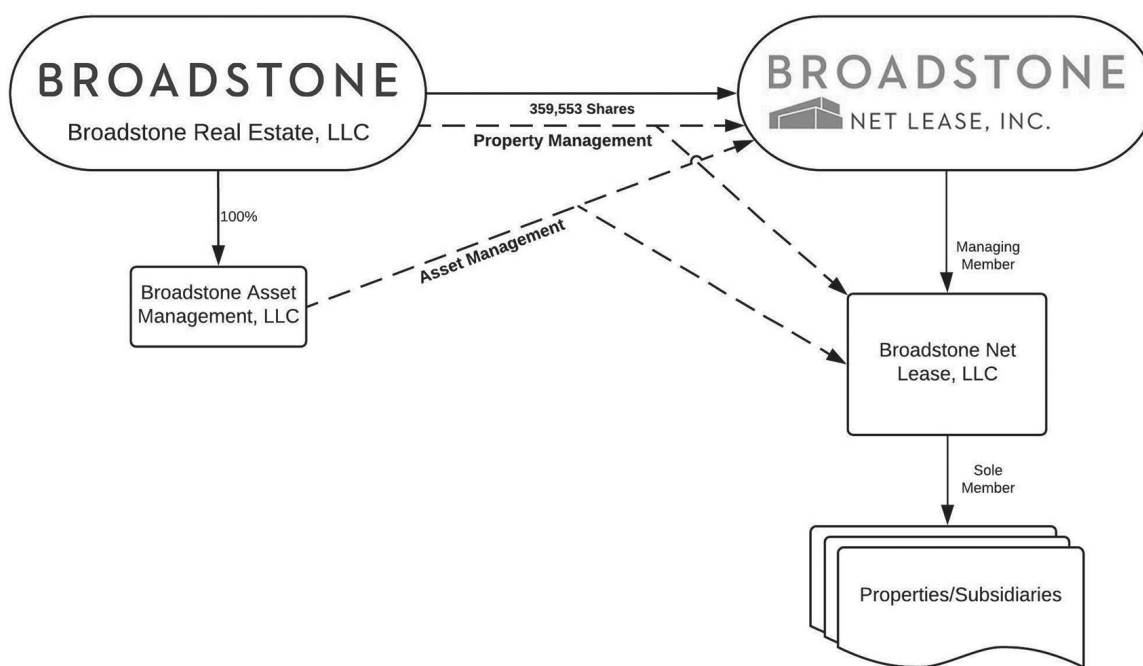
Pursuant to the terms of the asset management agreement among us, the Operating Company, and the Asset Manager (as amended, the "Asset Management Agreement"), the Asset Manager is responsible for, among other things, managing our day-to-day operations, establishing and monitoring acquisition and disposition strategies, overseeing all marketing communications and services related to our ongoing private offering, arranging mortgage and other financing, overseeing the acquisition of properties and their initial lease-up if they are not already subject to a net lease upon acquisition, providing support for the good faith valuation of our property portfolio and the setting of the Determined Share Value by the Independent Directors Committee, overseeing investor closings and transfers, arranging our annual stockholder meetings, and servicing and communicating with investors, including providing investment projections and reports. The Asset Manager also has the power pursuant to the Asset Management Agreement to nominate two directors to serve on our board of directors. The Manager owns and controls the Asset Manager.

Pursuant to the property management agreement among us, the Operating Company, and the Manager (as amended, the "Property Management Agreement"), the Manager provides property management services to our properties, including management, rent collection, and re-leasing services. In June 2015, Trident BRE, LLC, an affiliate of Stone Point Capital LLC ("Trident BRE"), acquired through an equity investment an approximate 45.6% equity ownership interest in the Manager. As of December 31, 2018, the Manager is owned, on a fully diluted basis, (i) approximately 47.06% by Trident BRE, (ii) approximately 41.51% by Amy L. Tait, our Chairman of the board of directors, Tait family trusts, and an investment entity for the families of Ms. Tait and the late Norman Leenhouts, one of our founders, and (iii) approximately 11.43% by employees of the Manager. The Manager is controlled by a four-person board of managers, two of whom are appointed by Trident BRE. In June 2015, in connection with Trident BRE's investment in the Manager, (i) we acquired 100,000 convertible preferred units in the Manager (the "Convertible Preferred BRE Units"), for \$100 per Convertible Preferred BRE Unit, in exchange for the issuance to the Manager of 138,889 shares of our common stock, then valued at \$72.00 per share, and (ii) the Manager purchased 510,416 shares of our common stock, for \$72.00 per share. On July 31, 2018, we sold all of the Convertible Preferred BRE Units to Trident BRE for an aggregate sales price of \$18.5 million. The Independent Directors Committee approved both the initial investment in and subsequent sale of the Convertible Preferred BRE Units. As of December 31, 2018, the Manager owned 359,553, or approximately 1.6%, of the issued and outstanding shares of our common stock.

As of December 31, 2018, the Manager employed approximately 21 individuals fully dedicated to our business and operations. Additionally, the Manager employed approximately 65 additional individuals who dedicate a significant portion of their time to our business and operations, in addition to various other tasks and responsibilities on behalf of the Manager and its affiliates.

For more information regarding the relationships among our company, Trident BRE, the Manager, and the Asset Manager and the fees we pay to the Manager and the Asset Manager pursuant to the Property Management Agreement and the Asset Management Agreement, see the captions *Director Independence and Related Party Transactions* and *Certain Relationships and Related Transactions* in our definitive proxy statement for our 2019 Annual Meeting of Stockholders (the “Proxy Statement”), which will be filed with the SEC within 120 days following the end of our fiscal year, and are incorporated herein by reference.

The chart below illustrates the relationships among our company, the Operating Company, the Manager, and the Asset Manager as of December 31, 2018.



Regulation

Our investments are subject to various federal, state, and local laws, ordinances, and regulations, including, among other things, zoning regulations, land use controls, and environmental controls relating to air and water quality, noise pollution, and indirect environmental impacts. We believe that we have all permits and approvals necessary under current law to operate our investments.

Emerging Growth Company Status

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”), and as such we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. A number of these exemptions are not currently relevant to us due to our external management structure.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can use the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards. This permits an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to take advantage of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We will remain an emerging growth company until the earliest to occur of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (ii) the date on which we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, (iii) the date on which we have issued more than \$1 billion in non-convertible debt securities during the preceding three-year period, and (iv) the end of the year following the five-year anniversary of the date of the first sale of our common stock under an initial public offering.

Competition

The commercial real estate market is highly competitive. We compete for tenants to occupy our properties in all of our markets with other owners and operators of commercial real estate. We compete based on a number of factors that include location, rental rates, security, suitability of the property’s design to prospective tenants’ needs, and the manner in which the property is operated and marketed. The number of competing properties in a particular market could have a material effect on our occupancy levels, rental rates, and the operating expenses of certain of our properties.

In addition, we compete with other entities engaged in real estate investment activities to locate suitable properties to acquire and purchasers to buy our properties. These competitors include other REITs, specialty finance companies, savings and loan associations, sovereign wealth funds, banks, mortgage bankers, insurance companies, institutional investors, investment banking firms, lenders, governmental bodies, and other entities. Some of these competitors, including larger REITs, have substantially greater marketing and financial resources than we have. The relative size of their portfolios may allow them to absorb properties with lower returns and allow them to accept more risk on a given property than we can prudently manage, including risks with respect to the creditworthiness of tenants. In addition, these same entities may seek financing through similar channels to us. Competition from these REITs and other third-party real estate investors may limit the number of suitable investment opportunities available to us. It also may result in higher prices, lower yields, and a narrower spread of yields over our borrowing costs, making it more difficult for us to acquire new investments on attractive terms.

Seasonality

Our investments are not materially impacted by seasonality.

Employees

We have no employees. Our officers are employees of our Manager or its affiliates and are not compensated by us for their service as our officers. The employees of our Manager and its affiliates manage our day-to-day operations and provide management, acquisition, advisory, and certain administrative services for us.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code and have operated as such commencing with the taxable year ended December 31, 2008. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our stockholders, which is computed without regard to the dividends-paid deduction and excluding net capital gain and does not necessarily equal net income as calculated in accordance with GAAP. As a REIT, to the extent we satisfy this distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed amount. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions.

Financial Information about Industry Segments

We currently operate in a single reportable segment, which includes the acquisition, leasing, and ownership of net leased properties. Refer to the caption *Segment Reporting* in Note 2, "Summary of Significant Accounting Policies" within the Notes to the Consolidated Financial Statements within Item 8. "Financial Statements and Supplementary Data" of this Form 10-K.

Company Information

Our principal executive offices are located at 800 Clinton Square, Rochester, New York, 14604, and our telephone number is (585) 287-6500.

Our filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as our proxy statements, are accessible free of charge at <http://investors.bnl.broadstone.com> as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. You may access materials we file with the SEC through the EDGAR database at the SEC's website at <http://www.sec.gov>.

We have adopted our Code of Ethics to ensure that our business is conducted in accordance with the highest moral, legal, and ethical standards by our officers and directors as well as the Manager, the Asset Manager, and the Manager's employees. The Code of Ethics is available on our website, <http://investors.bnl.broadstone.com>, together with the charters of the Board's Independent Directors Committee, Audit Committee, and Nominating and Corporate Governance Committee. Amendments to, and waivers granted to our directors and executive officers under our codes of ethics, if any, will be posted in this area of our website. Copies of these materials are available in print to any stockholder who requests them. Stockholders should direct such requests in writing to Investor Relations Department, Broadstone Net Lease, Inc., 800 Clinton Square, Rochester, New York 14604. Stockholders may also call (585) 287-6500.

The information about our website and its content is for your convenience only. The content of our website is not deemed to be incorporated by reference in this report or filed with the SEC.

Item 1A. Risk Factors.

The following are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. You should consider carefully the risks described below and the other information in this Form 10-K, including our consolidated financial statements and the related notes. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

General Investment Risks

We may not be able to make distributions to our stockholders at the times or in the amounts we expect, or at all.

We may not be able to continue to generate sufficient cash flow from our properties to permit us to make the distributions we expect. If we pay distributions from the proceeds of our securities offering or from borrowings, the amount of capital we ultimately invest may be reduced, which may reduce the value of an investment in us.

There is no public trading market for our common stock and we are not required to effectuate a liquidity event by a certain date or at all, and transfers of shares of our common stock are subject to a number of restrictions. As a result, it will be difficult for our stockholders to sell shares of our common stock and, if they are able to sell their shares, they are likely to sell them at a discount.

There is no current public market for our common stock, we do not expect that any such public market will develop in the future, and we have no obligation to list our shares on any public securities market or provide any other type of liquidity to our stockholders by a particular date, or at all. The shares of our common stock are not registered under the Securities Act or state securities laws and therefore cannot be resold unless they are subsequently registered under such laws or unless an exemption from registration is available. Although we have adopted a share redemption program pursuant to which our stockholders may request that we redeem shares of our common stock, it is subject to a number of restrictions. Accordingly, our investors should not expect to be able to sell their shares or otherwise liquidate their investment promptly, if at all, and there can be no assurance that the sales price of any shares which are sold would equal or exceed the price originally paid for the shares. Our investors must be prepared to bear the economic risk of holding their shares of our common stock for an indefinite period of time.

Our stockholders are limited in their ability to sell shares of our common stock pursuant to our share redemption program. Our stockholders may not be able to sell any of their shares of our common stock back to us, and if they do sell their shares, they may not receive the price they paid.

We have adopted a share redemption program to provide an opportunity for our stockholders to have shares of our common stock repurchased at a price equal to or at a discount from the current Determined Share Value in effect as of the date the shares are tendered for redemption, subject to a number of restrictions and limitations. No shares may be repurchased under our share redemption program until after the first anniversary of the date of purchase of such shares without approval from our Independent Directors Committee. Further, we are not obligated to repurchase shares of our common stock under the share redemption program. Notwithstanding the procedures outlined in the share redemption program, our board of directors or Independent Directors Committee may, in its sole discretion, reject any share redemption request made by any stockholder at any time. In addition, the share redemption program limits the number of shares that may be redeemed in any quarter. The total number of shares redeemed in any quarter pursuant to the share redemption program may not exceed (i) 1% of the total number of shares outstanding at the beginning of the applicable calendar year, plus (ii) 50% of the total number of any additional shares of our common stock issued during the prior calendar quarter pursuant to our DRIP; provided, however, that the total number of shares redeemed during any calendar year may not exceed 5% of the number of shares outstanding as of the first day of such calendar year. There is no fee in connection with a repurchase of shares pursuant to our share redemption program. Finally, our board of directors reserves the right to amend, suspend, or terminate the share redemption program at any time upon 30 days' notice to our stockholders. As a result of the foregoing, a stockholder may not be able to sell any of its shares of our common stock back to us pursuant to our share redemption program. Moreover, if a stockholder does sell its shares of our common stock back to us pursuant to the share redemption program, the stockholder may not receive the same price it paid for any shares of our common stock being redeemed.

The Independent Directors Committee establishes the Determined Share Value on a quarterly basis. The Determined Share Value is not directly derived from any independent valuation or from the value of the existing property portfolio. Investors should use caution in using the Determined Share Value as the current value of shares of our common stock.

On a quarterly basis, the Independent Directors Committee establishes a Determined Share Value per share of our common stock, based on the net asset value of the portfolio, input from management and third-party consultants, and such other factors as the Independent Directors Committee may, in its sole discretion, determine, which we refer to as the Determined Share Value. Our net assets are primarily comprised of our investment in real property and debt, as well as other assets and liabilities such as cash, interest rate swaps, and accounts payable. The values ascribed to our mortgages and unsecured notes are marked to market each quarter. See the caption *Determined Share Value* in Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” within this Form 10-K for a complete discussion of the policies, procedures, and parties involved in calculating and reviewing the net asset value of the portfolio and setting the Determined Share Value. Shares of our common stock are offered in our ongoing private offering at a price per share equal to the current Determined Share Value and cash distributions can be reinvested in additional shares of our common stock pursuant to our DRIP at a price per share equal to 98% of the current Determined Share Value. In addition, shares of our common stock are redeemed by us pursuant to the terms of our share redemption program at a per share price equal to or at a discount to the current Determined Share Value. The Independent Directors Committee may, and currently does, engage consultants, appraisers, and other real estate or investment professionals to assist in their establishment of the Determined Share Value, but the Independent Directors Committee is not required to do so. As a result, the price of the shares of our common stock may not necessarily bear a direct relationship to our book or asset values or to any other established criteria for valuing issued or outstanding common stock and the actual value of an investor’s investment in shares of our common stock could be substantially less than what the stockholder may have paid to purchase the shares.

As with any valuation method, the methods used to determine the Determined Share Value are based upon a number of assumptions, estimates and judgments that may not be accurate or complete. Our assets are valued based upon appraisal standards and the values of our assets using these methods are not required to be a reflection of market value and will not necessarily result in a reflection of fair value under GAAP. Different parties using different property-specific and general real estate and capital market assumptions, estimates, judgments, and standards could derive different Determined Share Values, which could be significantly different from the Determined Share Values determined by the Independent Directors Committee. Further, estimated values can change rapidly and significantly due to a variety of factors, including changes in interest rates, credit performance, perceived risk, supply, demand, and actual and projected cash flows. Any such changes could result in a change in Determined Share Value.

Accordingly, the Determined Share Value established as of any given time is not a direct representation or indication that, among other things, (i) a stockholder would be able to realize the full Determined Share Value if he or she attempts to sell their shares, (ii) a stockholder would ultimately realize distributions per share equal to the Determined Share Value upon liquidation of our assets and settlement of our liabilities or upon a sale of our company, (iii) shares of our common stock would trade at the Determined Share Value on a national securities exchange, (iv) a third party would offer the Determined Share Value in an arms-length transaction to purchase all or substantially all of our shares of common stock, or (v) the methodologies used to estimate the Determined Share Value would be acceptable to the requirements of any regulatory agency.

In order to qualify as a REIT, we retain the right to prohibit certain acquisitions and transfers of shares of our common stock, which limits our investors’ ability to purchase or sell shares.

We cannot maintain our qualification as a REIT if, among other requirements: (i) more than 50% of the value of our outstanding common stock is owned, directly or indirectly, by five or fewer stockholders during the last half of each taxable year, or (ii) fewer than 100 persons own our outstanding common stock during at least 335 days of a 12-month taxable year. In order to assist us in meeting certain REIT qualification requirements, our Articles of Incorporation restrict the direct or indirect ownership by one person or entity to no more than 9.8% of the value of our then outstanding shares of capital stock (which includes common stock and any preferred stock we may issue) and no more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock unless exempted by our board of directors. We may, therefore, prohibit certain acquisitions and transfers of shares in an attempt to ensure our continued qualification as a REIT. These prohibitions may prevent our existing stockholders from acquiring additional shares, redeeming their shares, or selling their shares to others who may be deemed to, directly or indirectly, beneficially own our common stock.

Risks Related to Our Business

Our success is dependent on the performance of our Manager and Asset Manager and any adverse change in their financial health could cause our operations to suffer.

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of our Manager and Asset Manager and any adverse change in their financial health could cause our operations to suffer. Our Manager and Asset Manager are sensitive to trends in the general economy, as well as the commercial real estate and related markets. An economic downturn could result in reductions in overall transaction volume and size of sales and leasing activities and could put downward pressure on our Manager's and Asset Manager's revenues and operating results. Any such decline could cause our operating results to suffer.

Loss of key personnel of the Manager could delay or hinder our investment strategy, which could limit our ability to make distributions and decrease the value of an investment in us.

We are dependent upon the contributions of key personnel of the Manager, each of whom would be difficult to replace. Our overall success and the achievement of our investment objectives depends upon the performance of our senior leadership team, each of whom is an employee of the Manager. We rely on our senior leadership team to, among other things, identify and consummate acquisitions, design and implement our financing strategies, manage our investments, and conduct our day-to-day operations. Members of our senior leadership team could choose to leave employment with the Manager for any number of reasons. The loss of services of one or more members of our senior leadership team, or the Manager's inability to attract and retain highly qualified personnel, could adversely affect our business, diminish our investment opportunities, and weaken our relationships with lenders, business partners, existing and prospective tenants, and industry participants, all of which could materially and adversely affect us.

In particular, Amy L. Tait and Christopher J. Czarnecki, our Founder and Chairman of the board of directors and our Chief Executive Officer, President, and member of the board of directors, respectively, and employees of the Manager, have significant real estate experience which would be difficult to replace. Each of Ms. Tait and Mr. Czarnecki has an employment agreement with the Manager which includes non-competition and non-solicitation covenants; however, these agreements could be amended by the Manager from time to time. Although the Manager has "key employee" life and disability insurance on each of Ms. Tait and Mr. Czarnecki, the proceeds of that insurance will be used as determined by the board of managers of the Manager, which consists of two appointees of the Manager's management and two appointees of Trident BRE, and may be diverted to uses other than replacing the deceased or incapacitated executive. We may suffer direct, reputational, and other costs in the event of the loss of the services of either Ms. Tait or Mr. Czarnecki.

We have entered into an Asset Management Agreement with the Asset Manager and a Property Management Agreement with the Manager, each of which delegate many duties associated with our day-to-day operations (collectively, the "Restated Management Contracts"). The Restated Management Contracts include the concept of a Key Person Event, which is defined as any event or circumstance which results in both of Ms. Tait and Mr. Czarnecki (or their respective successors and replacements, as approved by the Independent Directors Committee) no longer continuing to serve as the Chairman and Chief Executive Officer (or comparable executive positions), respectively, of the Manager for a continuous period of 60 days. Following the occurrence of a Key Person Event, the Manager and our Independent Directors have a limited time to identify suitable replacements for Ms. Tait and/or Mr. Czarnecki. If such replacements are not identified, the Independent Directors Committee will have the right to terminate the Restated Management Contracts. For more information regarding the Restated Management Contracts and the occurrence of a Key Person Event, please see the captions titled *Certain Relationships and Related Transactions* and *Relationship with the Asset Manager* and *Relationship with the Manager* in the Proxy Statement.

We pay substantial fees to our Manager and Asset Manager. These fees were not negotiated at arm's length, may be higher than fees payable to unaffiliated third parties and may reduce cash available for investment.

We pay substantial fees to our Manager and Asset Manager. These fees were originally agreed to prior to the company accepting outside capital from investors other than our sponsors and were not negotiated at arm's length, although the fees have since been reaffirmed by the Independent Directors Committee in connection with the approval of the Restated Management Agreements in December 2017. The fees could be in excess of amounts that we would otherwise pay to third parties for such services. In addition, the full offering price paid by our investors in our private offering will not be invested in properties. The proceeds are primarily used to acquire and operate our properties, but may also be used by us for general corporate purposes and to pay fees due to the Manager and the Asset Manager. As a result, stockholders will only receive a full return of their invested capital if: (i) we sell our assets or our company for a sufficient amount in excess of the original purchase price of our assets; (ii) the market value of our company after we list our shares of common stock on a national securities exchange is substantially in excess of the original purchase price of our assets; or (iii) they recoup their invested capital through the cash distributions we pay over the time they hold an investment in shares of our common stock.

A cybersecurity incident and other technology disruptions could negatively impact our business.

Our, the Manager's, and the Asset Manager's information technology ("IT") networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations. Our business involves the storage and transmission of numerous classes of sensitive and confidential information and intellectual property, including tenants' information, private information about our stockholders and the Manager's employees, and financial and strategic information about us. We face risks associated with security breaches through cyber-attacks or cyber-intrusions, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber-attack or cyber-intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. If we, the Manager, or the Asset Manager, fail to assess and identify cybersecurity risks associated with our operations, we may become increasingly vulnerable to such risks. Additionally, the measures we, the Manager, or the Asset Manager have implemented to prevent security breaches and cyber incidents may not be effective. The theft, destruction, loss, misappropriation, or release of sensitive or confidential information or intellectual property, or interference with or disruptions of our IT networks and related systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of tenants, potential liability, and competitive disadvantage, any of which could result in a material adverse effect on our financial condition or results of operations.

A failure to maintain effective internal controls could have a material adverse effect on our business, financial condition, and results of operations.

Effective internal controls over financial reporting, disclosures, and operations are necessary for us to provide reliable financial reports and public disclosures, effectively prevent fraud, and operate successfully. If we cannot provide reliable financial reports and public disclosures or prevent fraud, our reputation and operating results would be harmed. Our internal controls over financial reporting and our operating internal controls may not prevent or detect financial misstatements or loss of assets because of inherent limitations, including the possibility of human error, management override of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to financial statement accuracy, public disclosures, and safeguarding of assets. Any failure of these internal controls, including any failure to implement required new or improved controls as a result of changes to our business or otherwise, or if we experience difficulties in their implementation, could result in decreased investor confidence in the accuracy and completeness of our financial reports and public disclosures, civil litigation, or investigations by the SEC or other regulatory authorities, which may adversely impact our business, financial condition, and results of operations and we could fail to meet our reporting obligations.

If we internalize our management functions, we could incur other significant costs associated with being self-managed.

Our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire the Manager's and the Asset Manager's assets and hire the Manager's personnel, each as related to the operation and management of our businesses. While we would no longer bear the costs of the various fees and expenses we expect to pay to the Manager and the Asset Manager under the Restated Management Contracts, our direct expenses would include additional general and administrative costs that are currently paid by the Manager and Asset Manager. In addition, we could be required to pay certain costs and contract termination fees in connection with our current management agreements with the Manager and the Asset Manager. For additional information regarding these termination fees, please see the captions titled *Certain Relationships and Related Transactions* and *Termination* in the Proxy Statement. We would also be required to employ personnel and would be subject to potential liabilities commonly faced by employers, such as disability and workers' compensation claims, potential labor disputes, and other employee-related liabilities and grievances as well as incur the compensation and benefits costs of our officers and other employees and consultants that are currently paid by the Manager and the Asset Manager. We cannot reasonably estimate the amount of fees to the Manager and the Asset Manager we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to the Manager and the Asset Manager, our funds from operations would be lower as a result of the internalization than they otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders.

Disruptions in the financial markets and deteriorating economic conditions could adversely affect our ability to obtain debt financing on attractive terms and adversely impact our ability to implement our investment strategy and achieve our investment objectives.

The United States and global financial markets have experienced significant volatility and disruption within the past decade. There was a widespread tightening in overall credit markets, devaluation of the assets underlying certain financial contracts, and increased borrowing by governmental entities. The turmoil in the capital markets resulted in constrained equity and debt capital available for investment in the real estate market, resulting in fewer buyers seeking to acquire properties, increases in capitalization rates, and lower property values. Recently, capital has been more available, and the overall economy has improved. However, the failure of a sustained economic recovery or future disruptions in the financial markets and deteriorating economic conditions could impact the value of our investments in properties. We use external financing to refinance indebtedness as it matures and to partially fund our acquisitions. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our planned business activities or take other actions to fund our business activities and repayment of debt such as selling assets or reducing our cash distributions. Uncertainty in the credit markets also could negatively impact our ability to make acquisitions, make it more difficult or impossible for us to sell properties, or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. Current economic conditions greatly increase the risks of our investments.

We report FFO and AFFO, each of which is a non-GAAP financial measure.

We report FFO and AFFO, each of which is a non-GAAP financial measure, which we believe to be appropriate supplemental measures to reflect our operating performance.

Although we calculate FFO in accordance with the standards established by the Funds From Operations White Paper — 2018 Restatement approved by the Board of Governors of Nareit, the worldwide representative voice for REITs and publicly traded real estate companies with an interest in the U.S. real estate and capital markets, not all REITs necessarily calculate FFO and AFFO and other similar measures in the same way, and therefore comparisons of our disclosures of such measures with that of other REITs may not be meaningful. FFO and AFFO should not be considered as an alternative to net income as an indication of our performance, as an alternative to cash flows from operations as an indication of our liquidity, or indicative of funds available to fund our cash needs, including our ability to make distributions to our stockholders. FFO and AFFO should be reviewed in conjunction with GAAP measurements as an indication of our performance. We have provided a reconciliation of these measures to net income, which we believe to be the most comparable GAAP measure, in the caption *Net Income and Non-GAAP Measures (FFO and AFFO)* in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Neither the SEC nor any other regulatory body has passed judgment on the acceptability of the adjustments that we use to calculate FFO and AFFO. In the future, the SEC or another regulatory body may decide to standardize the allowable adjustments across the REIT industry and in response to such standardization we may have to adjust our calculation and characterization of FFO and AFFO accordingly.

Risks Related to Our Organizational Structure

Maryland law and our organizational documents limit the rights of our stockholders to bring claims against our officers and directors.

Maryland law provides that a director of a Maryland corporation will not have any liability in that capacity if he or she performs his or her duties in accordance with the applicable standard of conduct. In addition, our Articles of Incorporation provide that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to us or our stockholders for monetary damages. Our Articles of Incorporation also provide that we will generally indemnify and advance expenses to our directors, our officers, and our Asset Manager and its affiliates for losses they may incur by reason of their service in those capacities subject to any limitations under Maryland law or in our Articles of Incorporation. Moreover, we have entered into separate indemnification agreements with each of our directors and executive officers. As a result, we and our stockholders may have more limited rights against these persons than might otherwise exist under common law, which could reduce our stockholders' and our recovery against such persons. In addition, we may be obligated to fund the defense costs incurred by these persons in some cases, which would reduce the cash available for distributions. We have purchased insurance under a policy that insures both us and our officers and directors against exposure and liability normally insured against under such policies, including exposure on the indemnities described above.

The limit on the number of shares of our common stock a person may own may discourage a takeover or business combination that could otherwise result in a premium price to our stockholders.

Our Articles of Incorporation authorize our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Our Articles of Incorporation restrict the direct or indirect ownership by one person or entity to no more than 9.8% of the value of our then outstanding shares of capital stock (which includes common stock and any preferred stock we may issue) and no more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock unless exempted by our board of directors. This restriction may discourage a change of control of us and may deter individuals or entities from making tender offers for shares of our common stock on terms that might be financially attractive to stockholders or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease our stockholders' ability to sell their shares of our common stock.

We may issue preferred stock or separate classes or series of common stock, the issuance of which could adversely affect the holders of our common stock.

Our Articles of Incorporation authorize us to issue up to 100,000,000 shares of stock, and our board of directors, without any action by our stockholders, may amend our Articles of Incorporation from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series of stock that we have authority to issue. Holders of shares of our common stock do not have preemptive rights to acquire any shares issued by us in the future.

In addition, our board of directors may classify or reclassify any unissued shares of our common stock or preferred stock and establish the preferences, rights and powers of any such stock. As a result, our board of directors could authorize the issuance of preferred stock or separate classes or series of common stock with terms and conditions that could have priority, with respect to distributions and amounts payable upon our liquidation, over the rights of our common stock. The issuance of shares of such preferred or separate classes or series of common stock could dilute the value of an investment in shares of our common stock. The issuance of shares of preferred stock or a separate class or series of common stock could also have the effect of delaying, discouraging, or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

The Independent Directors Committee may change our investment policies without stockholder approval, which could alter the nature of an investment in us.

The methods of implementing our investment policies and strategy may vary as new real estate development trends emerge, new investment techniques are developed, and market conditions evolve. Our investment policies, the methods for their implementation, and our other objectives, policies, and procedures may be altered by the Independent Directors Committee without the approval of our stockholders. As a result, the nature of an investment in us could change without the consent of our stockholders.

Our UPREIT structure may result in potential conflicts of interest with members in the Operating Company whose interests may not be aligned with those of our stockholders.

We use an UPREIT structure because a contribution of property directly to us, rather than the Operating Company, is generally a taxable transaction to the contributing property owner. In the UPREIT structure, a contributor of a property may transfer the property to the Operating Company in exchange for membership units and defer taxation of a gain until the contributor later disposes of or exchanges its membership units for shares of our common stock. We believe that using an UPREIT structure gives us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

We may issue membership units of the Operating Company in connection with certain transactions. Members in the Operating Company have the right to vote on certain amendments to the limited liability company agreement of the Operating Company, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. As the managing member of the Operating Company, we are obligated to act in a manner that is in the best interest of all members of the Operating Company. Circumstances may arise in the future when the interests of members in the Operating Company may conflict with the interests of our stockholders. These conflicts may be resolved in a manner stockholders do not believe is in their best interest.

The value of an investment in our common stock may be reduced if we are required to register as an investment company under the Investment Company Act, and if we are subject to registration under the Investment Company Act, we will not be able to continue our business.

Neither we, the Operating Company, nor any of our subsidiaries intend to register as an investment company under the Investment Company Act. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that would impose significant and onerous limitations on our operations, as well as require us to comply with various reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly alter our operations and significantly increase our operating expenses.

We believe that we, the Operating Company, and most of the subsidiaries of the Operating Company will not fall within the definition of investment company under Section 3(a)(1) of the Investment Company Act as we intend to invest primarily in real property. Such investments will be made through our wholly or majority-owned subsidiaries, which we expect to have at least 60% of their assets in real property. Accordingly, we believe that we, the Operating Company and its subsidiaries will be primarily engaged in the non-investment company business of such subsidiaries and therefore will not fall within the aforementioned definition of investment company.

To ensure that neither we nor any of our subsidiaries, including the Operating Company, are required to register as an investment company, each entity may be unable to sell assets that it would otherwise want to sell and may need to sell assets that it would otherwise wish to retain. In addition, we, the Operating Company, or our subsidiaries may be required to acquire additional income- or loss-generating assets that we might not otherwise acquire or forego opportunities to acquire interests in companies that we would otherwise want to acquire. Although we, the Operating Company, and our subsidiaries intend to monitor our portfolio periodically and prior to each acquisition and disposition, any of these entities may not be able to remain outside the definition of investment company or maintain an exclusion from the definition of investment company. If we, the Operating Company, or our subsidiaries are required to register as an investment company but fail to do so, the unregistered entity would be prohibited from engaging in our business, and criminal and civil actions could be brought against such entity. In addition, the contracts of such entity would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of the entity and liquidate its business.

Risks Related To Conflicts of Interest

The officers and employees of the Manager and its affiliates face competing demands relating to their time, which may cause our operating results to suffer.

The officers and employees of the Manager and the Asset Manager are not prohibited from raising money for, or managing, other investment entities, or from engaging in business activities and investments unrelated to us. As a result, these persons may face conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than is necessary or appropriate. If this occurs, the returns on an investment in our company may suffer.

The Manager and Asset Manager also currently sponsor and provide services to (i) Broadtree Residential, Inc., a private multifamily apartment REIT with approximately \$270 million in assets as of December 31, 2018, and (ii) Broadstone Real Estate Access Fund, a continuously offered, non-diversified, closed-end management investment company that is operated as an interval fund with approximately \$33 million in assets as of December 31, 2018. As of December 31, 2018, the Manager employed approximately 65 individuals who dedicate time to Broadstone Net Lease, Inc., Broadtree Residential, Inc., and Broadstone Real Estate Access Fund. The Manager and Asset Manager may sponsor and provide services to additional entities in the future.

Our officers and certain of our directors face conflicts of interest related to the positions they hold with affiliated entities, which could hinder our ability to successfully implement our business strategy and to generate returns for our investors.

Our executive officers and affiliated directors are also officers and managers of, and in some cases equity investors in, our Manager and other affiliated entities. Most significantly, Amy L. Tait, our Founder and Chairman of the board of directors, serves as an executive officer of the Manager, is a member of the Manager's board of managers, and as of December 31, 2018, owns, together with Tait family trusts and an investment entity for the families of Ms. Tait and the late Norman Leenhouts, an approximately 41.51% equity ownership interest in the Manager; and Christopher J. Czarnecki, our Chief Executive Officer, President and member of our board of directors, is an executive officer of the Manager and a member of the Manager's board of managers. Mr. Czarnecki and our other executive officers also own membership interests in the Manager. All of our executive officers are officers of the Manager and, in certain circumstances, other affiliated entities.

As a result, these individuals owe fiduciary duties to the Manager and other affiliated entities, which may conflict with the duties that they owe to us and our stockholders. Their responsibilities to these other entities could result in actions or inactions that are detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. If we do not successfully implement our business strategy, we may be unable to generate cash needed to make distributions to our stockholders and to maintain or increase the value of our assets.

The Manager and the Asset Manager and their respective affiliates, including some of our directors and officers, face conflicts of interest relating to our compensation arrangements with the Manager and the Asset Manager, which could result in actions that are not in the best interests of our stockholders.

Pursuant to the Restated Management Contracts, the Asset Manager and the Manager receive substantial fees from us in return for their services. These compensation arrangements could influence the advice and services provided to us by the Asset Manager and the Manager and present potential conflicts of interest for the officers, employees, and equity owners of the Manager and Asset Manager who also serve as our directors and officers.

Pursuant to the Asset Management Agreement, the Asset Manager is entitled to receive substantial compensation regardless of our performance or the quality of the services provided to us. As a result, the Asset Manager's interests may not be wholly aligned with those of our stockholders. Our Asset Manager could be motivated to raise equity above and beyond our ability to prudently deploy such capital into accretive investments in order to generate higher annual asset management fees. Further, the acquisition fees and disposition fees payable by us to the Asset Manager may incentivize the Asset Manager to recommend or pursue property acquisitions or dispositions that it would otherwise not recommend or pursue, or upon different terms than it would otherwise find acceptable, if it was not entitled to such fees.

Pursuant to the Property Management Agreement, the Manager is entitled to receive a property management fee based on the gross rentals payable by the tenants in our properties regardless of the properties' quality, our overall financial performance, or the quality of the services provided to us by the Manager. As a result, our Manager's interests may not be wholly aligned with those of our stockholders. The management fees paid to the Manager could also incentivize the Asset Manager to recommend or pursue property acquisitions that it would otherwise not recommend or pursue, or upon different terms than it would otherwise find acceptable, if the Manager was not entitled to such fees.

For additional information regarding these compensation arrangements, see the caption entitled *Certain Relationships and Related Transactions* in the Proxy Statement.

The Asset Manager and Manager are entitled to significant termination fees in the event that we terminate the Asset Management Agreement or Property Management Agreement.

Pursuant to the Restated Management Contracts, in the event that we terminate the Asset Management Agreement or the Property Management Agreement other than for "cause" (as defined in the Asset Management Agreement and the Property Management Agreement), we are required to pay the Asset Manager or the Manager, as applicable, a significant termination fee. The termination fee payable pursuant to the Asset Management Agreement is equal to three times the asset management fee to which the Asset Manager was entitled during the 12-month period immediately preceding the date of the termination. The termination fee payable pursuant to the Property Management Agreement is equal to three times the property management fee to which the Manager was entitled during the 12-month period immediately preceding the date of the termination. In addition, the Asset Management Agreement provides that the Asset Manager is entitled to receive a disposition event fee equal to 1.0% of the aggregate consideration (as defined in the Asset Management Agreement) received in connection with the sale of our company. The existence of these fees may create conflicts of interest with respect to the termination of the Asset Management Agreement and the Property Management Agreement, or a sale of our company.

Trident BRE holds a significant ownership interest in the Manager, has the power to appoint two members of the board of managers of the Manager, and employs one of the non-independent members of our board of directors. Trident BRE's interests may not be fully aligned with those of our other stockholders.

As of December 31, 2018, Trident BRE holds an approximate 47.06% equity ownership interest in the Manager, and has the power to appoint two of the four members of the board of managers of the Manager. In addition, Agha Khan, one of the two non-independent members of our board of directors designated by the Asset Manager, is an employee of Stone Point Capital LLC, an affiliate of Trident BRE. The other member of the board of managers of the Manager appointed by Trident BRE and Mr. Khan owe duties to Stone Point Capital LLC and Trident BRE and their affiliates in addition to their duties to the Manager and us, and may face conflicts of interests as a result. Trident BRE may influence the manner in which our Asset Manager (a wholly owned subsidiary of the Manager) seeks to acquire or dispose of properties or otherwise performs its duties under the Asset Management Agreement or cause the Manager or its affiliates to take on new activities unrelated to our business.

Risks Related to Investments in Real Estate

Our operating results are affected by economic and regulatory changes that impact the real estate market in general.

Our investments in real properties are subject to risks generally attributable to the ownership of real property, including:

- changes in global, national, regional, or local economic, demographic, or real estate market conditions;
- changes in supply of or demand for similar properties in an area;
- increased competition for real property investments targeted by our investment strategy;
- bankruptcies, financial difficulties, or lease defaults by tenants;
- financial, accounting, legal or regulatory issues or litigation that may affect us or our tenants;
- changes in interest rates and availability of financing;

- changes in the terms of available financing, including more conservative loan-to-value requirements and shorter debt maturities;
- competition from other properties;
- the inability of tenants to pay rent increases;
- changes in laws, government rules, regulations, and fiscal policies, including changes in tax, real estate, environmental, and zoning laws;
- changes in the prices of fuel and energy consumption, cost of labor and material, and water and environmental restrictions, which may affect the businesses of tenants and their ability to meet their lease payments;
- inability to lease properties upon termination of existing leases and renewal of leases at lower rental rates;
- uninsured property liability and property damage or casualty losses;
- unexpected expenditures for capital improvements, including requirements to bring properties into compliance with applicable federal, state, and local laws;
- physical or weather-related damage to properties;
- the potential risk of functional obsolescence of properties over time;
- acts of terrorism and war; and
- acts of God and other factors beyond our control.

All of these factors are beyond our control. Any negative changes in these factors could affect our ability to meet our obligations and make distributions to stockholders.

We are unable to predict future changes in global, national, regional, or local economic, demographic, or real estate market conditions. For example, a recession or rise in interest rates could make it more difficult for us to lease or dispose of properties and could make alternative interest-bearing and other investments more attractive and therefore potentially lower the relative value of the real estate assets we acquire. These conditions, or others we cannot predict, may adversely affect our results of operations and returns to our stockholders. In addition, the value of the properties we acquire may decrease following the date we acquire such properties due to the risks described above or any other unforeseen changes in market conditions. If the value of our properties decreases, we may be forced to dispose of our properties at a price lower than the price we paid to acquire our properties, which could adversely impact the results of our operations and our ability to make distributions and return capital to our investors.

We face competition for the purchase and financing of properties from entities with substantially more capital at their disposal that may cause us to have difficulty finding or maintaining properties that generate favorable returns.

We compete with many other entities engaged in real estate investment activities, including other REITs, specialty finance companies, savings and loan associations, sovereign wealth funds, banks, mortgage bankers, insurance companies, institutional investors, investment banking firms, lenders, governmental bodies, and other entities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Further, the rental rates that we are able to receive on the properties we purchase depend substantially upon the presence of competition from these other property purchasers and, to a certain extent, upon the availability of mortgage financing at similar rates that would allow a tenant to own its property. The availability of these alternative purchasers or sources of financing at lower rates has periodically caused competition for attractive properties and caused reduction in market rental rates, both of which could diminish returns to our investors.

A concentration of our investments in a certain state or geographic region may leave our profitability vulnerable to a downturn or slowdown in such state or region.

Our current Investment Policy provides that we may not invest more than 10% of the aggregate cost of our portfolio in properties located in any single metropolitan statistical area or more than 20% of the aggregate cost of our portfolio in properties located in any single state. However, if our Investment Policy was amended or for some other reason our investments became concentrated in a particular state or geographic region, and such state or geographic region experiences economic difficulty disproportionate to the nation as a whole, then the potential effects on our revenues, and as a result, our cash available for distribution to our stockholders, could be more pronounced than if we had more fully diversified our investments geographically.

A significant portion of our property portfolio's annual base rent is concentrated in specific industry classifications.

As of December 31, 2018, approximately 33.0% of the NTM Rent from our property portfolio was generated by retail properties, including 20.9% in the restaurant industry. An additional 31.2% of the NTM Rent related to leases associated with industrial properties and 22.5% of our NTM Rent was associated with healthcare properties. In recent years a number of companies in the restaurant industry have declared bankruptcy, gone out of business or significantly reduced the number of their locations. In particular, we have experienced, and expect to continue to experience, challenges with some of our restaurant tenants, and have recorded asset impairments, which were immaterial on a consolidated basis, on certain assets as a result of increased credit losses.

The ongoing impacts of the disruption in the retail industry, particularly adverse changes in consumer spending and consumer preferences for particular goods, services, or store-based retailing could severely impact retail tenants' ability to pay rent. Shifts from in-store to online shopping could increase due to changing consumer shopping patterns and the increase in consumer adoption and use of mobile electronic devices. This expansion of e-commerce could have an adverse impact on our retail tenants' ongoing viability.

Any economic difficulties or downturns which disproportionately impact such industries could negatively affect market rents, thereby reducing rents payable to us, and they may lead to increased vacancy rates at our properties and diminish our ability to attract and retain tenants. This in turn could have an adverse effect on our results of operations and ability to pay distributions.

We are dependent on our tenants for substantially all of our revenue and our success is materially dependent on the financial stability of our tenants.

The substantial majority of each of our existing properties are occupied by only one master tenant, and as a result our success is dependent on the financial stability of these tenants in the aggregate. Our tenants encounter significant macroeconomic, governmental, and competitive forces. Adverse changes in consumer spending or consumer preferences for particular goods, services, or store-based retailing could severely impact the ability of certain of our tenants to pay rent. The default or financial distress of a tenant on its lease payments may cause us to lose some of the anticipated revenue from the property. Vacancies in properties reduce our revenues, increase property expenses, and could decrease the value of each such vacant property. In the event of a material default under a lease, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and possibly re-letting the property. If a lease is terminated, we cannot assure our investors that the property could be leased for the same amount of rent previously received or that we could sell the property without incurring a loss.

In addition, our ability to increase our revenues and operating income may depend on steady growth of demand for the products and services offered by our tenants. A significant decrease in demand for our tenants' products and services for any reason could result in a reduction in tenant performance and consequently, adversely affect us.

If a tenant files for bankruptcy, we may be precluded from collecting all sums due to us.

If a tenant, or the guarantor of a lease of a tenant, commences, or has commenced against it, any legal or equitable proceeding under any bankruptcy, insolvency, receivership, or other debtor's relief statute or law (collectively, a "bankruptcy proceeding"), we may be unable to collect all sums due to us under that tenant's lease. Any or all of the lease obligations of our tenants, or any guarantor of our tenants, could be subject to a bankruptcy proceeding which may bar our efforts to collect pre-bankruptcy debts from these entities or their properties, unless we are able to obtain an enabling order from the bankruptcy court. If our lease is rejected by a tenant in bankruptcy, we may only have a general unsecured claim against the tenant and may not be entitled to any further payments under the lease. A bankruptcy proceeding could hinder or delay our efforts to collect past due balances and ultimately preclude collection of these sums, resulting in a decrease or cessation of rental payments and reducing returns to our investors.

If we are delayed or unable to find suitable investments, we may not be able to achieve our investment objectives and our investors' returns may be reduced.

We may experience difficulty in finding attractive properties resulting in a delay of investment of the proceeds from our ongoing offering. The proceeds of our ongoing private offering will generally be used to pay down existing advances under the Operating Company's line of credit or invested at money market rates until such time as they are used to acquire a real estate property. Any proceeds from our ongoing private offering that are ultimately invested by the Operating Company at money market rates will likely produce less income than if such proceeds were immediately invested in real estate properties. As a result, our investors' returns may be reduced to the extent we are delayed in our selection and acquisition of real estate properties.

Some properties may be suitable for only one use and may be costly to refurbish if a lease is terminated.

The properties we purchase may be designed for a particular type of tenant or tenant use. If a tenant of such property does not renew its occupancy or defaults on its lease, the property might not be marketable without substantial capital improvements. The cost of such improvements may reduce the amount of cash available for distributions to our investors. An attempt to lease or sell the property without such improvements could also result in a lower rent or selling price and may also reduce the amount of cash available for distributions to our investors.

Our real estate investments are illiquid.

Because real estate investments are relatively illiquid, our ability to adjust our portfolio promptly in response to economic or other conditions may be limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service, (ii) real estate taxes, and (iii) operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced earnings and could have an adverse effect on our financial condition.

We can reinvest proceeds from sales of our properties in replacement properties without our investors' approval.

We may, from time to time, sell a property and reinvest the proceeds in a replacement property rather than make a distribution to our investors. Our investors will not have a right to the cash received by the Operating Company from the sale of a property and must rely upon the ability of the Asset Manager to find replacement properties in which to reinvest the proceeds.

Long-term leases may not result in fair market lease rates over time; therefore, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases.

We generally lease our properties pursuant to long-term leases with terms of 10 or more years, often with extension options. Our long-term leases generally provide for rents to increase over time, due to fixed rent increases or increases based upon increases in the Consumer Price Index or financial metrics related to the tenant. However, if we do not accurately judge the potential for increases in market rental rates, we may set the terms of these long-term leases at levels such that even after contractual rental increases the rent under our long-term leases is less than then-prevailing market rental rates. Further, we may have a limited ability to terminate those leases or to adjust the rent to then-prevailing market rental rates.

Certain provisions of our leases or loan agreements may be unenforceable.

Our rights and obligations with respect to the leases at our properties, mortgage loans, or other loans are governed by written agreements. A court could determine that one or more provisions of such agreements are unenforceable, such as a particular remedy, a master lease covenant, a loan prepayment provision, or a provision governing our security interest in the underlying collateral of a borrower or lessee. We could be adversely impacted if this were to happen with respect to an asset or group of assets.

Our costs of compliance with laws and regulations may reduce the investment return of our stockholders.

All real property and the operations conducted on real property are subject to numerous federal, state and local laws and regulations. We cannot predict what laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted, or how future laws or regulations will affect us or our properties, including, but not limited to, environmental laws and regulations and the Americans with Disabilities Act of 1990. Compliance with new laws or regulations, or stricter interpretation of existing laws, may require us or our tenants to incur significant expenditures, impose significant liability, restrict or prohibit business activities, and could cause a material adverse effect on our results of operations.

Further, as a reporting company under the Exchange Act, we are required to comply with various reporting requirements, as well as additional laws, rules and regulations, including the Dodd-Frank Act and the Sarbanes-Oxley Act of 2002. Our efforts to comply with applicable laws and regulations involve significant, and potentially increasing, costs. In addition, these laws, rules, and regulations create legal bases for administrative, civil, and criminal proceedings against us in case of non-compliance, thereby increasing our risk of liability and potential sanctions.

We may be subject to known or unknown environmental liabilities and hazardous materials on our properties.

There may be known or unknown environmental liabilities associated with properties we own or acquire in the future. Certain uses of some properties may have a heightened risk of environmental liability because of the hazardous materials used in performing services on those properties, such as convenience stores with underground petroleum storage tanks or auto parts and auto service businesses using petroleum products, paint, machine solvents, and other hazardous materials. Some properties may contain asbestos or asbestos-containing materials, or may contain or may develop mold or other bio-contaminants. Asbestos-containing materials must be handled, managed, and removed in accordance with applicable governmental laws, rules, and regulations. Mold and other bio-contaminants can produce airborne toxins, may cause a variety of health issues in individuals and must be remediated in accordance with applicable governmental laws, rules, and regulations.

The Asset Manager undertakes customary environmental diligence prior to our acquisition of any property. As a current or previous owner of a real estate property, however, we may be required to remove or remediate hazardous or toxic substances on, under, or in such property under various federal, state, and local environmental laws, ordinances, and regulations. These laws may impose liability whether or not the Operating Company knew of, or was responsible for, the presence of such hazardous or toxic substances. Our use and operation of a property may also be restricted by environmental laws or require certain expenditures. Failure to comply with environmental laws may result in sanctions by governmental agencies or liability to third parties. The cost of compliance or defense against claims from a contaminated property will likely affect our results of operations and ability to make distributions.

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 liability, including strict liability, by virtue of our ownership interest. There also can be no assurance that our tenants, or the guarantor of a lease, could or would satisfy their indemnification obligations under their leases.

Natural disasters and other events beyond our control could impact our properties and operations and the insurance purchased for our properties might not be adequate to cover losses we incur.

Natural disasters or other catastrophic events (e.g., hurricanes, floods, earthquakes, or other types of natural disasters or wars or other acts of violence) may cause damage or disruption to our operations and damage to our properties. We own properties in regions that have historically been impacted by such natural disasters and it is probable such regions will continue to be impacted by such events. Although the Manager arranges for, or will require tenants to maintain, comprehensive insurance coverage on our properties, some catastrophic types of losses from such events may be either uninsurable or not economically insurable. If a disaster occurs, we could suffer a complete loss of capital invested in, and any profits expected from, the affected properties. If uninsured damages to a property occur or a loss exceeds policy limits and we do not have adequate cash to fund repairs, we may be forced to sell the property at a loss or to borrow capital to fund the repairs.

Risks Related to Debt Financing

Our business strategy relies on external financing and, as a result, we may be negatively affected by restrictions on additional borrowings and are subject to the risks associated with leverage, including our debt service obligations.

We use leverage so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. We have sought to reduce our overall leverage over the past few years, particularly in light of the Operating Company's receiving an investment grade credit rating, but we still maintain a significant amount of debt, and may increase our debt going forward. Our ability to achieve our investment objectives will be affected by our ability to borrow money in sufficient amounts and on favorable terms. In addition, we may be unable to obtain the degree of leverage we believe to be optimal, which may cause us to have less cash for distribution to stockholders than we would have with an optimal amount of leverage.

We have incurred, and intend to incur in the future, unsecured borrowings and mortgage indebtedness, which may increase our business risks, could hinder our ability to make distributions, and could decrease the value of an investment in our shares.

We have incurred, and plan to incur in the future, financing through unsecured borrowings under term loans, senior notes, our revolving line of credit, and mortgage loans secured by some or all of our real properties. In some cases, the mortgage loans we incur are guaranteed by us, the Operating Company, or both. We may also borrow funds if necessary to satisfy the requirement that we distribute to stockholders as dividends at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes. Our current Leverage Policy targets a leverage ratio equal to 35% to 45% of the approximate market value of our assets. The actual leverage ratio will vary over time but may not exceed 50% without the approval of the Independent Directors Committee. Depending on market conditions and other factors, the Independent Directors Committee may change our Leverage Policy from time to time in its discretion.

We may incur mortgage debt on a particular property, especially if we believe the property's projected cash flow is sufficient to service the mortgage debt. If there is a shortfall in cash flow, however, then the amount available for distributions to our stockholders may be affected. In addition, incurring mortgage debt may increase the risk of loss since defaults on indebtedness secured by a property may result in foreclosure actions initiated by lenders and our loss of the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure but would not receive any of the proceeds. We may give full or partial guarantees to lenders to the Operating Company or its affiliates. If we give a guaranty on behalf of the Operating Company, we will be responsible to the lender for satisfaction of the debt if it is not paid by the Operating Company. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one of our real properties may be affected by a default. If any of our properties are foreclosed upon due to a default, our results of operations and ability to pay distributions to our stockholders may be adversely affected.

Our line of credit and term loan agreements contain various covenants which, if not complied with, could accelerate our repayment obligations, thereby materially and adversely affecting our liquidity, financial condition, results of operations, and ability to pay distributions to stockholders.

We are subject to various financial and operational covenants and financial reporting requirements pursuant to the agreements we have entered into governing our line of credit, term loans, and senior notes. These covenants require us to, among other things, maintain certain financial ratios, including leverage, fixed charge coverage, and debt service coverage, among others. As of December 31, 2018, we were in compliance with all of our loan covenants. Our continued compliance with these covenants depends on many factors and could be impacted by current or future economic conditions, and thus there are no assurances that we will continue to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders, could accelerate our repayment obligations and thereby have a material adverse impact on our liquidity, financial condition, results of operations, and ability to pay distributions to stockholders.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

We have a significant amount of debt. Although we believe we have effectively hedged the risk of interest rate increases through swaps and the issuance of fixed-rate debt, we will need to refinance our debt in the future. Accordingly, increases in interest rates would increase our interest costs, which could have a material adverse effect on our operating cash flow and ability to pay distributions. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to sell one or more of our properties at times which may not permit realization of the maximum or anticipated return on such investments.

An inability to refinance existing mortgage debt as it matures could impact distributions to our stockholders.

Since the mortgage loans secured by certain of our properties amortize over a period longer than their maturity, we will owe substantial amounts of principal on the maturity of such loans. If we cannot refinance these loans on favorable terms, more of our cash from operations may be required to service the loans, properties may have to be sold to fund principal repayments, or properties may be lost to foreclosure. This could adversely affect our results of operations and reduce cash available for distributions.

Failure to maintain our current credit rating could adversely affect our cost of capital, liquidity, and access to capital markets.

The spread we pay over LIBOR for our unsecured credit facilities is determined based upon our credit rating. In March of 2016, Moody's assigned the Operating Company an investment grade credit rating of Baa3 with a stable outlook, which was re-affirmed most recently in June of 2018. The rating is based on a number of factors, including an assessment of our financial strength, portfolio size and diversification, credit and operating metrics, and sustainability of cash flow and earnings. If we are unable to maintain our current credit rating it could adversely affect our cost of capital, liquidity, and access to capital markets. Factors that could negatively impact our credit rating include, but are not limited to: a significant increase in our leverage on a sustained basis; a significant increase in the proportion of secured debt levels; a significant decline in our unencumbered asset base; and a significant decline in our portfolio diversification.

We may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is determined.

As of December 31, 2018, we had approximately \$886 million of debt outstanding for which the interest rate was tied to London Interbank Offered Rate ("LIBOR"). On July 27, 2017, the Financial Conduct Authority (the "FCA") announced its intention to cease sustaining LIBOR after 2021. It is not possible to predict the effect of the FCA's announcement, and there is currently no definitive information regarding the future utilization of LIBOR, including any changes in the methods by which LIBOR is determined, the frequency in which LIBOR is determined and published, or any other reforms to the determination and publication of LIBOR, or a potential transition from LIBOR to a successor benchmark. As such, the potential effect of any such event on our cost of capital cannot yet be determined and any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations and cash flows.

Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net income and the investment return of our stockholders would be adversely affected.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. A loss of our REIT status would reduce distributions to our stockholders due to our additional tax liability. In addition, distributions to our stockholders would no longer qualify for the dividends-paid deduction, and we would no longer be required to make distributions. If this occurs, we may need to borrow funds or liquidate some of our properties in order to pay the applicable taxes.

Legislative, regulatory, or administrative changes could adversely affect us or our stockholders.

Legislative, regulatory, or administrative changes could be enacted or promulgated at any time, either prospectively or with retroactive effect, and may adversely affect us or our stockholders.

On December 22, 2017, the tax legislation commonly referred to as the Tax Cuts and Jobs Act was signed into law, generally applying in taxable years beginning after December 31, 2017. While the changes in the Tax Cuts and Jobs Act generally appear to be favorable with respect to REITs, the extensive changes to non-REIT provisions in the Code may have unanticipated effects on us, our stockholders, or our tenants. Moreover, Congressional leaders have recognized that the process of adopting extensive tax legislation in a short amount of time without hearings and substantial time for review is likely to have led to drafting errors, issues needing clarification, and unintended consequences that will have to be revisited in subsequent tax legislation. At this point, it is not clear if or when Congress will address these issues or when the IRS will issue administrative guidance on the changes made in the Tax Cuts and Jobs Act.

Our stockholders and prospective investors are urged to consult with their own tax advisors with respect to the Tax Cuts and Jobs Act and the status of other legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

Recharacterization of sale-leaseback transactions may cause us to lose our REIT status, which would reduce the investment return of our stockholders.

We may purchase properties and lease them back to the sellers of such properties. If the IRS were to challenge our characterization of such transaction as a “true-lease” and recharacterize the transaction as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction is recharacterized, we may fail to satisfy the REIT qualification asset tests or income tests and, consequently, lose our REIT status. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the distribution requirements for a taxable year.

Our stockholders may have current tax liability on distributions based on an election to reinvest in our common stock.

A stockholder who participates in our DRIP will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless a stockholder is a tax-exempt entity, the investor may have to use funds from other sources to pay the investor’s tax liability on the value of the shares of common stock received.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we remain qualified as a REIT for federal income tax purposes, we may still be subject to federal, state, and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction and excludes net capital gain), and to the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold or acquire primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell a property, other than foreclosure property, that we hold or acquire primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% “prohibited transaction” tax.
- We may perform additional, non-customary services for tenants of our buildings through a taxable REIT subsidiary, including real estate or non-real estate related services; however, any earnings that exceed allowable limits related to such services are subject to federal and state income taxes.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions to make distributions to our stockholders, which could increase our operating costs, hinder our ability to meet our investment objectives, and decrease the value of our stockholders’ investment.

To qualify as a REIT, we must distribute to our stockholders each year 90% of our REIT taxable income (which is determined without regard to the dividends-paid deduction and excludes net capital gain). At times, we may not have sufficient funds to satisfy these distribution requirements and may need to borrow funds to maintain our REIT status and avoid the payment of income and excise taxes. These borrowing needs could result from (i) differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes; (ii) the effect of non-deductible capital expenditures; (iii) the creation of reserves; or (iv) required debt or amortization payments. We may need to borrow funds at times when market conditions are unfavorable. Such borrowings could increase our costs and reduce the value of our common stock. Further, to qualify as a REIT, we must also satisfy tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets, and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

In certain circumstances, we may be liable for certain tax obligations of certain of the members of the Operating Company.

In certain circumstances, we may be liable for tax obligations of certain of the members of the Operating Company. In connection with certain UPREIT transactions, we have entered into tax protection agreements under which we have agreed to minimize the tax consequences to members of the Operating Company resulting from the sale or other disposition of our assets in taxable transactions, with specific exceptions and limitations. Pursuant to the tax protection agreements we have also agreed to ensure that such members of the Operating Company are allocated minimum amounts of the Operating Company’s indebtedness. If we fail to meet our obligations under the tax protection agreements, we may be required to reimburse those members of the Operating Company for the amount of the tax liabilities they incur, subject to certain limitations. We may enter into additional tax protection agreements in the future in connection with other UPREIT transactions. In order to limit our exposure to a tax obligation, our use of proceeds from any sales or dispositions of certain properties will be limited. In addition, the indemnification obligations may be significant.

New partnership audit rules could increase the tax liability borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

New partnership audit rules apply to partnership taxable years beginning after December 31, 2017, and may alter who bears the liability in the event any subsidiary partnership including our Operating Company is audited and an adjustment is assessed. Under the new rules, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership of the partnership) between the year under audit and the year of the adjustment. Under certain procedures, the partnership-level tax liability may take into account the fact that we generally do not pay federal income tax. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. It is not clear at this time what effect these new rules will have on us. However, these rules could increase the U.S. federal income taxes, interest, and penalties otherwise borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

Item 1B. Unresolved Staff Comments.

There are no unresolved staff comments.

Item 2. Properties.

Please refer to Item 1. “Business” of this Form 10-K for information concerning our properties.

Item 3. Legal Proceedings.

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. These matters are generally covered by insurance or are subject to our right to be indemnified by our tenants that we include in our leases. Management is not aware of any material pending legal proceedings to which we or any of our subsidiaries are a party or to which any of our property is subject, nor are we aware of any such legal proceedings contemplated by government agencies.

Item 4. Mine Safety Disclosures.

None

Part II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

There is no established public trading market for our shares of common stock and we do not expect a public trading market to develop. There are no issued or outstanding options or warrants to purchase our common stock. Each outstanding membership unit of the Operating Company is convertible into one share of our common stock, subject to certain conditions and limitations. As of March 1, 2019, there were 22,597,882.214 shares of our common stock issued and outstanding and 1,737,047.086 non-controlling membership units in the Operating Company issued and outstanding. We have not agreed to register for sale under the Securities Act any shares of our common stock. No shares of our common stock have been or are currently expected to be publicly offered by us.

Stockholders

As of March 1, 2019, there were 3,208 holders of shares of our common stock.

Determined Share Value

Our shares of common stock are sold by us in our ongoing private offering at a price equal to the Determined Share Value, which is established at least quarterly by the Independent Directors Committee based on the NAV of our portfolio, input from management and third-party consultants, and such other factors as the Independent Directors Committee may determine. The Independent Directors Committee bears sole responsibility for establishing the Determined Share Value. Our determination of NAV applies valuation definitions and methodologies prescribed by ASC 820, *Fair Value Measurements and Disclosures*, in order to fair value our net assets. Our net assets are primarily comprised of our investment in rental property and debt. Our net asset valuation also includes other assets and liabilities such as cash, interest rate swaps, and accounts payable, among others, and excludes intangible assets and liabilities. The values ascribed to our mortgages, unsecured notes, and interest rate swaps are marked to market each quarter. Members of our senior executive, portfolio management, accounting, and finance teams are responsible for performing the valuation process and computing the NAV. The Independent Directors Committee is responsible for overseeing the valuation process for the purpose of maintaining independence from conflicts of interest with the management group that determines the NAV and who are employed by the Manager. To assist in assessing management's calculation of the NAV and the valuation of the investment in rental property in the determination of the Determined Share Value by the Independent Directors Committee, we engage a third-party valuation specialist to provide: (i) a high-level/negative assurance review of management's quarterly portfolio valuation and estimated NAV calculation, which currently occurs as of the end of each of the first, second, and fourth quarters of each calendar year, (ii) a review of individual property appraisals, which are completed for each property on a rolling two-year basis, and (iii) a full positive assurance valuation and review of the portfolio, which currently occurs during the third quarter of each calendar year. The third-party valuation specialist is not responsible for determining the NAV. The positive and negative assurance provided by the third-party valuation specialist has generally found that the real estate values used to establish the Determined Share Values by the Independent Directors Committee have been reasonable and within market parameters.

The Determined Share Value at any given point in time will be based on the NAV as of a historical balance sheet date. The following table presents our Determined Share Value for each of the past two years, together with the corresponding NAV per diluted share as of the preceding quarter-end:

Period	NAV as of	NAV per diluted share	Determined Share Value
February 1, 2019 – April 30, 2019	December 31, 2018	\$ 84.92	\$ 85.00
November 1, 2018 – January 31, 2019	September 30, 2018	\$ 85.66	\$ 86.00
August 1, 2018 – October 31, 2018	June 30, 2018	\$ 84.63	\$ 85.00
May 1, 2018 – July 31, 2018	March 31, 2018	\$ 83.14	\$ 83.00
February 1, 2018 – April 30, 2018	December 31, 2017	\$ 81.40	\$ 81.00
November 1, 2017 – January 31, 2018	September 30, 2017	\$ 80.55	\$ 81.00
August 1, 2017 – October 31, 2017	June 30, 2017	\$ 79.90	\$ 80.00
May 1, 2017 – July 31, 2017	March 31, 2017	\$ 79.90	\$ 80.00
February 1, 2017 – April 30, 2017	December 31, 2016	\$ 79.28	\$ 79.00

The Determined Share Value is applied to outstanding shares prospectively, and is used for purchases, distribution reinvestment, and redemptions. Adjustments to the NAV in arriving at the Determined Share Value are typically the result of the Independent Directors Committee’s understanding of current market conditions and review of assumptions used to value net assets by management in arriving at the NAV. The adjustments do not follow a systematic methodology, but instead allow the Independent Directors Committee to use judgment in determining whether temporary market fluctuations are indicative of changes in core real estate values.

The adjustments to NAV per share in arriving at the Determined Share Value for the periods presented above account for the inherent imprecision in the valuation estimates. In May 2019, the Independent Directors Committee will review the NAV calculations as of March 31, 2019, and will assess whether adjustments to the current Determined Share Value of \$85 are appropriate.

The fair value of our investment in rental property is performed using the market approach, whereby we assign an implied market capitalization rate to derive the property valuations. Newly acquired properties are valued at purchase price for the first six months they are in the portfolio. All other individual property valuations are calculated by dividing the contractual rental payments over the next 12 months by the implied market capitalization rate. The market capitalization rate assumption reflects our analysis of what a market participant would be willing to pay for a property given the contractual monthly rental payments, third-party appraisals, and an analysis of a tenant’s creditworthiness, among other factors. We deem this methodology to be appropriate based on the nature of our leases, whereby the tenants are generally responsible for the maintenance, insurance, and property taxes associated with the properties they lease from us. Net leases provide predictable cash flows, which we then apply against the market capitalization rates. This methodology is consistent with the valuation techniques used to determine the aggregate purchase price of acquisitions. As our acquisition targets are generally fully occupied, single-tenant, net leased properties, we do not anticipate paying for material capital expenditures, and therefore, exclude such expenditures from our valuations. We estimate the fair value of debt (which incorporates the fair value of interest rate swap assets and liabilities) utilizing methodologies consistent with those used to prepare our GAAP financial statements and disclosures and discussed in Note 2 of Item 8. “Financial Statements and Supplementary Data” of this Form 10-K.

The following table provides a breakdown of the major components of our estimated NAV and NAV per diluted share amounts as of December 31, 2018 and September 30, 2018:

<i>(in thousands, except per share amounts)</i> NAV as of:	December 31, 2018	September 30, 2018
Investment in rental property	\$ 3,462,675	\$ 3,214,063
Debt	(1,434,403)	(1,259,645)
Other assets and liabilities, net	(11,467)	(263)
NAV	\$ 2,016,805	\$ 1,954,155
Number of outstanding shares, including noncontrolling interests	23,751	22,814
NAV per diluted share	\$ 84.92	\$ 85.66

The following table details the implied market capitalization rates (shown on a weighted average basis) used to value the investment in rental property, by property type, as of December 31, 2018, and September 30, 2018, supporting the Determined Share Value in effect for the periods of February 1, 2019 through April 30, 2019, and November 1, 2018, through January 31, 2019, respectively:

Market capitalization rates, as of:	Retail	Industrial	Healthcare	Office	Other	Portfolio Total
December 31, 2018	6.44%	6.93%	6.89%	7.09%	7.28%	6.78%
September 30, 2018	6.44%	6.96%	6.92%	7.07%	7.23%	6.78%

While we believe our assumptions are reasonable, a change in these assumptions would impact the calculation of the value of our real estate investments. For example, assuming all other factors remain unchanged, an increase in the weighted average implied market capitalization rate used as of December 31, 2018, of 0.25% would result in a decrease in the fair value of our investment in rental property of 3.6%, and our NAV per diluted share would have been \$79.72. Conversely, a decrease in the weighted average implied capitalization rate used as of December 31, 2018, of 0.25% would result in an increase in the fair value of our investment in rental property of 3.8%, and our NAV per diluted share would have been \$90.51. Assuming all other factors remain unchanged, an increase in the weighted average implied market capitalization rate used as of September 30, 2018, of 0.25% would have resulted in a decrease in the fair value of our investment in rental property of 3.6%, and our NAV per diluted share would have been \$80.64. Conversely, a decrease in the weighted average implied capitalization rate used as of September 30, 2018, of 0.25% would have resulted in an increase in the fair value of our investment in rental property of 3.8%, and our NAV per diluted share would have been \$91.06.

Our methodology is based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different Determined Share Value. Accordingly, we have disclosed the following risk factors relative to our Determined Share Value:

- There is no current public market for our common stock, we do not expect that any such public market will develop in the future, and we have no obligation to list our shares on any public securities market or provide any other type of liquidity to our stockholders by a particular date, or at all, and transfers of shares of our common stock are subject to a number of restrictions. As a result, it will be difficult for our stockholders to sell shares of our common stock and, if they are able to sell their shares, they are likely to sell them at a discount.
- The provisions of our share redemption program limit our stockholders' ability to sell shares of our common stock. Our stockholders may not be able to sell any of their shares of our common stock back to us, and if they do sell their shares, they may not receive the price they paid.
- The Independent Directors Committee establishes the Determined Share Value on a quarterly basis. The Determined Share Value is not directly derived from any independent valuation or from the value of the existing property portfolio. Investors should use caution in using the Determined Share Value as the current value of shares of our common stock.

Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Common Stock and Issuance of Membership Units

We commenced our ongoing private offering of shares of our common stock in 2007. The first closing of our private offering occurred on December 31, 2007, and we have conducted additional closings at least once every calendar quarter since then. Currently, we close sales of additional shares of our common stock monthly. In November 2017, we instituted a monthly equity cap and queue program for new and additional investments in our common stock. The cap does not apply to investments made pursuant to our DRIP, or to equity capital received in connection with UPREIT transactions. On February 8, 2019, we announced that the equity cap had been set at \$20.0 million for investments made in the months of February 2019 through April 2019.

As of the date of the filing of this Form 10-K, shares of our common stock are being offered in our private offering at \$85 per share. We intend to use substantially all of the net proceeds from our private offering, supplemented with additional borrowings, to continue to invest in additional net leased properties. As of December 31, 2018, there were 22,013,751 shares of our common stock issued and outstanding, and 1,737,047 noncontrolling membership units in the Operating Company issued and outstanding.

The following table provides information regarding the sale of shares of our common stock pursuant to our ongoing private offering during the quarter ended December 31, 2018 (in thousands, except year and Determined Share Value amounts).

Month	Year	Common Shares Sold	Weighted Average Determined Share Value – Common Shares ⁽¹⁾	Total Proceeds – Common Shares Sold	Common Shares DRIP	Weighted Average Determined Share Value – DRIP ⁽²⁾	Total Proceeds – Common Share DRIP ⁽³⁾	Total Proceeds
October	2018	235	\$ 85.00	\$ 20,000	56	\$ 83.30	\$ 4,671	\$ 24,671
November	2018	296	85.75	25,355	56	83.30	4,718	30,073
December	2018	256	85.98	22,012	57	84.28	4,771	26,783
Total		787		\$ 67,367	169		\$ 14,160	\$ 81,527

(1) Shares of our common stock are sold in our ongoing private offering at a price per share equal to the then-applicable Determined Share Value.

(2) DRIP shares are purchased at a discounted price of 98% of the Determined Share Value.

(3) For common shares reinvested under our DRIP there is no corresponding cash flow from the transaction. Refer to Note 14, “Equity” to the consolidated financial statements included in Item 8. “Financial Statements and Supplementary Data” of this Form 10-K for further discussion.

None of the shares of our common stock set forth in the table above were registered under the Securities Act in reliance upon the exemption from registration under the Securities Act provided by Rule 506(c) under Regulation D promulgated under the Securities Act. All of the shares of our common stock set forth in the table above were sold to persons who represented to us in writing that they qualified as an “Accredited Investor” as such term is defined by Regulation D promulgated under the Securities Act, and provided us with additional documentation to assist us in verifying such person’s status as an Accredited Investor.

In connection with property acquisitions that are structured as UPREIT transactions, the owner of a property will transfer its interest in the property to the Operating Company in exchange for membership units in the Operating Company. There were no such membership unit issuances during the quarter ended December 31, 2018.

None of the membership units in the Operating Company have been registered under the Securities Act in reliance upon the exemptions from registration under the Securities Act provided by Rule 506(c) under Regulation D promulgated under the Securities Act and Section 4(a)(2) of the Securities Act. All of the membership units in the Operating Company were sold to persons who represented to us in writing that they qualified as an Accredited Investor, and provided us with additional documentation to assist us in verifying such person’s status as an Accredited Investor, including third-party verification as permitted under Regulation D.

Senior Notes

On March 16, 2017, we and the Operating Company entered into a Note and Guaranty Agreement with each of the purchasers of a private offering of unsecured, fixed-rate, interest-only senior notes ("Series A Notes"). The closing of the issuance of the Series A Notes occurred on April 18, 2017. The Series A Notes were issued by the Operating Company and are guaranteed by us. The Series A Notes were issued at par, bear interest at a rate of 4.84% per annum (priced at 240 basis points above the 10-year U.S. Treasury yield at the time of pricing), and mature on April 18, 2027.

On July 2, 2018, we and the Operating Company entered into a Note and Guaranty Agreement with each of the purchasers of a private offering of unsecured, fixed-rate, interest-only senior notes. Pursuant to the terms of the Note and Guaranty Agreement, the Operating Company issued and sold \$325.0 million aggregate principal amount of notes in two series: (i) \$225.0 million aggregate principal amount of Series B Guaranteed Senior Notes (the "Series B Notes"), and (ii) \$100.0 million aggregate principal amount of Series C Guaranteed Senior Notes (the "Series C Notes"). The Series B Notes and Series C Notes were issued by the Operating Company and were guaranteed by us. Pursuant to the Note and Guaranty Agreement, \$100.0 million aggregate principal amount of the Series B Notes were issued on July 2, 2018, with the remaining \$125.0 million aggregate principal amount issued on September 13, 2018. The Series B Notes were issued at par, bear interest at a rate of 5.09% per annum (priced at 210 basis points above the 10-year U.S. Treasury yield at the time of pricing), and mature on July 2, 2028. Pursuant to the Note and Guaranty Agreement, \$50.0 million aggregate principal amount of the Series C Notes were issued on July 2, 2018, with the remaining \$50.0 million aggregate principal issued on September 13, 2018. The Series C Notes were issued at par, bear interest at a rate of 5.19% per annum (priced at 220 basis points above the 10-year U.S. Treasury yield at the time of pricing), and mature on July 2, 2030.

The Series A Notes, Series B Notes and Series C Notes were not registered under the Securities Act in reliance upon the exemptions from registration provided by Section 4(a)(2) of the Securities Act, and all such notes were sold to persons who represented to us in writing that they qualified as an Accredited Investor.

Except as set forth above, we have not sold any securities which were not registered under the Securities Act during the previous three years.

Distribution and Distribution Reinvestment

Distributions are paid when and as declared by our board of directors, currently on a monthly basis. Distribution payments are expected to be made approximately 15 days after the end of each month to stockholders of record on the record date, which is generally the next-to-the-last business day of the prior month. Subscribers making an investment at an end of month closing will begin to accrue dividends in the subsequent month and, if they are stockholders of record on the record date at the end of such month, they will receive their initial distribution approximately 15 days after the subsequent month is complete.

We intend to make distributions sufficient to satisfy the requirements for qualification as a REIT for tax purposes. Generally, income distributed as dividends will not be taxable to us under the Internal Revenue Code if we distribute at least 90% of our REIT taxable income. Dividends will be declared at the discretion of our board of directors, but will be guided, in substantial part, by a desire to cause us to comply with the REIT qualification requirements.

At its February 8, 2019, meeting, our board of directors declared monthly distributions of \$0.44 per share of our common stock and unit of membership interest in the Operating Company to be paid by us to our stockholders and members of the Operating Company (other than us) of record as follows:

Dividend Per Share/ Unit	Record Date	Payment Date (on or before)
\$ 0.44	February 27, 2019	March 15, 2019
\$ 0.44	March 28, 2019	April 15, 2019
\$ 0.44	April 29, 2019	May 15, 2019

Pursuant to our DRIP, our stockholders and holders of membership units in the Operating Company (other than us), may elect to have cash distributions reinvested in additional shares of our common stock. Shares of our common stock acquired through our DRIP have the same rights and are subject to the same restrictions on transferability as all other shares of our common stock and are eligible for redemption pursuant to our share redemption program. Our DRIP is administered by the Asset Manager.

All of our stockholders and holders of membership units in the Operating Company that are Accredited Investors are eligible to participate in our DRIP. We may elect to deny an investor participation in our DRIP if the investor resides in a jurisdiction or foreign country where, in our judgment, the burden or expense of compliance with applicable securities laws makes the investor's participation impracticable or inadvisable. A stockholder or holder of membership units of the Operating Company may be required to cease participation in our DRIP if the investor no longer meets the suitability standards or cannot make the other investor representations set forth in the then-current subscription agreement with respect to our shares of common stock. Participants in our DRIP must agree to notify us promptly when they no longer meet these standards.

A stockholder or holder of membership units in the Operating Company may elect to participate in our DRIP by completing the appropriate portion of the subscription agreement or other approved enrollment form available from time to time from the Asset Manager. An investor's participation in our DRIP will begin with the next distribution made after receipt of the investor's enrollment form. Participants in our DRIP generally are required to have the full amount of their cash distributions with respect to all securities owned by them reinvested pursuant to our DRIP. The Asset Manager has the discretion, however, upon the request of a participant, to accommodate a participant's request for less than all of the participant's securities to be subject to participation in our DRIP. An investor may also change the number of shares participating in the dividend reinvestment at any time if the investor completes a new enrollment form or other form provided for that purpose.

Cash distributions will be reinvested in additional shares of common stock pursuant to our DRIP at a per share price equal to 98% of the Determined Share Value as of the applicable distribution date. Fractional shares may be issued pursuant to our DRIP.

If an investor elects to participate in our DRIP and is subject to federal income taxation, the investor will incur a tax liability on an amount equal to the fair value on the relevant distribution date of the shares of our common stock purchased with reinvested distributions, even though the investor has elected not to receive the distributions used to purchase those shares of common stock in cash. We will withhold estimated taxes on the amount of distributions or distributions paid if the investor fails to furnish a valid taxpayer identification number, fails to properly report distributions or fails to certify that the investor is not subject to withholding. Notwithstanding the foregoing, the tax consequences of participating in our DRIP will vary depending upon each participant's particular circumstances, and all participants are urged to consult their own tax advisor regarding the specific tax consequences of participation.

Participation in our DRIP may be terminated by an investor at any time by providing us with written notice. For an investor's termination to be effective for a particular distribution, we must have received a notice of termination at least 10 business days prior to the record date of the distribution period to which the distribution relates. Any transfer of an investor's shares will effect a termination of the participation of those shares in the DRIP. We will terminate an investor's participation to the extent that a reinvestment of an investor's distributions in our shares would cause the investor to exceed the ownership limitations contained in our Articles of Incorporation.

We may amend our DRIP at any time upon written notice to each participant at least 10 days prior to the effective date of the amendment. We may terminate our DRIP upon written notice to each participant at least 30 days prior to the effective date of the termination.

The following table summarizes distributions paid in cash and pursuant to our DRIP for the years ended December 31, 2017, and 2018 (in thousands).

Month	Year	Cash Distribution - Common Stockholders	Cash Distribution - Membership Units	Distribution Paid Pursuant to DRIP on Common Stock ⁽¹⁾	Distribution Paid Pursuant to DRIP on Membership Units ⁽¹⁾	Total Amount of Distribution
January	2017	3,319	488	2,738	98	6,643
February	2017	3,394	488	2,836	98	6,816
March	2017	3,522	493	2,972	99	7,086
April	2017	3,555	493	3,068	99	7,215
May	2017	3,618	493	3,167	99	7,377
June	2017	3,680	493	3,220	99	7,492
July	2017	3,742	493	3,296	99	7,630
August	2017	3,815	512	3,378	122	7,827
September	2017	3,883	512	3,420	123	7,938
October	2017	3,969	512	3,495	123	8,099
November	2017	4,003	536	3,594	123	8,256
December	2017	4,030	536	3,664	123	8,353
January	2018	4,021	536	3,769	123	8,449
February	2018	4,029	521	3,839	123	8,512
March	2018	4,201	539	4,052	128	8,920
April	2018	4,267	540	4,084	127	9,018
May	2018	4,331	536	4,106	127	9,100
June	2018	4,386	602	4,154	128	9,270
July	2018	4,382	602	4,255	127	9,366
August	2018	4,393	617	4,333	130	9,473
September	2018	4,386	618	4,463	130	9,597
October	2018	4,434	617	4,541	130	9,722
November	2018	4,498	617	4,589	129	9,833
December	2018	4,571	618	4,641	130	9,960
Total		\$ 96,429	\$ 13,012	\$ 89,674	\$ 2,837	\$ 201,952

⁽¹⁾ Distributions are paid in shares of common stock.

The following table summarizes our distributions paid during the years ended December 31, 2018, and 2017, including the source of distributions and a comparison against FFO (in thousands). Refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K under the caption *Net Income and Non-GAAP Measures (FFO and AFFO)* for further discussion of our FFO.

	For the years ended December 31,	
	2018	2017
Distributions:		
Paid in cash	\$ 60,394	\$ 51,884
Reinvested in shares	50,826	38,848
Total Distributions	\$ 111,220	\$ 90,732
Source of Distributions:		
Cash flow from operating activities	\$ 111,220	\$ 90,732
FFO	\$ 150,664	\$ 111,434

We intend to fund future distributions from cash generated by operations; however, we may fund distributions from the sale of assets, borrowings, or proceeds from the sale of our securities.

Repurchases of Equity Securities

We have adopted a share redemption program to provide an opportunity for our stockholders to have shares of our common stock repurchased, subject to certain restrictions and limitations, at a price equal to or at a discount from the current Determined Share Value in effect as of the date the shares are tendered for redemption. Cash used to fund share redemptions has historically been provided through a combination of cash generated by operations, the sale of assets, and borrowings. Additionally, we may use proceeds from the sale of our securities to fund redemption requests, although to date we have not done so. During the three months ended December 31, 2018, we fulfilled repurchase requests and repurchased shares of our common stock pursuant to our share redemption program as follows. We did not defer or reject any redemption requests during this period.

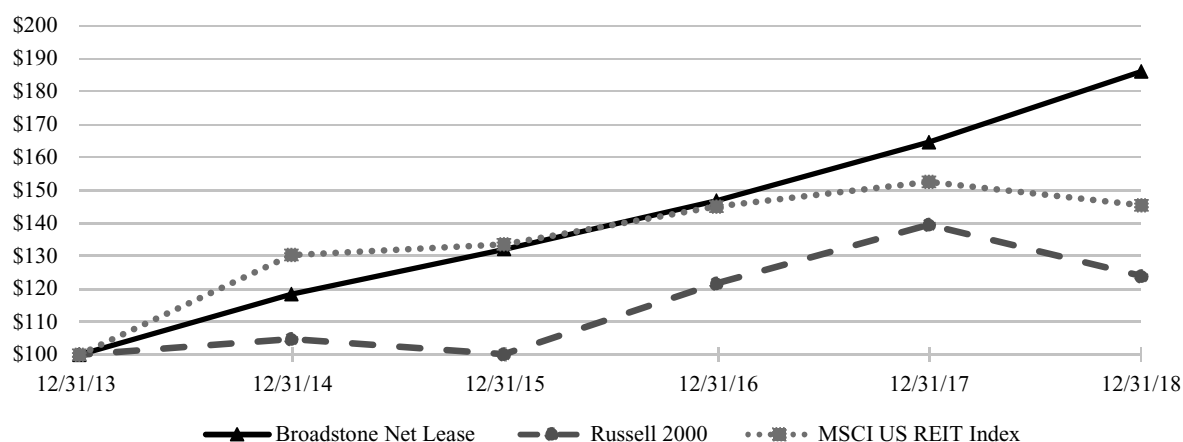
Period	Total Number of Shares Requested to be Redeemed ⁽¹⁾	Total Number of Shares Redeemed	Average Price Paid Per Share ⁽²⁾	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
October 2018	—	—	\$ —	(3)
November 2018	—	—	\$ —	(3)
December 2018	20,819	20,819	\$ 83.59	(3)

- (1) Repurchases of shares of our common stock pursuant to the share redemption program will be made quarterly, at the end of the quarter, upon written request to us delivered at least 10 calendar days prior to the last business day of the applicable calendar quarter, and the redemption price paid for redeemed shares will be paid in cash within three business days of the last business day of the applicable calendar quarter.
- (2) Shares held for more than 12 months, but less than five years, will be redeemed at a purchase price equal to 95% of the Determined Share Value in effect as of the last business day of the quarter in which the shares are timely tendered for redemption and shares held for five years or more will be redeemed at a purchase price equal to 100% of the Determined Share Value in effect as of the last business day of the quarter in which the shares are timely tendered for redemption, subject to certain exceptions as set forth in the share redemption program.
- (3) The total number of shares redeemed pursuant to the share redemption program in any quarter may not exceed (i) 1% of the total number of shares outstanding at the beginning of the applicable calendar year, plus (ii) 50% of the total number of any additional shares of our common stock issued during the prior calendar quarter pursuant to our DRIP; provided, however, that the total number of shares redeemed during any calendar year may not exceed 5% of the number of shares outstanding as of the first day of such calendar year.

Performance Graph

The following graph is a comparison of the cumulative total return of shares of our common stock, the Russell 2000, and the MSCI US REIT Index. The graph assumes that \$100 was invested on December 31, 2013, in each of shares of our common stock, the Russell 2000 and the MSCI US REIT Index, and that all dividends were reinvested. With respect to shares of our common stock, we have assumed that dividends were reinvested in additional shares of common stock pursuant to our DRIP at a per share price equal to 98% of the Determined Share Value as of the applicable distribution date. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below. The MSCI US REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI), its parent index, which captures large, mid, and small capitalization securities. While funds used in this benchmark typically target institutional investors and have characteristics that differ from us (including differing fees), we feel that the MSCI US REIT Index is an appropriate and accepted index for the purpose of evaluating returns on investments in direct real estate funds.

Total Return Performance



	December 31,					
	2013	2014	2015	2016	2017	2018
Broadstone Net Lease	100.00	118.38	132.03	146.85	164.65	186.18
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
MSCI US REIT Index	100.00	130.38	133.67	145.16	152.52	145.55

The information in this "Performance Graph" section is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except as shall be expressly set forth by specific reference in such filing.

Item 6. Selected Financial Data

The selected financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 presented below should be read in conjunction with our consolidated financial statements and the related notes thereto contained in Item 8. “Financial Statements and Supplementary Data” and in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K. The selected financial data presented below has been derived from our audited consolidated financial statements.

Our results of operations for the periods presented below are not indicative of those expected in future periods.

(In thousands)	As of December 31,				
	2018	2017	2016	2015	2014
Balance Sheet Data					
Investment in rental property, net	\$2,683,746	\$2,227,758	\$1,684,971	\$1,283,155	\$ 826,003
Total assets	3,096,797	2,578,756	1,952,054	1,463,907	899,132
Mortgage and notes payable, net	78,952	67,832	106,686	99,462	106,416
Unsecured term notes, net and revolver	1,366,873	1,109,912	759,891	562,103	360,848
Total liabilities	1,567,877	1,294,555	953,517	715,962	504,951
Total Broadstone Net Lease, Inc. stockholders’ equity	1,417,099	1,186,825	911,788	670,163	366,059
Total equity	\$1,528,920	\$1,284,201	\$ 998,537	\$ 747,945	\$ 394,181
(In thousands, except per share amounts)	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Operating Data					
Total revenues	\$ 237,479	\$ 181,563	\$ 142,869	\$ 98,086	\$ 68,152
Total operating expenses	128,933	96,681	79,231	55,703	36,148
Interest expense	52,855	34,751	29,963	22,605	18,058
Net income	75,105	59,555	40,268	20,890	17,163
Net Earnings per common share, basic and diluted	\$ 3.43	\$ 3.21	\$ 2.76	\$ 2.15	\$ 2.59
Other Data					
Net cash provided by operating activities	128,011	97,940	67,189	38,616	32,773
Net cash used in investing activities	(510,459)	(611,835)	(470,573)	(484,619)	(194,510)
Net cash provided by financing activities	391,338	500,891	399,350	464,775	156,899
Distributions declared	112,969	92,768	76,955	45,271	34,574
Distributions declared per common share	\$ 5.15	\$ 4.975	\$ 4.915	\$ 4.86	\$ 4.63
FFO ⁽¹⁾	150,664	111,434	80,664	50,990	34,633
FFO per share, basic and diluted	\$ 6.88	\$ 6.00	\$ 5.53	\$ 5.24	\$ 5.22
AFFO ⁽¹⁾	124,065	99,952	78,780	52,273	33,956
AFFO per share, basic and diluted	\$ 5.66	\$ 5.38	\$ 5.40	\$ 5.37	\$ 5.12

⁽¹⁾ Refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the caption *Net Income and Non-GAAP Measures (FFO and AFFO)* for further discussion of FFO and AFFO, including a reconciliation of net income to FFO and AFFO.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand our results of operations and financial condition. This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to the consolidated financial statements appearing in Item 8. "Financial Statements and Supplementary Data" in this Form 10-K.

Overview

We are a Maryland corporation, formed on October 18, 2007, that elected to be taxed as a REIT commencing with the taxable year ended December 31, 2008. We focus on investing in income producing, net leased commercial properties. We currently lease properties to retail, healthcare, industrial, office, and other commercial businesses under long-term lease agreements, generally on a triple-net basis.

We seek to make investments in additional properties and manage our portfolio to preserve, protect, and return capital to investors, realize increased cash available for distributions and long-term capital appreciation from growth in the value of our properties, and maximize the level of sustainable cash distributions to our investors.

We conduct substantially all of our activities through, and all of our properties are held directly or indirectly by, the Operating Company. We are the sole managing member of the Operating Company and as of December 31, 2018, 2017, and 2016, we owned approximately 92.7%, 92.4%, and 91.4%, respectively, of its issued and outstanding membership units, with the remainder held by persons who were issued membership units in exchange for their interests in properties acquired by the Operating Company.

As of December 31, 2018, we owned a diversified portfolio of 621 individual net leased commercial properties located in 42 states and comprising approximately 19.0 million rentable square feet of operational space. As of December 31, 2018, 100% of our properties were subject to leases to 161 different commercial tenants, with no single tenant accounting for more than 3.5% of our NTM Rent. We collected more than 99% of rents due during 2018. The weighted average remaining term of our leases, calculated based on our contractual NTM Rent as of December 31, 2018, was approximately 12.1 years, excluding renewal options, which are exercisable at the option of our tenants upon expiration of their base lease term.

Liquidity and Capital Resources

General

We acquire real estate using a combination of debt and equity capital and with cash from operations that is not otherwise distributed to our stockholders. Our focus is on maximizing the risk-adjusted return to our stockholders through an appropriate balance of debt and equity in our capital structure. Therefore, we attempt to maintain a conservative leverage profile, with total debt equal to 35% to 45% of the approximate market value of our assets. We believe our current leverage model has allowed us to take advantage of the lower cost of debt while simultaneously strengthening our balance sheet, as evidenced by our investment grade credit rating. Our actual leverage ratio will vary over time but may not exceed 50% without the approval of the Independent Directors Committee. As of December 31, 2018 and 2017, the leverage ratio was approximately 41.5% and 41.6%, respectively, of the approximate market value of our assets. From a management perspective and in communications with the credit rating agencies, we also consider our leverage position as a multiple of Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA"), a non-GAAP financial measure. EBITDA is a metric we use to measure leverage in the context of our cash flow expectations and projections. Given the significance of our recent growth, however, adding \$606.8 million in investments during the year ended December 31, 2018, \$683.6 million in investments during 2017, and \$518.8 million in investments during 2016, coupled with our continued strategic growth initiatives, historical EBITDA may not provide investors with an adequate picture of the contractual cash inflows associated with these investments. Our investments are typically made throughout the year (with a significant portion typically occurring in the fourth quarter of the year), and therefore the full-year, or "normalized," cash flows will not be realized until subsequent years. Accordingly, we look at contractual, "normalized," cash flows and EBITDA as an appropriate metric to manage our leverage profile. We utilize this analysis inclusive of our focus on debt-to-market value metrics.

Liquidity

Our primary cash expenditures include the monthly interest payments we make on the debt we use to finance our real estate investment portfolio, asset management and property management fees of servicing the portfolio, acquisition expenses related to the growth of our portfolio, and the general and administrative expenses of operating our business. Since substantially all of our leases are net leases, our tenants are generally responsible for the maintenance, insurance, and property taxes associated with the properties they lease from us. In certain circumstances, the terms of the lease require us to pay these expenses, although, in most cases we are reimbursed by the tenants. Accordingly, we do not currently anticipate making significant capital expenditures or incurring other significant property costs on an aggregate basis during the term of the property leases in our current portfolio. To the extent that we have vacant properties, we will incur certain costs to operate and maintain the properties; however, we do not currently expect these costs to be material.

As shown in the table below, net cash provided by operating activities increased by \$30.1 million to \$128.0 million during the year ended December 31, 2018, from \$97.9 million for the year ended December 31, 2017. Net cash provided by operating activities increased by \$30.8 million to \$97.9 million for the year ended December 31, 2017. The increase in cash provided by operating activities is primarily due to the increase in the size of our real estate investment portfolio. We funded real estate investment activity with a combination of cash from operations, proceeds from the issuance of unsecured debt obligations, and proceeds from the issuance of common stock. We paid cash dividends to our stockholders and holders of non-controlling membership units of \$60.5 million, \$52.1 million, and \$42.7 for the years ended December 31, 2018, 2017, and 2016, respectively. Cash used to fund the increase in dividends between periods related primarily to the increase in cash provided by our operations. Cash and cash equivalents and restricted cash totaled \$19.0 million, \$10.1 million, and \$23.1 million at December 31, 2018, December 31, 2017, and December 31, 2016, respectively.

	For the years ended December 31,		
	2018	2017	2016
(in thousands)			
Net cash provided by operating activities	\$ 128,011	\$ 97,940	\$ 67,189
Net cash used in investing activities	(510,459)	(611,835)	(470,573)
Net cash provided by financing activities	391,338	500,891	399,350
Increase (decrease) in cash and cash equivalents and restricted cash	<u>\$ 8,890</u>	<u>\$ (13,004)</u>	<u>\$ (4,034)</u>

Substantially all of our cash from operations is generated by our real estate portfolio. As of December 31, 2018, the historical cost basis of our real estate investment portfolio totaled \$2,683.7 million, consisting of investments in 621 properties. In 2018 these properties generated monthly straight-line rent revenues of approximately \$18.8 million, and monthly contractual cash revenues of approximately \$17.2 million. During the year ended December 31, 2018, we closed 26 real estate acquisitions totaling \$606.8 million, excluding capitalized acquisition expenses, adding 113 new properties to our portfolio. During 2019, the new properties will provide approximately \$3.9 million in monthly straight-line rent revenues and approximately \$3.6 million in monthly contractual cash revenues. As of December 31, 2017, the historical cost basis of our real estate investment portfolio totaled \$2,227.8 million, consisting of investments in 528 properties. During the year ended December 31, 2017, we closed 29 real estate acquisitions totaling \$683.6 million, excluding capitalized acquisition expenses, adding 124 new properties to our portfolio. The 2017 acquired properties generated monthly straight-line rent revenues of approximately \$4.7 million and monthly contractual cash revenues of approximately \$4.1 million during 2018.

Capital Resources

We intend to continue to grow through additional real estate investments. To accomplish this objective, we must continue to identify acquisitions that are consistent with our investment policy and raise additional debt and equity capital. We have financed our acquisition of properties using a combination of equity investments, unsecured term loans, revolving debt, senior unsecured notes, and mortgage loans. We seek to maintain an appropriate balance of debt and equity capital in our overall leverage policy, while maintaining a focus on increasing core value for existing stockholders, which we seek to achieve through earnings growth and share price appreciation.

The mix of our financing sources may change over time based on market conditions and our liquidity needs. The availability of debt to finance commercial real estate can be impacted by economic and other factors that are beyond our control. We seek to reduce the risk that long-term debt capital may be unavailable to us by strengthening our balance sheet through our investments in real estate with creditworthy tenants and lease guarantors, and maintaining an appropriate mix of debt and equity capitalization. Specifically, we recognized a greater than 99% rent collection rate during the years ended December 31, 2018 and 2017. The assignment and reaffirmation of an investment grade credit rating of Baa3 on our debt is further evidence of our active management of a conservative capital structure. As we grow our real estate portfolio, we also intend to manage our debt maturities to reduce the risk that a significant amount of our debt will mature in any single year in the future. For example, during the third quarter of 2018, we used proceeds from the longer term Series B and Series C Notes (as defined below) to repay a portion of our shorter term Revolver and 2015 Unsecured Term Loan (each as defined below). Refer to *Contractual Obligations* below for further details of the maturities on our contractual obligations, including long-term debt maturities.

We achieved our investment grade credit rating based on our conservative leverage profile, diversified real estate investment portfolio, and earnings stability provided by the creditworthiness of our tenants, which we intend to maintain concurrent with our growth objectives. Factors that could negatively impact our credit rating include, but are not limited to: a significant increase in our leverage on a sustained basis, a significant increase in the proportion of secured debt levels, a significant decline in our unencumbered asset base, weakening of our corporate governance structure, and a significant decline in our real estate portfolio diversification. We have aligned our strategic growth priorities with these factors, as we believe the favorable debt pricing and access to multiple sources of debt capital resulting from the investment grade credit rating provides us with an advantageous cost of capital and risk-adjusted return on investment for our stockholders.

Equity Capital Resources

Our equity capital for our real estate acquisition activity is provided from the proceeds of our ongoing private offering, including distributions reinvested through our DRIP. During the year ended December 31, 2018, we raised \$283.7 million in equity capital to be used in our acquisition activities, of which \$215.7 million was received through new cash investments, \$52.2 million was raised through our DRIP, and \$15.8 million was raised in exchange for Operating Company membership units through UPREIT transactions. For the year ended December 31, 2017, we raised \$316.2 million in equity capital, of which \$263.1 million was received through new cash investments, \$40.2 million was raised through our DRIP, and \$12.9 million was raised in exchange for Operating Company membership units through UPREIT transactions.

Debt Capital Resources

Our debt capital is provided through unsecured term notes, revolving debt facilities, and senior unsecured notes. We also, from time to time, obtain or assume non-recourse mortgage financing from banks and insurance companies secured by mortgages on the corresponding specific property. Mortgages, however, are not currently a strategic focus of the active management of our leverage profile. Rather, we enter into mortgages and notes payable as ancillary business transactions on an as-needed basis, most often as the result of lease assumption transactions.

As of December 31, 2018, our outstanding borrowings included \$755.0 million of unsecured term loans, \$475.0 million of senior unsecured notes, and a \$425.0 million line of credit with \$141.1 million of outstanding borrowings. As of December 31, 2017, our outstanding borrowings included \$690.0 million of unsecured term loans, \$150.0 million of senior unsecured notes, and a \$425.0 million line of credit with \$273.0 million of outstanding borrowings.

Recent Activity

On January 10, 2019, subsequent to year end, we exercised the first of two extension options available to us under our 2015 Unsecured Term Loan (as defined below), extending the maturity date of the loan through February 6, 2020, in exchange for the payment of a 0.10% fee.

On February 27, 2019, subsequent to year end, we entered into a new \$450.0 million seven-year unsecured term loan agreement (the “2019 Unsecured Term Loan”). At closing, we borrowed \$300.0 million and used the proceeds to fully repay the 2015 Unsecured Term Loan. The remaining \$150.0 million can be drawn through August 27, 2019. The 2019 Unsecured Term Loan includes an accordion feature that can increase the facility size up to a total of \$550.0 million of available capacity. Borrowings under the 2019 Unsecured Term Loan are payable interest only during the term, with the principal amount due at the maturity date of February 27, 2026. The rate of interest payable on borrowings under the 2019 Unsecured Term Loan, at our option, is equal to LIBOR plus a margin. Based on our investment grade credit rating, the applicable margin is currently 1.85%.

On February 28, 2019, we amended our Credit Agreement (as defined below) to increase the amount available under the Revolver (as defined below), from \$425.0 million to \$600.0 million. This increased the available capacity under the Credit Facility from \$1.0 billion to \$1.055 billion, including its accordion feature.

Existing Credit Facilities

Unsecured Term Loans and Revolving Credit Facility

On June 23, 2017, we closed on an \$800.0 million unsecured credit facility (the “Credit Facility”). The Credit Facility contains an accordion feature that can increase the facility size up to a total of \$1.0 billion of available capacity, and during the fourth quarter of 2017 was expanded to \$880.0 million through the addition of two lenders. As of December 31, 2018 and 2017, the facility was comprised of (i) a \$425.0 million senior unsecured revolving credit facility (the “Revolver”), (ii) a five-and-a-half-year, \$265.0 million senior unsecured delayed draw term loan (the “5.5-Year Term Loan”), and (iii) a seven-year, \$190.0 million senior unsecured delayed draw term loan (the “7-Year Term Loan”). As discussed above, the Credit Facility was amended on February 28, 2019 to increase the size of the Revolver to \$600.0 million.

The following table summarizes the amounts drawn and available to be drawn on the Credit Facility as of December 31, 2018 (in thousands, excluding Loan Tranche and Maturity Date).

Loan Tranche	Amount Drawn	Amount Available	Total Capacity	Maturity Date
Revolver	\$ 141,100	283,900	\$ 425,000	January 21, 2022 ⁽¹⁾
5.5-Year Term Loan	265,000	—	265,000	January 23, 2023
7-Year Term Loan	190,000	—	190,000	June 21, 2024

⁽¹⁾ The Revolver contains one extension option that would extend the maturity date by five months, to June 21, 2022, subject to certain conditions set forth in the Credit Facility, including payment of an extension fee equal to 0.0625% of the revolving commitments.

Borrowings under the Revolver, 5.5-Year Term Loan and 7-Year Term Loan are payable interest only during the term, with the principal amount due at maturity. The rate of interest payable on these borrowings, at our option, is equal to LIBOR plus a margin. Based on our investment grade credit rating, the applicable margins for the Revolver, 5.5-Year Term Loan, and 7-Year Term Loan were 1.20%, 1.35%, and 1.90%, respectively, as of December 31, 2018 and 2017. The margins are adjustable based on our credit rating; however, we do not expect the credit rating to change in the near future.

An applicable facility fee of 0.25% per annum is payable on the amount of the revolving commitments and is adjustable based on our credit rating.

2015 Unsecured Term Loan

In addition to the Credit Facility, at December 31, 2018 and 2017, we also had \$300.0 million and \$325.0 million, respectively, outstanding under the 2015 Unsecured Term Loan. The 2015 Unsecured Term Loan was set to mature on February 6, 2019, and provided for two one-year extension options, at our option, subject to compliance with all covenants and the payment of a 0.10% fee. As discussed above, we exercised the first option on January 9, 2019, extending the maturity to February 6, 2020, and subsequently repaid the 2015 Unsecured Term Loan in full using proceeds from the 2019 Unsecured Term Loan. Borrowings under the 2015 Unsecured Term Loan are payable interest only during the term, with the principal amount due in full at maturity. The 2015 Unsecured Term Loan bore interest at LIBOR plus a margin of 1.40% as December 31, 2018 and 2017, based on our credit rating.

Senior Notes

To mitigate interest rate risk, we have strategically added unsecured, fixed-rate, interest-only senior promissory notes (“Senior Notes”) to our capital structure. At December 31, 2018 and 2017, we had \$475.0 million and \$150.0 million, respectively, of Senior Notes outstanding. The Senior Notes were issued in three series (Series A, B, and C) as described below.

Series A Notes

On April 18, 2017, we issued \$150.0 million of Senior Notes (the “Series A Notes”). The Series A Notes are payable interest only during their term, bear interest at a fixed rate of 4.84% per annum, and mature on April 18, 2027.

Series B and Series C Notes

On July 2, 2018, we issued \$325.0 million of Senior Notes in two series: (i) \$225.0 million of 10-year Senior Notes (“Series B Notes”) maturing on July 2, 2028, and (ii) \$100.0 million of 12-year Senior Notes (“Series C Notes”) maturing on July 2, 2030. The Series B and Series C Notes are payable interest only during their term, and bear interest at a fixed rate of 5.09% per annum and 5.19% per annum, respectively.

In addition to funding acquisitions, a portion of the net proceeds from the Series B Notes and Series C Notes was used to repay outstanding borrowings under the Revolver as well as \$25.0 million of the outstanding principal balance of our 2015 Unsecured Term Loan.

Debt Covenants

We are subject to various covenants and financial reporting requirements pursuant to the loan agreements we have entered into. The table below summarizes the applicable financial covenants, which are substantially the same across each of our loan agreements, including the 2019 Unsecured Term Loan. As of December 31, 2018, we were in compliance with all of our covenants. In the event of default, either through default on payments or breach of covenants, we may be restricted from paying dividends to our stockholders above the annual 90% REIT taxable income distribution requirement. For each of the previous three years, we paid dividends out of our cash flows from operations in excess of the required distribution amounts.

Covenants	Required	Actual (as of December 31, 2018)
Leverage Ratio ⁽¹⁾	≤ 0.60 to 1.00	0.43
Secured Indebtedness Ratio ⁽²⁾	≤ 0.40 to 1.00	0.02
Unencumbered Coverage Ratio ⁽³⁾	≥ 1.75 to 1.00	4.07
Fixed Charge Coverage Ratio ⁽⁴⁾	≥ 1.50 to 1.00	3.02
Total Unsecured Indebtedness to Total Unencumbered Eligible Property Value ⁽⁵⁾	≤ 0.60 to 1.00	0.48
Dividends and Other Restricted Payments	Only applicable in case of default	Not Applicable

(1) The leverage ratio is calculated as the ratio of total indebtedness to total market value.

(2) The secured indebtedness ratio is the ratio of secured indebtedness to total market value.

(3) The unencumbered coverage ratio is the ratio of unencumbered net operating income (as defined in the agreements) for all eligible properties to unsecured interest expense for the most recent fiscal quarter.

(4) The fixed charge coverage ratio is the ratio of adjusted EBITDA to fixed charges for the most recent fiscal quarter.

(5) The ratio is calculated as the ratio of total unsecured indebtedness to unencumbered property value.

Capital Strategy

We believe our leverage policy and capital structure provide us with several advantages, including the ability to:

- create a growing and diversified real estate portfolio with a flexible capital structure that allows for independent investing and financing decisions;
- capitalize on competitive debt pricing;
- add value to our stockholders through earnings growth on a growing pool of assets; and
- issue unsecured debt having relatively limited negative financial covenants and maintain the distributions necessary to retain our REIT status in the event of contractual default, which we believe increases our corporate flexibility.

We intend to exercise the extension provisions of our debt instruments, refinance, or replace the existing borrowings as they become due, including through additional private debt placements, all with the goal of limiting future debt service to interest payments only. As a result, we do not intend to make principal payments on these obligations in the foreseeable future. Additionally, we may be required to increase our borrowing capacity to partially fund future acquisitions. We assess market conditions and the availability and pricing of debt on an ongoing basis, which are critical inputs in our strategic planning and decision-making process. While we believe the current market conditions provide our stockholders with an advantageous capitalization structure and risk-adjusted return, we believe our conservative capital structure is appropriate to absorb temporary market fluctuations. Significant adverse market conditions could impact the availability of debt to fund future acquisitions, our ability to recognize growth in earnings and return on investment for stockholders, and our ability to recast the debt facilities at cost-advantageous pricing points. In the event of such conditions, we would plan to revise our capitalization structure and strategic initiatives to maximize return on investment for our investors. To the extent that we are unable to recast our debt facilities, our cash flows from operations will not be adequate to pay the principal amount of debt, and we may be forced to liquidate properties to satisfy our obligations.

To reduce our exposure to variable-rate debt, we enter into interest rate swap agreements to fix the rate of interest as a hedge against interest rate fluctuations on floating-rate debt. These interest rate hedges have staggered maturities to reduce the exposure to interest rate fluctuations in any one year, and generally extend up to 10 years. The interest rate swaps are applied against a pool of debt, which offers flexibility in maintaining our hedge designation concurrent with our ongoing capital markets activity. We attempt to limit our total floating-rate debt exposure to no more than 5% of the approximate market value of assets, measured at quarter end. To reduce counterparty concentration risk with respect to the interest rate hedges, we diversify the institutions that serve as swap counterparties, and no more than 30% of the nominal value of our total hedged debt may be with any one institution, to be measured at the time we enter into an interest rate swap transaction and at quarter end. We may deviate from these policies from time to time subject to the approval of the Independent Directors Committee. The interest rate swaps are considered cash flow hedges. Under these agreements, we receive monthly payments from the counterparties equal to the variable interest rates multiplied by the outstanding notional amounts. In turn, we pay the counterparties each month an amount equal to a fixed rate multiplied by the outstanding notional amounts. The intended net impact of these transactions is that we pay a fixed interest rate on our variable-rate borrowings.

We do not anticipate utilizing mortgage loans or notes payable as a strategic priority in our capital structure to fund growth. When utilized, mortgage loans and notes payable typically correspond to a single property or a group of related properties acquired from a single seller. The loans may be further secured by guarantees from us, although we attempt to limit the use of guarantees to the extent possible. We may assume debt when conducting a transaction or we may mortgage existing properties. The maturities on our mortgages and notes payable are staggered from 2021 to 2034. As of December 31, 2018, and 2017, the aggregate principal balance of outstanding mortgage loans and notes payable approximated \$79.5 million and \$68.5 million, respectively.

We believe that the cash generated by our operations and our ongoing private offering, our cash and cash equivalents at December 31, 2018, our current borrowing capacity under our unsecured credit facility, and our access to long-term debt capital, including through the debt private placement market, will be sufficient to fund our operations for the foreseeable future and allow us to acquire the real estate to meet our strategic objectives.

Impact of Inflation

Our leases with tenants of our properties are long-term in nature, with a current weighted average remaining lease term of 12.1 years as of December 31, 2018. To mitigate the impact of inflation on our fixed revenue streams, we have implemented limited escalation clauses in our leases. As of December 31, 2018, substantially all of our leases had contractual lease escalations, with an annual weighted average of 2.0%. A majority of our leases have fixed annual rent increases or periodic escalations over the term of the lease (*e.g.*, a 10% increase every five years), and the remaining portion has annual lease escalations based on increases in the CPI. These lease escalations mitigate the risk of fixed revenue streams in the case of an inflationary economic environment, and provide increased return in otherwise stable market conditions. As a majority of our portfolio has fixed lease escalations, there is a risk that inflation could be greater than the contractual rent increases.

Our focus on single-tenant, net leases also shelters us from fluctuations in the cost of services and maintenance as a result of inflation. For a portion of our portfolio, we have leases that are not fully triple-net, and, therefore, we bear certain responsibilities for the maintenance and structural component replacements (*e.g.*, roof, structure, or parking lot) that may be required in the future, although the tenants are still required to pay all operating expenses associated with the property (*e.g.*, real estate taxes, insurance, and maintenance). Inflation and increased costs may have an adverse impact to our tenants and their creditworthiness if the increase in costs are greater than their increase in revenue. Where we cannot implement a triple-net lease, we attempt to limit our exposure to inflation through the use of warranties and other remedies that reduce the likelihood of a significant capital outlay.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2018, or December 31, 2017.

Contractual Obligations

The following table provides information with respect to our contractual commitments and obligations as of December 31, 2018 (in thousands).

Year of Maturity	Term Loan Agreements ⁽¹⁾	Revolver ⁽²⁾	Senior Notes	Mortgages and Notes Payable	Interest Expense ⁽³⁾	Tenant Improvement Allowances ⁽⁴⁾	Operating Leases	Total
2019	\$ —	\$ —	\$ —	\$ 3,433	\$ 61,175	\$ 2,125	\$ 118	\$ 66,851
2020	300,000	—	—	3,672	50,959	—	120	354,751
2021	—	—	—	18,584	49,533	—	122	68,239
2022	—	141,100	—	3,066	42,978	—	124	187,268
2023	265,000	—	—	7,456	33,143	—	125	305,724
Thereafter	190,000	—	475,000	43,240	115,575	—	2,540	826,355
Total	<u>\$ 755,000</u>	<u>\$ 141,100</u>	<u>\$ 475,000</u>	<u>\$ 79,451</u>	<u>\$ 353,363</u>	<u>\$ 2,125</u>	<u>\$ 3,149</u>	<u>\$ 1,809,188</u>

(1) Subsequent to year end, we exercised our first of two options to extend the maturity date of the 2015 Unsecured Term Loan, from February 6, 2019 to February 6, 2020. Accordingly, we have included principal repayment of this loan in 2020. As noted above, the 2015 Unsecured Term Loan was subsequently repaid in full in February 2019, using proceeds from the 2019 Unsecured Term Loan. We have not included any principal or interest payments associated with the 2019 Unsecured Term Loan in the table above as the borrowing was not a commitment as of December 31, 2018.

(2) We may extend the Revolver once, for a five-month period, subject to compliance with all covenants and the payment of an extension fee equal to 0.0625% of the revolving commitments.

(3) Interest expense is projected based on the outstanding borrowings and interest rates in effect as of December 31, 2018. This amount includes the impact of interest rate swap agreements. Interest expense in this table associated with the 2015 Unsecured Term Loan Agreement includes amounts projected to be paid through the extended maturity date of February 6, 2020.

(4) As of December 31, 2018, tenant improvement allowances totaled \$2.1 million. We expect to pay tenant improvement allowances out of cash flows from operations or from additional borrowings.

At December 31, 2018, and 2017, investment in rental property of \$139.8 million and \$67.7 million, respectively, was pledged as collateral against our mortgages and notes payable.

Additionally, as of December 31, 2018, we are a party to three separate Tax Protection Agreements (the “Agreements”) with the contributing members (the “Protected Members”) of three distinct UPREIT transactions conducted in November 2015, February 2016, and October 2017. The Agreements require us to pay monetary damages in the event of a sale, exchange, transfer, or other disposal of the contributed property in a taxable transaction that would cause a Protected Member to recognize a Protected Gain, as defined in the Agreements and subject to certain exceptions. In such an event, we will pay monetary damages to the Protected Members in the amount of the aggregate federal, state, and local income taxes incurred as a result of the income or gain allocated or recognized by the Protected Member as an outcome of the transaction, subject to certain caps and limitations contained in the Agreements. We are required to allocate to the Protected Members an amount of nonrecourse liabilities that is at least equal to the Minimum Liability Amount for each Protected Member, as defined in the Agreements. The Minimum Liability Amount and the associated allocation of nonrecourse liabilities are calculated in accordance with applicable tax regulations, are completed at the Operating Company level, and do not represent GAAP accounting. Therefore, there is no impact to the consolidated financial statements included in Item 8. “Financial Statements and Supplementary Data” within this Form 10-K. If the nonrecourse liabilities allocated do not meet the requirement, we will pay monetary damages to the Protected Members in the amount of the aggregate federal, state, and local income taxes incurred as a result of the income or gain allocated or recognized by the Protected Member as an outcome to the default. The maximum aggregate amount we may be liable for under the Agreements is approximately \$12.3 million. Based on information available, we do not believe that the events resulting in damages as detailed above have occurred or are likely to occur in the foreseeable future. Accordingly, we have excluded this commitment from the contractual commitments table above.

Results of Operations

Overview

As of December 31, 2018, our real estate investment portfolio had grown to a net book value of \$2.68 billion, consisting of investments in 621 properties with locations in 42 states and leased to tenants in various industries. All of our real estate investment portfolio represents commercial real estate properties subject to long-term leases, all of our owned properties were subject to a lease as of December 31, 2018, and substantially all of our leasing activity related to our real estate acquisitions. During the year ended December 31, 2018, one tenant renewed a lease that had been set to expire in 2018. The lease renewal was immaterial to our portfolio of real estate and to our results of operations. During the years ended December 31, 2017 and 2016, none of our leases expired.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

(in thousands)	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	\$	%
Revenues:				
Rental income from operating leases	\$ 222,208	\$ 170,493	\$ 51,715	30.3 %
Earned income from direct financing leases	3,941	4,141	(200)	(4.8)%
Operating expenses reimbursed from tenants	11,221	6,721	4,500	67.0 %
Other income from real estate transactions	109	208	(99)	(47.6)%
Total revenues	<u>\$ 237,479</u>	<u>\$ 181,563</u>	<u>\$ 55,916</u>	30.8 %

Total revenues increased to \$237.5 million for the year ended December 31, 2018, compared to \$181.6 million for the year ended December 31, 2017, primarily due to the growth in our real estate portfolio. For the year ended December 31, 2018, we closed 26 real estate acquisitions and acquired \$606.8 million in real estate, excluding acquisition costs, comprised of 113 new properties.

Our real estate investments in new properties were made throughout the year, with a significant portion occurring during the fourth quarters of both 2017 and 2018. Acquisitions made in 2017 provided approximately \$38.8 million of incremental straight-line rental income in 2018. For new properties acquired during 2018, we recognized \$17.4 million of the \$47.4 million in annualized straight-line rental income associated with these properties, with the remainder expected to be recognized in 2019. The acquisitions occurring during the fourth quarter of 2018 did not have a material impact on reported revenues, due to the timing of the rental income from acquisitions. The increase in total revenues as a result of acquisitions made in 2018 and 2017 was partially offset by lost rental income due to real estate disposals.

Of the \$606.8 million and \$683.6 million in acquisitions during 2018 and 2017, approximately \$139.9 million and \$314.7 million, respectively, related to sale-leaseback transactions. The rental rates we receive on sale-leaseback transactions and lease assumptions on the various types of properties we target vary from transaction to transaction based on many factors, such as the terms of the lease, each property's real estate fundamentals, and the market rents in the area. The initial cash capitalization rate on acquisitions made during 2018 was 6.9%.

Operating Expenses

(in thousands)	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	\$	%
Operating expenses:				
Depreciation and amortization	\$ 83,994	\$ 62,263	\$ 21,731	34.9 %
Asset management fees	18,173	14,754	3,419	23.2 %
Property management fees	6,529	4,988	1,541	30.9 %
Property and operating expense	11,157	6,505	4,652	71.5 %
General and administrative	6,162	4,939	1,223	24.8 %
State and franchise tax	857	624	233	37.3 %
Provision for impairment of investment in rental properties	2,061	2,608	(547)	(21.0) %
Total operating expenses	<u>\$ 128,933</u>	<u>\$ 96,681</u>	<u>\$ 32,252</u>	33.4 %

Depreciation and amortization

Depreciation and amortization increased to \$84.0 million for the year ended December 31, 2018, compared to \$62.3 million for the year ended December 31, 2017, primarily as a result of the growth in our real estate portfolio, as discussed above. Our real estate investments were made throughout the period and were not all outstanding for the entire period; accordingly, only a portion of the increase in annualized depreciation is reflected in the full-year 2018 amounts.

Asset management fees

Asset management fees increased to \$18.2 million for the year ended December 31, 2018, compared to \$14.8 million for the year ended December 31, 2017. We pay the Asset Manager a quarterly fee equal to 0.25% of the aggregate value of our equity on a fully diluted basis, based on the Determined Share Value. The increase in asset management fees during 2018 is a result of an increase in the Determined Share Value, which was set by our Independent Directors Committee at \$81.00 per share at December 31, 2017, and \$86.00 per share at December 31, 2018. Additionally, the number of shares of our common stock and noncontrolling membership units of the Operating Company outstanding increased as the result of continued equity capital investments. As of December 31, 2018, there were 23.75 million shares of our common stock and non-controlling membership units outstanding, compared to 20.46 million as of December 31, 2017. The increase in equity capital was used to partially fund the continued growth in our real estate portfolio.

Property and operating expense

Property and operating expense increased to \$11.2 million for the year ended December 31, 2018, compared to \$6.5 million for the year ended December 31, 2017. The increase is mainly attributable to the number of properties we own for which we are responsible for engaging a third-party manager to manage ongoing property maintenance, along with insurance and real estate taxes associated with those properties. A majority of these expenses are paid by us and reimbursed by the tenants under the terms of the respective leases. There was a corresponding increase in the Operating expenses reimbursed from tenants captioned in total revenues, above.

Other income (expenses)

(in thousands)	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	\$	%
Other income (expenses)				
Preferred distribution income	\$ 440	\$ 737	\$ (297)	(40.3)%
Interest income	179	467	(288)	(61.7)%
Interest expense	(52,855)	(34,751)	18,104	52.1 %
Cost of debt extinguishment	(101)	(5,151)	(5,050)	(98.0)%
Gain on sale of real estate	10,496	12,992	(2,496)	(19.2)%
Gain on sale of investment in related party	8,500	—	8,500	>100.0 %
Other (losses) gains	(100)	379	(479)	>100.0 %

Interest Expense

Interest expense increased to \$52.9 million for the year ended December 31, 2018, compared to \$34.8 million for the year ended December 31, 2017, due primarily to an increase in unsecured long-term borrowings. Total outstanding debt on our unsecured credit facilities and unsecured Senior Notes, excluding capitalized debt issuance costs, increased from \$1,113.0 million at December 31, 2017, to \$1,371.1 million at December 31, 2018, primarily reflecting the issuance of the Series B and Series C Notes in 2018.

Cost of debt extinguishment

The cost of debt extinguishment represents the difference between the price paid to extinguish debt compared to its carrying value, plus any unamortized debt issuance costs at the time of extinguishment. To the extent that the price paid to extinguish the debt is greater than the carrying value of debt, we would recognize a loss on extinguishment. The loss would be increased by the amount of previously capitalized debt issuance costs that remain unamortized at the time of extinguishment. To the extent that the price paid to extinguish the debt is less than the carrying value of debt, we would recognize a gain on extinguishment, netted by any unamortized debt issuance costs. These amounts fluctuate period-over-period based on the variability in the interest rate environment, changes in financial institutions' credit standards, and our activity in capital markets to manage our leverage position.

Cost of debt extinguishment decreased by \$5.1 million, to \$0.1 million for the year ended December 31, 2018, compared to \$5.2 million for the year ended December 31, 2017. The fluctuation is a direct result of costs and fees associated with our renegotiating our credit facility in 2017, whereas we did not have any similar costs or fees in 2018.

Gain on sale of investment in related party

For the year ended December 31, 2018, we sold our entire investment in 100 non-voting convertible preferred units of our Manager, a related party, to another related party of the Manager. The preferred units were sold for an aggregate sales price of \$18.5 million and had a carrying value of \$10.0 million at the time of sale. Prior to the sale, we had received preferred distribution income on the preferred units.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

<i>(in thousands)</i>	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	\$	%
Revenues:				
Rental income from operating leases	\$ 170,493	\$ 133,943	\$ 36,550	27.3 %
Earned income from direct financing leases	4,141	4,544	(403)	(8.9) %
Operating expenses reimbursed from tenants	6,721	4,173	2,548	61.1 %
Other income from real estate transactions	208	209	(1)	(0.5) %
Total revenues	<u>\$ 181,563</u>	<u>\$ 142,869</u>	<u>\$ 38,694</u>	27.1 %

Total revenues increased to \$181.6 million for the year ended December 31, 2017, compared to \$142.9 million for the year ended December 31, 2016, primarily due to the growth in our real estate portfolio. During the year ended December 31, 2017, we closed 29 real estate acquisitions and acquired \$683.6 million in real estate, excluding acquisition costs, comprised of 124 new properties.

Our real estate investments in new properties were made throughout the period, with a significant portion during the fourth quarter, and were not all outstanding for the entire period. During 2017, we recognized \$17.3 million of the \$56.1 million in annualized straight-line rental income from new properties acquired in 2017, with the remaining increase expected to be recognized in 2018. The increase in revenues during 2017 is also a result of the acquisitions made throughout 2016, in particular towards the second half of the year, whereby we recognized the full annualized straight-line rental revenues in 2017. In 2017, we recognized all of the \$40.9 million in annualized straight-line rental income from properties acquired in 2016, compared with the \$16.9 million we recognized in 2016. The increase in total revenues as a result of acquisitions made in 2017 and 2016 was partially offset by lost rental income due to real estate disposals.

Of the \$683.6 million and \$518.8 million in acquisitions during 2017 and 2016, approximately \$314.7 million and \$295.8 million, respectively, related to sale-leaseback transactions. The rental rates we receive on sale-leaseback transactions and lease assumptions on the various types of properties we target across the United States vary from transaction to transaction based on many factors, such as the terms of the lease, each property's real estate fundamentals, and the market rents in the area. The initial cash capitalization rate on acquisitions made during 2017 was 7.3%.

Operating Expenses

<i>(in thousands)</i>	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	\$	%
Operating expenses:				
Depreciation and amortization	\$ 62,263	\$ 46,321	\$ 15,942	34.4 %
Asset management fees	14,754	10,955	3,799	34.7 %
Property management fees	4,988	3,939	1,049	26.6 %
Acquisition expenses	—	10,880	(10,880)	(100.0) %
Property and operating expense	6,505	3,900	2,605	66.8 %
General and administrative	4,939	2,790	2,149	77.0 %
State and franchise tax	624	446	178	39.9 %
Provision for impairment of investment in rental properties	2,608	—	2,608	>100.0 %
Total operating expenses	<u>\$ 96,681</u>	<u>\$ 79,231</u>	<u>\$ 17,450</u>	22.0 %

Depreciation and amortization

Depreciation and amortization increased to \$62.3 million for the year ended December 31, 2017, compared to \$46.3 million for the year ended December 31, 2016, primarily as a result of the growth in our real estate portfolio, as discussed above. Our real estate investments were made throughout the year and were not all outstanding for the entire period; accordingly, only a portion of the increase in annualized depreciation is reflected in the full-year 2017 amounts. In addition, during the year ended December 31, 2017, we capitalized \$12.3 million in acquisition expenses as the result of adopting FASB ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). The capitalized acquisition expenses are capitalized as part of the cost basis of the underlying assets acquired and are depreciated over the respective useful lives. For acquisitions made in 2016, we expensed acquisition costs as incurred. We adopted ASU 2017-01 and the respective accounting for acquisition expenses as of January 1, 2017, on a prospective basis, and therefore this new accounting standard does not impact acquisition costs previously expensed in 2016.

Asset management fees

Asset management fees increased to \$14.8 million for the year ended December 31, 2017, compared to \$11.0 million for the year ended December 31, 2016. The increase in 2017 is a result of an increase in our outstanding equity on a fully diluted basis, combined with an increase in the Determined Share Value. During the year ended December 31, 2017, the Independent Directors Committee increased the Determined Share Value from \$77.00 per share as of December 31, 2016, to \$81.00 per share as of December 31, 2017. Additionally, the number of shares of our common stock and noncontrolling membership units of the Operating Company outstanding increased as the result of continued equity capital investments. As of December 31, 2017, there were 20.46 million shares of our common stock and noncontrolling membership units of the Operating Company outstanding, compared to 16.59 million as of December 31, 2016. The increase in equity capital was used to partially fund the continued growth in our real estate portfolio.

Acquisition Expenses

Acquisition expenses decreased to zero for the year ended December 31, 2017, compared to \$10.9 million for the year ended December 31, 2016, reflecting the impact of our adopting the provisions of ASU 2017-01 prospectively as of January 1, 2017. As discussed above, subsequent to the adoption of the ASU, acquisition expenses are now capitalized as part of the cost basis of the underlying assets acquired; whereas previously they had been expensed. Under the terms of the Asset Management Agreement, we pay the Asset Manager an acquisition fee equal to 1% of the gross purchase price paid for each property we acquire (including properties contributed in exchange for membership units in the Operating Company).

As noted above, we capitalized \$12.3 million in acquisition expenses for the year ended December 31, 2017. The \$1.4 increase in acquisition expenses capitalized in 2017 compared to amounts expensed in 2016, relates to an increase in acquisition activity in the current year.

Property and operating expense

Property and operating expense increased to \$6.5 million for the year ended December 31, 2017, compared to \$3.9 million for the year ended December 31, 2016. The increase is attributable to the number of properties we own whereby we are responsible for engaging a third-party property manager to manage the respective ongoing property maintenance, along with real estate taxes associated with those properties. A majority of these expenses are paid by us and reimbursed by the tenant under the terms of the respective leases. There was a corresponding increase in the Operating expenses reimbursed from tenants revenue caption, included in total revenues above.

General and administrative

General and administrative expenses increased to \$4.9 million for the year ended December 31, 2017, compared to \$2.8 million for the year ended December 31, 2016. The increase is primarily related to increased fees for costs and services associated with becoming a public reporting entity in accordance with Section 12(g) of the Exchange Act during 2017.

Provision for impairment of investment in rental properties

For the year ended December 31, 2017, we recognized an asset impairment of \$2.6 million on our investments in four rental properties whose carrying amounts we determined were not recoverable. In determining the fair value of the assets at the time of measurement, we utilized direct capitalization rates ranging from 7.25% to 12.00%, and a weighted average discount rate of 8.00%. We did not recognize any asset impairments in 2016.

Other income (expenses)

(in thousands)	Year Ended December 31,		Increase/(Decrease)	
	2017	2016	\$	%
Other income (expenses)				
Preferred distribution income	\$ 737	\$ 713	\$ 24	3.4 %
Interest income	467	88	379	>100.0 %
Interest expense	(34,751)	(29,963)	4,788	16.0 %
Cost of debt extinguishment	(5,151)	(133)	5,018	>100.0 %
Gain on sale of real estate	12,992	5,925	7,067	>100.0 %
Other gains	379	—	379	>100.0 %

Interest Expense

Interest expense increased to \$34.8 million for the year ended December 31, 2017, compared to \$30.0 million for the year ended December 31, 2016, due primarily to an increase in long-term borrowings used to partially fund the acquisition of properties for our growing real estate investment portfolio. The debt outstanding on our unsecured credit facilities, excluding capitalized debt issuance costs, increased from \$762.0 million at December 31, 2016, to \$1,113.0 million at December 31, 2017.

Cost of debt extinguishment

The increase in the cost of debt extinguishment for the year ended December 31, 2017 as compared to the year ended December 31, 2016, is a result of costs and fees associated with our renegotiating our credit facility in 2017, together with the corresponding extinguishment of a prior revolver and two term loans.

Gain on sale of real estate

For the year ended December 31, 2017, we recognized a \$13.0 million gain on the sale of real estate, compared to a gain of \$5.9 million for the year ended December 31, 2016. During 2017 and 2016, we sold 13 properties and nine properties, respectively. Our recognition of a gain or loss on the sale of real estate varies from transaction to transaction based on fluctuations in asset prices and demand in the real estate market.

Net Income and Non-GAAP Measures (FFO and AFFO)

Our reported results and net earnings per diluted share are presented in accordance with GAAP. We also disclose FFO and AFFO, each of which are non-GAAP measures. We believe the presentation of FFO and AFFO are useful to investors because they are widely accepted industry measures used by analysts and investors to compare the operating performance of REITs. FFO and AFFO should not be considered alternatives to net income as a performance measure or to cash flows from operations, as reported on our statement of cash flows, or as a liquidity measure, and should be considered in addition to, and not in lieu of, GAAP financial measures.

We compute FFO in accordance with the standards established by the Funds From Operations White Paper — 2018 Restatement approved by the Board of Governors of Nareit, the worldwide representative voice for REITs and publicly traded real estate companies with an interest in the U.S. real estate and capital markets. Nareit defines FFO as GAAP net income or loss adjusted to exclude net gains (losses) from sales of certain depreciated real estate assets, depreciation and amortization expense from real estate assets, gains and losses from change in control, and impairment charges related to certain previously depreciated real estate assets. To derive AFFO, we modify the Nareit computation of FFO to include other adjustments to GAAP net income related to certain non-cash revenues and expenses, including straight-line rents, cost of debt extinguishments, acquisition expenses, amortization of lease intangibles, amortization of debt issuance costs, amortization of net mortgage premiums, (gain) loss on interest rate swaps and other non-cash interest expense, extraordinary items, and other specified non-cash items. We believe that such items are not a result of normal operations and thus we believe excluding such items assists management and investors in distinguishing whether changes in our operations are due to growth or decline of operations at our properties or from other factors.

Our leases include cash rents that increase over the term of the lease to compensate us for anticipated increases in market rentals over time. Our leases do not include significant front-loading or back-loading of payments, or significant rent-free periods. Therefore, we find it useful to evaluate rent on a contractual basis as it allows for comparison of existing rental rates to market rental rates. We further exclude transaction costs associated with acquiring real estate subject to existing leases, including the amortization of lease intangibles, as well as acquisition expenses paid to our Asset Manager that are based on a percentage of the gross acquisition purchase price. We exclude these costs from AFFO because they are upfront expenses that are recognized in conjunction with an acquisition, and therefore, are not indicative of ongoing operational results of the portfolio. We believe excluding acquisition expenses provides investors a view of the performance of our portfolio over time. In connection with our adoption of ASU 2017-01, effective January 1, 2017, and on a prospective basis, we capitalize all asset acquisition expenses as part of the cost basis of the tangible and intangible assets acquired. Therefore, effective January 1, 2017, we no longer adjust for acquisition expenses in our AFFO computation. We further exclude costs or gains recorded on the extinguishment of debt, non-cash interest expense and gains, the amortization of debt issuance costs, net mortgage premiums, and lease intangibles, as these items are not indicative of ongoing operational results. We use AFFO as a measure of our performance when we formulate corporate goals.

FFO is used by management, investors, and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers, primarily because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. We believe that AFFO is a useful supplemental measure for investors to consider because it will help them to better assess our operating performance without the distortions created by non-cash revenues or expenses. FFO and AFFO may not be comparable to similarly titled measures employed by other REITs, and comparisons of our FFO and AFFO with the same or similar measures disclosed by other REITs may not be meaningful.

Neither the SEC nor any other regulatory body has passed judgment on the acceptability of the adjustments that we use to calculate FFO and AFFO. In the future, the SEC, Nareit or another regulatory body may decide to standardize the allowable adjustments across the REIT industry and in response to such standardization we may have to adjust our calculation and characterization of FFO and AFFO accordingly.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table presents our GAAP net income and non-GAAP FFO and AFFO for the years ended December 31, 2018 and 2017, in total and on a per share basis. Our measures of FFO and AFFO are computed on the basis of amounts attributable to both us and noncontrolling interests. As the noncontrolling interests share in our net income on a one-for-one basis, the basic and diluted per-share amounts are the same.

<i>(in thousands, except per share data)</i>	Year ended December 31,		Increase/Decrease	
	2018	2017	\$	%
Net income	\$ 75,105	\$ 59,555	\$ 15,550	26.1 %
<i>Net earnings per diluted share</i>	<i>3.43</i>	<i>3.21</i>	<i>0.22</i>	<i>6.9 %</i>
FFO	150,664	111,434	39,230	35.2 %
<i>FFO per diluted share</i>	<i>6.88</i>	<i>6.00</i>	<i>0.88</i>	<i>14.7 %</i>
AFFO	124,065	99,952	24,113	24.1 %
<i>AFFO per diluted share</i>	<i>\$ 5.66</i>	<i>\$ 5.38</i>	<i>\$ 0.28</i>	<i>5.2 %</i>
Diluted WASO⁽¹⁾	21,910	18,567	3,343	18.0 %

⁽¹⁾ Weighted average number of shares of our common stock and membership units in the Operating Company outstanding (“WASO”), computed in accordance with GAAP.

Net income

Net income increased to \$75.1 million for the year ended December 31, 2018, compared to \$59.6 million for the year ended December 31, 2017. Net earnings per diluted share increased to \$3.43 for the year ended December 31, 2018, compared to \$3.21 for the year ended December 31, 2017. The increase is mainly attributable to the net growth in the number of investments in real estate properties in our portfolio, as discussed in *Results of Operations — Year Ended December 31, 2018 Compared to Year Ended December 31, 2017*. This portfolio growth generated increased revenues which were partially offset by increased depreciation and amortization, asset management, and property management expenses. Additional contributing factors to net income growth were an \$8.5 million gain on sale of an investment in a related party in 2018, for which there was no comparable transaction in 2017, and decreased impairment charges as compared to the prior-year period. In addition, the cost of debt extinguishment decreased year-over-year due to decreased activity. These factors were partially offset by increased interest expense.

The increased net income used in the numerator of the earnings per diluted share calculation was partially offset by increased diluted WASO used in the denominator. The increase in the diluted WASO reflected shares issued as part of our ongoing equity raises. We use proceeds from the sale of stock to partially fund acquisitions of real estate, which contributes to the increased revenues discussed above.

FFO

FFO increased to \$150.7 million for the year ended December 31, 2018, compared to \$111.4 million for the year ended December 31, 2017. FFO per diluted share increased to \$6.88 for the year ended December 31, 2018, compared to \$6.00 for the year ended December 31, 2017. The increase in FFO is primarily due to increased revenues, offset by increased asset management fees, and property and operating expenses, all of which reflect the net growth in the number of investments in real estate properties in our portfolio, as discussed in *Results of Operations — Year Ended December 31, 2018 Compared to Year Ended December 31, 2017* above. Additional contributing factors to FFO growth were an \$8.5 million gain on sale of an investment in a related party in 2018, for which there was no comparable transaction in 2017, and decreased expense associated with the extinguishment of debt as compared to the prior-year period. These factors were partially offset by increased interest expense. The increased FFO in the numerator of the FFO per share calculation was partially offset by an increase in the diluted WASO used in the denominator.

AFFO

AFFO increased to \$124.1 million for the year ended December 31, 2018, compared to \$100.0 million for the year ended December 31, 2017. AFFO per diluted share increased to \$5.66 for the year ended December 31, 2018, compared to \$5.38 for the year ended December 31, 2017. The increase in AFFO is primarily due to increased contractual cash revenues as a result of net growth in the number of investments in real estate properties in our portfolio, partially offset by increased asset management fees, property and operating expenses, and interest expense. See further discussion in *Results of Operations — Year Ended December 31, 2018 Compared to Year Ended December 31, 2017*, above. The increase in AFFO in the numerator of the AFFO per diluted share calculation was partially offset by an increase in the diluted WASO used in the denominator.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following table presents our GAAP net income and non-GAAP FFO and AFFO for the years ended December 31, 2017 and 2016, in total and on a per share basis. Our measures of FFO and AFFO are computed on the basis of amounts attributable to both us and noncontrolling interests. As the noncontrolling interests share in our net income on a one-for-one basis, the basic and diluted per-share amounts are the same.

	Year ended December 31,		Increase/Decrease	
	2017	2016	\$	%
<i>(in thousands, except per share data)</i>				
Net income	\$ 59,555	\$ 40,268	\$ 19,287	47.9 %
<i>Net earnings per diluted share</i>	<i>3.21</i>	<i>2.76</i>	<i>0.45</i>	<i>16.3 %</i>
FFO	111,434	80,664	30,770	38.1 %
<i>FFO per diluted share</i>	<i>6.00</i>	<i>5.53</i>	<i>0.47</i>	<i>8.5 %</i>
AFFO	99,952	78,780	21,172	26.9 %
<i>AFFO per diluted share</i>	<i>\$ 5.38</i>	<i>\$ 5.40</i>	<i>\$ (0.02)</i>	<i>(0.4) %</i>
Diluted WASO ⁽¹⁾	18,567	14,597	3,970	27.2 %

Net income

Net income increased to \$59.6 million for the year ended December 31, 2017, compared to \$40.3 million in 2016. Net earnings per diluted share increased to \$3.21 in 2017, compared to \$2.76 in 2016. The increase is mainly attributable to the net growth in the number of investments in real estate properties in our portfolio, as discussed in *Results of Operations — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*, above. This investment activity generated increased revenues which were partially offset by increased depreciation and amortization, asset management, and property management expenses. In addition, we recognized \$13.0 in gains on sale of real estate in 2017, compared to \$5.9 million in 2016. Net income also increased in 2017 as a result of adopting the provisions of ASU 2017-01 prospectively as of January 1, 2017, which had the effect of our capitalizing acquisition costs that had been expensed in prior years. During 2017, we capitalized \$12.3 million in acquisition expenses.

Partially offsetting these factors were a \$5.0 million increase in costs of debt extinguishment and a \$4.8 million increase in interest expense, both of which reflect the costs and fees associated with the renegotiation of our long-term credit facilities and increased borrowing capacity, as well as the impact of a \$2.6 million impairment charge taken during 2017 for which there was no comparable transaction in 2016.

The increased net income used in the numerator of the earnings per diluted share calculation was partially offset by increased diluted WASO used in the denominator. The increase in the diluted WASO reflected shares issued as part of our ongoing equity raises.

FFO

FFO increased to \$111.4 million for the year ended December 31, 2017, compared to \$80.7 million for the year ended December 31, 2016. FFO per diluted share increased to \$6.00 in 2017, compared to \$5.53 in 2016. The increase in FFO is primarily due to increased revenues, offset by increased asset management fees and property and operating expenses, all of which reflect the net growth in the number of investments in real estate properties in our portfolio, as discussed in *Results of Operations — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*, above. FFO also increased in 2017 as a result of adopting the provisions of ASU 2017-01 prospectively as of January 1, 2017, which had the effect of our capitalizing \$12.3 million of acquisition costs that had been expensed in prior years. These factors were partially offset by increased costs of debt extinguishment and interest expense. The increased FFO in the numerator of the FFO per diluted share calculation was partially offset by increased diluted WASO used in the denominator.

AFFO

AFFO increased to \$100.0 million for the year ended December 31, 2017, compared to \$78.8 million for the year ended December 31, 2016. AFFO per diluted share decreased to \$5.38 in 2017, compared to \$5.40 in 2016. The increase in AFFO is primarily due to increased contractual cash revenues as a result of the net growth in the number of investments in real estate properties in our portfolio, combined with increased asset management fees and property and operating expenses, as discussed in *Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*, above. These factors were partially offset by increased interest expense. The increased AFFO in the numerator of the AFFO per diluted share calculation was more than offset by the increase in the diluted WASO used in the denominator.

Reconciliation of Non-GAAP Measures

The following is a reconciliation of net income to FFO and AFFO for the years ended December 31, 2018, 2017, and 2016. Also presented are the diluted WASO and per diluted share amounts:

(in thousands, except per share data)	Year ended December 31,		
	2018	2017	2016
Net income	\$ 75,105	\$ 59,555	\$ 40,268
Real property depreciation and amortization	83,994	62,263	46,321
Gain on sale of real estate	(10,496)	(12,992)	(5,925)
Provision for impairment on investment in rental properties	2,061	2,608	—
FFO	\$ 150,664	\$ 111,434	\$ 80,664
Capital improvements / reserves	(196)	(196)	(194)
Straight line rent adjustment	(19,492)	(17,132)	(13,847)
Cost of debt extinguishment	101	5,151	133
Gain on sale of investment in related party	(8,500)	—	—
Amortization of debt issuance costs	1,918	1,795	1,817
Amortization of net mortgage premiums	(142)	61	(191)
Gain on interest rate swaps and other non-cash interest expense	(84)	(1,280)	—
Amortization of lease intangibles	(304)	498	(482)
Other losses (gains)	100	(379)	—
Acquisition expenses	—	—	10,880
AFFO	\$ 124,065	\$ 99,952	\$ 78,780
Diluted WASO	21,910	18,567	14,597
Net earnings per share, basic and diluted	\$ 3.43	\$ 3.21	\$ 2.76
FFO per diluted share	6.88	6.00	5.53
AFFO per diluted share	5.66	5.38	5.40

Critical Accounting Policies

The preparation of our consolidated financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on our financial statements. A summary of our significant accounting policies and procedures are included in Note 2, “Summary of Significant Accounting Policies”, contained in Item 8. “Financial Statements and Supplementary Data” included in this Form 10-K. Management believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Investments in Rental Property

We record investments in rental property accounted for under operating leases at cost. We record investments in rental property accounted for under direct financing leases at their net investment (which at the inception of the lease generally represents the cost of the property).

We early adopted ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), on a prospective basis, effective January 1, 2017. The guidance changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, and therefore are accounted for as asset acquisitions instead of business combinations. All of the acquisitions closed subsequent to the adoption of this guidance, and therefore during the years ended December 31, 2018 and December 31, 2017, did not meet the definition of a business and accordingly were accounted for as asset acquisitions.

We allocate the purchase price of investments in rental property accounted for as an asset acquisition based on the relative fair value of the assets acquired and liabilities assumed. These generally include tangible assets, consisting of land and land improvements, buildings and other improvements, and equipment, and identifiable intangible assets and liabilities, including the value of in-place leases and acquired above-market and below-market leases. Acquisition costs incurred in connection with investments in real estate accounted for as asset acquisitions are capitalized and included with the allocated purchase price. The results of operations of acquired properties are included in the Consolidated Statements of Income and Comprehensive Income from the respective date of acquisition.

We allocate the purchase price of investments in rental property accounted for as a business combination based on the estimated fair value at the date of the acquisition of the assets acquired and liabilities assumed. These generally include tangible assets, consisting of land and land improvements, buildings and other improvements, and equipment, and identifiable intangible assets and liabilities, including the value of in-place leases and acquired above-market and below-market leases. Acquisition costs incurred in connection with investments in real estate accounted for as business combinations are expensed at the time of acquisition. The results of operations of acquired properties are included in the Consolidated Statements of Income and Comprehensive Income from the respective date of acquisition.

We use multiple sources to estimate fair value, including information obtained about each property as a result of our pre-acquisition due diligence and our marketing and leasing activities. Factors that impact our fair value determination include real estate market conditions, industry conditions that the tenant operates in, and characteristics of the real estate and/or real estate appraisals. Changes in any of these factors could impact the future purchase prices of our investments and the corresponding capitalization rates recognized. We do not believe the assumptions used to fair value the investments upon acquisition have a significant degree of estimation uncertainty.

We determine the fair value of tangible assets of an acquired property by valuing the property as if it were vacant. Management then allocates the as-if-vacant value to land and land improvements, buildings, and equipment based on comparable sales and other relevant information with respect to the property, as estimated by management. Specifically, the “if vacant” value of buildings and equipment is calculated using an income approach. Assumptions used in the income approach to value buildings include: capitalization and discount rates, lease-up time, market rents, make ready costs, land value, and land improvement value.

The estimated fair value of acquired in-place leases equals the costs we would have had to incur to lease the properties to the occupancy level of the properties at the date of acquisition. Such costs include the fair value of leasing commissions and other operating costs that would have been incurred to lease the properties, had they been vacant, to their acquired occupancy level. We amortize acquired in-place leases as of the date of acquisition over the remaining initial non-cancellable terms of the respective leases to amortization expense.

We record acquired above-market and below-market lease values based on the present value (using an interest rate that reflects the risks associated with the lease acquired) of the differences between the contractual amounts to be paid pursuant to the in-place leases and management's estimate of fair market value lease rates at the time of acquisition for the corresponding in-place leases. We amortize the capitalized above-market and below-market lease values as adjustments to rental revenue over the remaining term of the respective leases.

Should a tenant terminate its lease, we charge the unamortized portion of the in-place lease value to amortization expense and we charge the unamortized portion of above-market or below-market lease value to rental income.

Management estimates the fair value of assumed mortgages and notes payable based upon indications of then-current market pricing for similar types of debt with similar maturities. We record assumed mortgages and notes payable at their estimated fair value as of the assumption date, and the difference between the estimated fair value and the notes' outstanding principal balance is amortized to interest expense over the remaining term of the debt.

Long-lived Asset Impairment

We review long-lived assets to be held and used for possible impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If, and when, such events or changes in circumstances are present, an impairment exists to the extent the carrying value of the asset or asset group exceeds the sum of the undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition. Such cash flows include factors such as expected future operating income, as adjusted for trends and prospects, as well as the effects of demand, competition, and other factors. An impairment loss is measured as the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. A significant judgement is made as to if and when impairment should be taken. If our strategy, or one or more of the assumptions described above were to change in the future, an impairment may need to be recognized.

Inputs used in establishing fair value for impaired real estate assets generally fall within Level 3 of the fair value hierarchy, which are characterized as requiring significant judgment as little or no current market activity may be available for validation. The main indicator used to establish the classification of the inputs is current market conditions, as derived through our use of published commercial real estate market information. We determine the valuation of impaired assets using generally accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations, and bona fide purchase offers received from third parties. We may consider a single valuation technique or multiple valuation techniques, as appropriate, when estimating the fair value of real estate.

During the years ended December 31, 2018, 2017, and 2016, we recorded impairment charges of \$2.1 million, \$2.6 million, and zero, respectively, which resulted from non-payment of past due rental amounts, concerns over the respective tenants' future viability, and changes to the overall investment strategy for certain real estate assets. In determining the fair value of the real estate assets at the time of measurement, we utilized capitalization rates ranging from 7.25% to 12.0% and a weighted average discount rate of 8.0%, which are Level 3 inputs. We believe the uncertainty in the future cash flows was reflected in the significant capitalization rate, and the estimates were based on the information available at the time of impairment. One of the properties for which an impairment charge was recorded in 2017, was subsequently sold in 2018. The assumptions we used in determining the amount of the impairment charge on this property were validated upon the subsequent sale, which was at a value consistent with our originally estimated impaired value. We classified the impairment charge within earnings from operations in the Consolidated Statements of Income and Comprehensive Income included in Item 8. "Financial Statements and Supplementary Data" in this Form 10-K.

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, management assesses the terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) ownership transfers to the lessee prior to or shortly after the end of the lease term, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is greater than or equal to 75% of the underlying property's economic life, or (iv) the present value of the future minimum lease payments (excluding executory costs) is greater than or equal to 90% of the fair value of the leased property. If one or more of these criteria are met, and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease. Consistent with ASC 840, *Leases*, if the fair value of the land component is 25% or more of the total fair value of the leased property, the land is considered separately from the building for purposes of applying the lease term and minimum lease payments criterion in (iii) and (iv) above.

Revenue recognition methods for operating leases and direct financing leases are described below:

- Rental property accounted for under operating leases – Revenue is recognized as rents are earned on a straight-line basis over the non-cancelable terms of the related leases. In most cases, revenue recognition under operating leases begins when the lessee takes possession of, or controls, the physical use of the leased asset. Generally, this occurs on the lease commencement date. For leases that have fixed and measurable rent escalations, the difference between such rental income earned and the cash rent due under the provisions of the lease is recorded as accrued rental income.
- Rental property accounted for under direct financing leases – Management utilizes the direct finance method of accounting to record direct finance lease income. For a lease accounted for as a direct finance lease, the net investment in the direct finance lease represents receivables for the sum of future minimum lease payments and the estimated residual value of the leased property, less the unamortized unearned income. Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on our net investment in the leases.

Derivative Instruments and Hedging

Management uses interest rate swap agreements to manage risks related to interest rate movements on our variable-rate debt. The interest rate swap agreements, designated and qualifying as cash flow hedges, are reported at fair value. We adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting and Hedging Activities*, effective January 1, 2018 on a modified retrospective basis. ASU 2017-12 amended the designation and measurement guidance for qualifying hedging transactions and the presentation of hedge results in an entity's financial statements.

Prior to the adoption of ASU 2017-12, the gain or loss on the effective portion of the hedge was initially included as a component of other comprehensive income or loss and was subsequently reclassified into earnings when interest payments on the related debt were incurred and as the swap net settlements occurred. If and when there was ineffectiveness realized on a swap agreement, the Company recognized the ineffectiveness as a component of interest expense in the period incurred.

ASU 2017-12 removed the concept of separately measuring and reporting hedge ineffectiveness and requires a company to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. In accordance with ASU 2017-12, the gain or loss on the qualifying hedges is initially included as a component of other comprehensive income or loss and is subsequently reclassified into earnings when interest payments (the forecasted transactions) on the related debt are incurred and as the swap net settlements occur.

When an existing cash flow hedge is terminated, we determine the accounting treatment for the accumulated gain or loss recognized in accumulated other comprehensive income, based on the probability of the hedged forecasted transaction occurring within the period the cash flow hedge was anticipated to affect earnings. If management determines that the hedged forecasted transaction is probable of occurring during the original period, the accumulated gain or loss is reclassified into earnings over the remaining life of the cash flow hedge using a straight-line method, which approximates an effective interest method. If management determines that the hedged forecasted transaction is not probable of occurring during the original period, the entire amount of accumulated gain or loss is reclassified into earnings in the period the cash flow hedge is terminated.

Management documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. Our interest rate risk management strategy is intended to stabilize cash flow requirements by maintaining interest rate swap agreements to convert certain variable-rate debt to a fixed rate.

Impact of Recent Accounting Pronouncements

For information on the impact of recent accounting pronouncements on our business, see the captions *Recently Adopted Accounting Standards* and *Other Recently Issued Accounting Standards* in Note 2, “Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in Item 8. “Financial Statements and Supplementary Data” of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk arising from changes in interest rates on the floating-rate indebtedness under our unsecured credit facilities and a certain mortgage. Borrowings pursuant to our unsecured credit facilities and floating-rate mortgage bear interest at floating rates based on LIBOR plus the applicable margin. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense which will in turn, increase or decrease our net income and cash flow.

We manage a portion of our interest rate risk by entering into interest rate swap agreements. Our interest rate risk management strategy is intended to stabilize cash flow requirements by maintaining interest rate swap agreements to convert certain variable-rate debt to a fixed rate. As of December 31, 2018, and December 31, 2017, we had 28 and 29 interest rate swap agreements outstanding, respectively, in an aggregate notional amount of \$760.1 million and \$795.2 million, respectively. Under these agreements, we receive monthly payments from the counterparties equal to the related variable interest rates multiplied by the outstanding notional amounts. In turn, we pay the counterparties each month an amount equal to a fixed interest rate multiplied by the related outstanding notional amounts. The intended net impact of these transactions is that we pay a fixed interest rate on our variable-rate borrowings. The interest rate swaps have been designated by us as cash flow hedges for accounting purposes and are reported at fair value. We assess, both at inception and on an ongoing basis, the effectiveness of our qualifying cash flow hedges. We have not entered, and do not intend to enter, into derivative or interest rate transactions for speculative purposes.

The following table summarizes the terms of our interest rate swap agreements as of December 31, 2018.

(in thousands, except interest rates)

Counterparty	Maturity Date	Fixed Rate	Variable Rate Index	Notional Amount	Fair Value
Bank of America, N.A.	November 2023	2.80%	one-month LIBOR	\$ 25,000	\$ (411)
Bank of Montreal	July 2024	1.16%	one-month LIBOR	40,000	2,702
Bank of Montreal	January 2025	1.91%	one-month LIBOR	25,000	769
Bank of Montreal	July 2025	2.32%	one-month LIBOR	25,000	222
Bank of Montreal	January 2026	1.92%	one-month LIBOR	25,000	915
Bank of Montreal	January 2026	2.05%	one-month LIBOR	40,000	1,130
Bank of Montreal	December 2026	2.33%	one-month LIBOR	10,000	132
Bank of Montreal	December 2027	2.37%	one-month LIBOR	25,000	355
Capital One, N.A.	December 2021	1.05%	one-month LIBOR	15,000	605
Capital One, N.A.	December 2024	1.58%	one-month LIBOR	15,000	727
Capital One, N.A.	January 2026	2.08%	one-month LIBOR	35,000	930
Capital One, N.A.	July 2026	1.32%	one-month LIBOR	35,000	2,877
Capital One, N.A.	December 2027	2.37%	one-month LIBOR	25,000	345
Capital One, N.A.	April 2026	2.68%	one-month LIBOR	15,000	(189)
M&T Bank	August 2021	1.02%	one-month LIBOR	5,051	177
M&T Bank	September 2022	2.83%	one-month LIBOR	25,000	(362)
M&T Bank	November 2023	2.65%	one-month LIBOR	25,000	(254)
Regions Bank	May 2020	2.12%	one-month LIBOR	50,000	271
Regions Bank	December 2023	1.18%	one-month LIBOR	25,000	1,484
SunTrust Bank	April 2024	1.99%	one-month LIBOR	25,000	554
SunTrust Bank	April 2025	2.20%	one-month LIBOR	25,000	382
SunTrust Bank	July 2025	1.99%	one-month LIBOR	25,000	728
SunTrust Bank	December 2025	2.30%	one-month LIBOR	25,000	299
SunTrust Bank	January 2026	1.93%	one-month LIBOR	25,000	903
Wells Fargo Bank, N.A.	February 2021	2.39%	one-month LIBOR	35,000	59
Wells Fargo Bank, N.A.	October 2024	2.72%	one-month LIBOR	15,000	(222)
Wells Fargo Bank, N.A.	January 2028	2.37%	one-month LIBOR	75,000	1,067
Wells Fargo Bank, N.A.	April 2027	2.72%	one-month LIBOR	25,000	(382)
				<u>\$ 760,051</u>	<u>\$ 15,813</u>

With the exception of our interest rate swap transactions, we have not engaged in transactions in other derivative financial instruments or derivative commodity instruments.

As of December 31, 2018, our financial instruments were denominated in U.S. dollars, and therefore were not exposed to significant market risk due to foreign currency exchange risk.

Item 8. Financial Statements and Supplementary Data

Contents

Report of Independent Registered Accounting Firm	71
Consolidated Balance Sheets.....	72
Consolidated Statements of Income and Comprehensive Income	73
Consolidated Statements of Stockholders' Equity	74
Consolidated Statements of Cash Flows	75
Notes to Consolidated Financial Statements	76
Schedule III – Real Estate Assets and Accumulated Depreciation	114

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Broadstone Net Lease, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Broadstone Net Lease, Inc. and Subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years ended December 31, 2018 and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Rochester, New York
March 14, 2019

We have served as the Company's auditor since 2016.

Broadstone Net Lease, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except per share amounts)

	December 31,	
	2018	2017
Assets		
Accounted for using the operating method, net of accumulated depreciation	\$ 2,641,746	\$ 2,186,141
Accounted for using the direct financing method	42,000	41,617
Investment in rental property, net	2,683,746	2,227,758
Cash and cash equivalents	18,612	9,355
Restricted cash	377	744
Accrued rental income	69,247	52,018
Tenant and other receivables, net	1,026	897
Tenant and capital reserves	1,136	943
Prepaid expenses and other assets	2,803	267
Notes receivable	—	6,527
Investment in related party	—	10,000
Interest rate swap, assets	17,633	11,008
Intangible lease assets, net	286,258	242,659
Debt issuance costs – unsecured revolver, net	2,261	3,026
Leasing fees, net	13,698	13,554
Total assets	<u>\$ 3,096,797</u>	<u>\$ 2,578,756</u>
Liabilities and equity		
Unsecured revolver	\$ 141,100	\$ 273,000
Mortgages and notes payable, net	78,952	67,832
Unsecured term notes, net	1,225,773	836,912
Interest rate swap, liabilities	1,820	5,020
Accounts payable and other liabilities	22,269	20,345
Due to related parties	114	722
Tenant improvement allowances	2,125	5,669
Accrued interest payable	9,777	3,311
Intangible lease liabilities, net	85,947	81,744
Total liabilities	<u>1,567,877</u>	<u>1,294,555</u>
Commitments and contingencies (See Note 18)		
Equity		
Broadstone Net Lease, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value; 20,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.001 par value; 80,000 shares authorized, 22,014 and 18,909 shares issued and outstanding at December 31, 2018 and 2017, respectively	22	19
Additional paid-in capital	1,557,421	1,301,979
Subscriptions receivable	—	(15)
Cumulative distributions in excess of retained earnings	(155,150)	(120,280)
Accumulated other comprehensive income	14,806	5,122
Total Broadstone Net Lease, Inc. stockholders' equity	1,417,099	1,186,825
Non-controlling interests	111,821	97,376
Total equity	<u>1,528,920</u>	<u>1,284,201</u>
Total liabilities and equity	<u>\$ 3,096,797</u>	<u>\$ 2,578,756</u>

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

Broadstone Net Lease, Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
(in thousands, except per share amounts)

	For the years ended December 31,		
	2018	2017	2016
Revenues			
Rental income from operating leases	\$ 222,208	\$ 170,493	\$ 133,943
Earned income from direct financing leases	3,941	4,141	4,544
Operating expenses reimbursed from tenants	11,221	6,721	4,173
Other income from real estate transactions	109	208	209
Total revenues	<u>237,479</u>	<u>181,563</u>	<u>142,869</u>
Operating expenses			
Depreciation and amortization	83,994	62,263	46,321
Asset management fees	18,173	14,754	10,955
Property management fees	6,529	4,988	3,939
Acquisition expenses	—	—	10,880
Property and operating expense	11,157	6,505	3,900
General and administrative	6,162	4,939	2,790
State and franchise tax	857	624	446
Provision for impairment of investment in rental properties	2,061	2,608	—
Total operating expenses	<u>128,933</u>	<u>96,681</u>	<u>79,231</u>
Other income (expenses)			
Preferred distribution income	440	737	713
Interest income	179	467	88
Interest expense	(52,855)	(34,751)	(29,963)
Cost of debt extinguishment	(101)	(5,151)	(133)
Gain on sale of real estate	10,496	12,992	5,925
Gain on sale of investment in related party	8,500	—	—
Other (losses) gains	(100)	379	—
Net income	<u>75,105</u>	<u>59,555</u>	<u>40,268</u>
Net income attributable to non-controlling interests	(5,730)	(4,756)	(3,914)
Net income attributable to Broadstone Net Lease, Inc.	<u>\$ 69,375</u>	<u>\$ 54,799</u>	<u>\$ 36,354</u>
Weighted average number of common shares outstanding			
Basic	<u>20,242</u>	<u>17,084</u>	<u>13,178</u>
Diluted	<u>21,910</u>	<u>18,567</u>	<u>14,597</u>
Net Earnings per common share			
Basic and diluted	<u>\$ 3.43</u>	<u>\$ 3.21</u>	<u>\$ 2.76</u>
Comprehensive income			
Net income	\$ 75,105	\$ 59,555	\$ 40,268
Other comprehensive income			
Change in fair value of interest rate swaps	10,584	4,166	13,771
Realized gain on interest rate swaps	(84)	(873)	—
Comprehensive income	85,605	62,848	54,039
Comprehensive income attributable to non-controlling interests	(6,546)	(5,019)	(5,253)
Comprehensive income attributable to Broadstone Net Lease, Inc.	<u>\$ 79,059</u>	<u>\$ 57,829</u>	<u>\$ 48,786</u>

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

Broadstone Net Lease, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Subscriptions Receivable	Cumulative Distributions in Excess of Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Non- controlling Interests	Total
Balance, January 1, 2016	11	\$ 738,909	\$ (1,506)	\$ (56,911)	\$ (10,340)	\$ 77,782	\$ 747,945
Net income	—	—	—	36,354	—	3,914	40,268
Issuance of 3,784 shares of common stock	4	284,062	(8,284)	—	—	—	275,782
Other offering costs	—	(1,310)	—	—	—	—	(1,310)
Issuance of 97 membership units	—	—	—	—	—	7,190	7,190
Distributions declared (\$0.405 per share January and February 2016, \$0.410 per share March through December 2016)	—	—	—	(69,403)	—	(7,552)	(76,955)
Change in fair value of interest rate swap agreements	—	—	—	—	12,432	1,339	13,771
Redemption of 109 shares of common stock	—	(8,154)	—	—	—	—	(8,154)
Adjustment of non-controlling interests	—	(4,076)	—	—	—	4,076	—
Balance, December 31, 2016	15	1,009,431	(9,790)	(89,960)	2,092	86,749	998,537
Net income	—	—	—	54,799	—	4,756	59,555
Issuance of 3,833 shares of common stock	4	303,711	9,775	—	—	—	313,490
Other offering costs	—	(1,380)	—	—	—	—	(1,380)
Issuance of 161 membership units	—	—	—	—	—	12,913	12,913
Distributions declared (\$0.410 per share January 2017, \$0.415 per share February through December 2017)	—	—	—	(85,119)	—	(7,649)	(92,768)
Change in fair value of interest rate swap agreements	—	—	—	—	3,834	332	4,166
Realized loss on interest rate swap agreements	—	—	—	—	(804)	(69)	(873)
Conversion of 37 membership units to 37 shares of common stock	—	2,986	—	—	—	(2,986)	—
Redemption of 119 shares of common stock	—	(9,439)	—	—	—	—	(9,439)
Adjustment of non-controlling interests	—	(3,330)	—	—	—	3,330	—
Balance, December 31, 2017	19	1,301,979	(15)	(120,280)	5,122	97,376	1,284,201
Net income	—	—	—	69,375	—	5,730	75,105
Issuance of 3,233 shares of common stock	3	268,478	15	—	—	—	268,496
Other offering costs	—	(1,158)	—	—	—	—	(1,158)
Issuance of 194 membership units	—	—	—	—	—	15,797	15,797
Distributions declared (\$0.415 per share January 2018, \$0.430 per share February through December 2018)	—	—	—	(104,245)	—	(8,724)	(112,969)
Change in fair value of interest rate swap agreements	—	—	—	—	9,762	822	10,584
Realized gain on interest rate swap agreements	—	—	—	—	(78)	(6)	(84)
Conversion of eight membership units to eight shares of common stock	—	684	—	—	—	(684)	—
Redemption of 127 shares of common stock	—	(10,304)	—	—	—	—	(10,304)
Cancellation of nine shares of common stock	—	(748)	—	—	—	—	(748)
Adjustment of non-controlling interests	—	(1,510)	—	—	—	1,510	—
Balance, December 31, 2018	22	\$ 1,557,421	\$ —	\$ (155,150)	\$ 14,806	\$ 111,821	\$ 1,528,920

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

Broadstone Net Lease, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	For the years ended December 31,		
	2018	2017	2016
Operating activities			
Net income	\$ 75,105	\$ 59,555	\$ 40,268
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:			
Depreciation and amortization including intangibles associated with investment in rental property	83,690	62,759	45,839
Provision for impairment of investment in rental properties	2,061	2,608	—
Amortization of debt issuance costs charged to interest expense	1,776	1,893	1,626
Straight-line rent and financing lease adjustments	(19,492)	(17,132)	(13,847)
Cost of debt extinguishment	101	5,151	81
Gain on sale of real estate	(10,496)	(12,992)	(5,925)
Settlement of interest rate swap	760	(1,965)	—
Gain on sale of investment in related party	(8,500)	—	—
Leasing fees paid	(1,399)	(3,339)	(2,932)
Other non-cash items	528	(1,258)	405
Changes in assets and liabilities:			
Tenant and other receivables	(876)	(542)	214
Prepaid expenses and other assets	(936)	(8)	212
Accounts payable and other liabilities	(777)	1,501	1,060
Accrued interest payable	6,466	1,709	188
Net cash provided by operating activities	128,011	97,940	67,189
Investing activities			
Acquisition of rental property accounted for using the operating method, net of mortgages assumed of \$20,845, \$5,205 and \$0 in 2018, 2017 and 2016, respectively	(575,764)	(657,286)	(500,061)
Related party acquisition of rental property accounted for using the operating method, net of mortgage assumed of \$0, \$6,721 and \$0 in 2018, 2017 and 2016, respectively	—	(7,531)	—
Acquisition of rental property accounted for using the direct financing method	(430)	(3,546)	(544)
Capital expenditures and improvements	(4,960)	(6,606)	(1,938)
Issuance of notes receivable	—	—	(2,827)
Proceeds from sale of investment in related party	18,500	—	—
Proceeds from disposition of rental property, net	53,988	63,310	34,890
Increase in tenant and capital reserves	(193)	(176)	(93)
Change in deposits on investments in rental property	(1,600)	—	—
Net cash used in investing activities	(510,459)	(611,835)	(470,573)
Financing activities			
Proceeds from issuance of common stock, net	215,902	272,827	246,453
Redemptions of common stock	(10,204)	(9,439)	(8,154)
Borrowings on mortgages, notes payable and unsecured term notes, net of mortgages assumed of \$20,845, \$11,926 and \$0 in 2018, 2017 and 2016, respectively	415,000	515,000	114,000
Principal payments on mortgages, notes payable and unsecured term notes	(34,722)	(386,080)	(11,387)
Borrowings on unsecured revolver	343,600	494,000	308,500
Repayments on unsecured revolver	(475,500)	(323,000)	(206,500)
Cash distributions paid to stockholders	(51,845)	(44,540)	(35,731)
Cash distributions paid to non-controlling interests	(8,638)	(7,574)	(6,967)
Debt issuance and extinguishment costs paid	(2,255)	(10,303)	(864)
Net cash provided by financing activities	391,338	500,891	399,350
Net increase (decrease) in cash and cash equivalents and restricted cash	8,890	(13,004)	(4,034)
Cash and cash equivalents and restricted cash at beginning of period	10,099	23,103	27,137
Cash and cash equivalents and restricted cash at end of period	\$ 18,989	\$ 10,099	\$ 23,103
Reconciliation of cash and cash equivalents and restricted cash			
Cash and cash equivalents at beginning of period	\$ 9,355	\$ 21,635	\$ 27,050
Restricted cash at beginning of period	744	1,468	87
Cash and cash equivalents and restricted cash at beginning of period	\$ 10,099	\$ 23,103	\$ 27,137
Cash and cash equivalents at end of period	\$ 18,612	\$ 9,355	\$ 21,635
Restricted cash at end of period	377	744	1,468
Cash and cash equivalents and restricted cash at end of period	\$ 18,989	\$ 10,099	\$ 23,103

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

Broadstone Net Lease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (in thousands)
December 31, 2018, 2017, and 2016

1. Business Description

Broadstone Net Lease, Inc. (the “Corporation”) is a Maryland corporation formed on October 18, 2007, that elected to be taxed as a real estate investment trust (“REIT”) commencing with the taxable year ended December 31, 2008. The Corporation focuses on investing in income-producing, net leased commercial properties. The Corporation leases properties to retail, healthcare, industrial, office, and other commercial businesses under long-term lease agreements. At December 31, 2018, the Corporation owned a diversified portfolio of 621 individual net leased commercial properties located in 42 states throughout the continental United States.

Broadstone Net Lease, LLC (the “Operating Company”), is the entity through which the Corporation conducts its business and owns (either directly or through subsidiaries) all of the Corporation’s properties. The Corporation is the sole managing member of the Operating Company. The remaining interests in the Operating Company, which are referred to as non-controlling interests, are held by members who acquired their interest by contributing property to the Operating Company in exchange for membership units of the Operating Company. As the Corporation conducts substantially all of its operations through the Operating Company, it is structured as what is referred to as an Umbrella Partnership Real Estate Investment Trust (“UPREIT”). The following table summarizes the economic ownership interest in the Operating Company at December 31, 2018, 2017, and 2016:

Percentage of shares owned by	December 31,		
	2018	2017	2016
Corporation	92.7%	92.4%	91.4%
Non-controlling interests	7.3%	7.6%	8.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Corporation operates under the direction of its board of directors (the “Board of Directors”), which is responsible for the management and control of the Company’s (as defined below) affairs. The Corporation is externally managed and its Board of Directors has retained the Corporation’s sponsor, Broadstone Real Estate, LLC (the “Manager”) and Broadstone Asset Management, LLC (the “Asset Manager”) to manage the Corporation’s day-to-day affairs, to implement the Corporation’s investment strategy and to provide certain property management services for the Corporation’s properties, subject to the Board of Director’s direction, oversight, and approval. The Asset Manager is a wholly owned subsidiary of the Manager and all of the Corporation’s officers are employees of the Manager. Accordingly, both the Manager and the Asset Manager are related parties of the Company. Refer to Note 3 for further discussion over related parties and related party transactions.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts and operations of the Corporation, the Operating Company, and its consolidated subsidiaries, all of which are wholly owned by the Operating Company (collectively, the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

To the extent the Corporation has a variable interest in entities that are not evaluated under the variable interest entity (“VIE”) model, the Corporation evaluates its interests using the voting interest entity model. The Corporation holds a 92.7% interest in the Operating Company at December 31, 2018 and is the sole managing member of the Operating Company, which gives the Corporation exclusive and complete responsibility for the day-to-day management, authority to make decisions, and control of the Operating Company. Based on consolidation guidance, the Corporation has concluded that the Operating Company is a VIE as the members in the Operating Company do not possess kick-out rights or substantive participating rights. Accordingly, the Corporation consolidates its interest in the Operating Company. However, as the Corporation holds the majority voting interest in the Operating Company, it qualifies for the exemption from providing certain disclosure requirements associated with investments in VIEs.

The portion of the Operating Company not owned by the Corporation is presented as non-controlling interests as of and during the periods presented.

Basis of Accounting

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”).

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include, but are not limited to, the allocation of purchase price between investment in rental property and intangible assets acquired and liabilities assumed, the value of long-lived assets, the provision for impairment, the depreciable lives of rental property, the amortizable lives of intangible assets and liabilities, the allowance for doubtful accounts, the fair value of assumed debt and notes payable, the fair value of the Company’s interest rate swap agreements, and the determination of any uncertain tax positions. Accordingly, actual results may differ from those estimates.

Investment in Rental Property

Rental property accounted for under operating leases is recorded at cost. Rental property accounted for under direct financing leases is recorded at its net investment, which generally represents the cost of the property at the inception of the lease.

The Company early adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), on a prospective basis, effective January 1, 2017. The guidance changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or group of similar identifiable assets, and therefore are accounted for as asset acquisitions instead of business combinations. All of the acquisitions closed subsequent to the adoption of this guidance, and therefore during the years ended December 31, 2018 and 2017, did not meet the definition of a business and accordingly were accounted for as asset acquisitions.

The Company allocates the purchase price of investments in rental property accounted for as an asset acquisition based on the relative fair value of the assets acquired and liabilities assumed. These generally include tangible assets, consisting of land and land improvements, buildings and other improvements, and equipment, and identifiable intangible assets and liabilities, including the value of in-place leases and acquired above-market and below-market leases. Acquisition costs incurred in connection with investments in real estate accounted for as asset acquisitions are capitalized and included with the allocated purchase price. The results of operations of acquired properties are included in the Consolidated Statements of Income and Comprehensive Income from the respective date of acquisition.

The Company allocates the purchase price of investments in rental property accounted for as a business combination based on the estimated fair value at the date of the acquisition of the assets acquired and liabilities assumed. These generally include tangible assets, consisting of land and land improvements, buildings and other improvements, and equipment, and identifiable intangible assets and liabilities, including the value of in-place leases and acquired above-market and below-market leases. Acquisition costs incurred in connection with investments in real estate accounted for as business combinations are expensed at the time of acquisition. The results of operations of acquired properties are included in the Consolidated Statements of Income and Comprehensive Income from the respective date of acquisition.

Estimated fair value determinations are based on management’s judgment, which considers various factors including real estate market conditions, industry conditions that the tenant operates in, and characteristics of the real estate and/or real estate appraisals.

The estimated fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant. The as-if-vacant value is then allocated to land and land improvements, buildings, and equipment based on comparable sales and other relevant information with respect to the property as estimated by management. Specifically, the “if vacant” value of buildings and equipment is calculated using an income approach. Assumptions used in the income approach to value the buildings include: capitalization and discount rates, lease-up time, market rents, make ready costs, land value, and land improvement value.

The estimated fair value of acquired in-place leases are the costs that the Company would have had to incur to lease the properties to the occupancy level of the properties at the date of acquisition. Such costs include the fair value of leasing commissions and other operating costs that would have been incurred to lease the properties, had they been vacant, to their acquired occupancy level. Acquired in-place leases as of the date of acquisition are amortized over the remaining non-cancellable lease terms of the respective leases to amortization expense.

Acquired above-market and below-market lease values are recorded based on the present value (using an interest rate that reflects the risks associated with the lease acquired) of the differences between the contractual amounts to be paid pursuant to the in-place leases and management’s estimate of fair market value lease rates at the time of acquisition for the corresponding in-place leases. The capitalized above-market and below-market lease values are amortized as adjustments to rental income over the remaining term of the respective leases.

Should a tenant terminate its lease, the unamortized portion of the in-place lease value is charged to amortization expense and the unamortized portion of above-market or below-market lease value is charged to rental income.

Management estimates the fair value of assumed mortgages and notes payable based upon indications of then-current market pricing for similar types of debt with similar maturities. Assumed mortgages and notes payable are initially recorded at their estimated fair value as of the assumption date, and the difference between such estimated fair value and the notes’ outstanding principal balance is amortized to interest expense over the remaining term of the debt.

Expenditures for significant betterments and improvements are capitalized. Maintenance and repairs are charged to expense when incurred. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Real estate taxes, interest costs, and leasing and development costs incurred during construction periods are capitalized. Capitalization is based on qualified expenditures and interest rates. Capitalized real estate taxes, interest costs, and leasing and development costs are amortized over lives which are consistent with the related assets. There were no capitalized interest or real estate taxes during the years ended December 31, 2018, 2017, and 2016.

Long-lived Asset Impairment

The Company reviews long-lived assets to be held and used for possible impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If, and when, such events or changes in circumstances are present, an impairment exists to the extent the carrying value of the asset or asset group exceeds the sum of the undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition. Such cash flows include expected future operating income, as adjusted for trends and prospects, as well as the effects of demand, competition, and other factors. An impairment loss is measured as the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. A significant judgment is made as to if and when impairment should be taken. If our strategy, or one or more of the assumptions described above were to change in the future, an impairment may need to be recognized.

Inputs used in establishing fair value for real estate assets generally fall within Level 3 of the fair value hierarchy, which are characterized as requiring significant judgment as little or no current market activity may be available for validation. The main indicator used to establish the classification of the inputs is current market conditions, as derived through the use of published commercial real estate market information. The Company determines the valuation of impaired assets using generally accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations and bona fide purchase offers received from third parties. Management may consider a single valuation technique or multiple valuation techniques, as appropriate, when estimating the fair value of its real estate.

For the years ended December 31, 2018, 2017, and 2016, the Company recorded impairment charges of \$2,061, \$2,608, and \$0, respectively, which resulted from non-payment of rental amounts, concerns over the respective tenant's future viability, and changes to the overall investment strategy for certain real estate assets. The amount of the impairment charge was based on management's consideration of the factors detailed above. In determining the fair value of the impaired assets at September 30, 2018, the time of measurement, the Company utilized capitalization rates ranging from 7.50% to 10.00%, and a weighted average discount rate of 8.00%. In determining the fair value of the impaired assets at September 30, 2017, the time of measurement, the Company utilized capitalization rates ranging from 7.25% to 12.00%, and a weighted average discount rate of 8.00%.

The Company has reduced the carrying values of the impaired real estate assets to their estimated fair values at the measurement dates as detailed below:

	September 30, 2018			September 30, 2017		
	Carrying Amount	Allocation of Impairment	Net Carrying Amount	Carrying Amount	Allocation of Impairment	Net Carrying Amount
(in thousands)						
Investments in rental property accounted for using the operating method, net of accumulated depreciation	\$ 12,834	\$ (1,702)	\$ 11,132	\$ 16,159	\$ (2,401)	\$ 13,758
Intangible lease assets, net	2,305	(384)	1,921	1,263	(204)	1,059
Leasing fees, net	131	(19)	112	123	(16)	107
Intangible lease liabilities, net	(989)	44	(945)	(101)	13	(88)
	<u>\$ 14,281</u>	<u>\$ (2,061)</u>	<u>\$ 12,220</u>	<u>\$ 17,444</u>	<u>\$ (2,608)</u>	<u>\$ 14,836</u>

Investments in Rental Property Held for Sale

The Company classifies investments in rental property as held for sale when all of the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of investment properties, (iii) an active program to locate a buyer and conduct other actions required to complete the sale has been initiated, (iv) the sale of the property is probable in occurrence and is expected to qualify as a completed sale, (v) the property is actively marketed for sale at a sale price that is reasonable in relation to its fair value, and (vi) actions required to complete the sale indicate that it is unlikely that any significant changes will be made or that the plan to sell will be withdrawn.

For properties classified as held for sale, the Company suspends depreciation and amortization of the related assets, including the acquired in-place lease and above- or below-market lease intangibles, as well as straight-line revenue recognition of the associated lease, and records the investment in rental property at the lower of cost or net realizable value. The assets and liabilities associated with the properties classified as held for sale are presented separately on the Consolidated Balance Sheets for the most recent reporting period. At December 31, 2018 and 2017, the Company did not have any properties that met the held for sale criteria, and therefore, were not classified as held for sale.

Sales of Real Estate

As described further in *Recently Adopted Accounting Standards* elsewhere in Note 2, the Company adopted ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*, effective January 1, 2018 on a prospective basis. Under ASU 2017-05, the Company's sales of real estate are generally considered to be sales to non-customers, requiring the Company to identify each distinct non-financial asset promised to the buyer. The Company determines whether the buyer obtains control of the non-financial assets, achieved through the transfer of the risks and rewards of ownership of the non-financial assets. If control is transferred to the buyer, the Company derecognizes the asset.

If the Company determines that it did not transfer control of the non-financial assets to the buyer, the Company analyzes the contract for separate performance obligations and allocates a portion of the sales price to each performance obligation. As performance obligations are satisfied, the Company recognizes the respective income in the Consolidated Statements of Income and Comprehensive Income.

Prior to the adoption of ASU 2017-05, the Company recognized real estate sales when all of the following criteria were met: (i) a sale was consummated, (ii) the buyer had demonstrated an adequate commitment to pay for the property, (iii) the Company's receivable was not subject to future subordination, and (iv) the Company had transferred the risks and rewards of ownership to the buyer and did not have continuing involvement. Unless all conditions were met, recognition of all or a portion of the profit was deferred.

The Company presents discontinued operations if disposals of properties represent a strategic shift in operations. Those strategic shifts would need to have a major effect on the Company's operations and financial results in order to meet the definition. For the years ended December 31, 2018, 2017, and 2016, the Company did not have property dispositions that qualified as discontinued operations.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

Land improvements	15 years
Buildings and other improvements	15 to 39 years
Equipment	7 years

Rental Expense

Rental expense associated with land that the Company leases under non-cancellable operating leases, is recorded on a straight-line basis over the term of each lease, for leases that have fixed and measurable rent escalations. The difference between rental expense incurred on a straight-line basis and cash rental payments due under provisions of the lease is recorded as a deferred liability and is included as a component of Accounts payable and other liabilities in the accompanying Consolidated Balance Sheets.

Investment in Related Party

Investment in related party relates to a non-voting, preferred unit investment in the Manager. Income on the Company's investment is recognized based on the stated preferred rate of return. Such amounts are included as Preferred distribution income in the Consolidated Statements of Income and Comprehensive Income.

Cash Equivalents

Cash equivalents consist of highly liquid investments with an original maturity at date of acquisition of three months or less, including money market funds. The Company estimates that the fair value of cash equivalents approximates the carrying value due to the relatively short maturity of these instruments.

Restricted Cash

Restricted cash includes escrow funds the Company maintains pursuant to the terms of certain mortgages, notes payable, and lease agreements, and undistributed proceeds from the sale of properties under Section 1031 of the Internal Revenue Code.

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, the Company assesses the terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) ownership transfers to the lessee prior to or shortly after the end of the lease term, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is greater than or equal to 75% of the underlying property's estimated useful life, or (iv) the present value of the future minimum lease payments (excluding executory costs) is greater than or equal to 90% of the fair value of the leased property. If one or more of these criteria are met, and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease. Consistent with FASB

Accounting Standards Codification (“ASC”) 840, *Leases*, if the fair value of the land component is 25% or more of the total fair value of the leased property, the land is considered separately from the building for purposes of applying the lease term and minimum lease payments criterion in (iii) and (iv) above.

Revenue recognition methods for operating leases and direct financing leases are described below:

Rental property accounted for under operating leases – Revenue is recognized as rents are earned on a straight-line basis over the non-cancelable terms of the related leases. In most cases, revenue recognition under operating leases begins when the lessee takes possession of, or controls, the physical use of the leased asset. Generally, this occurs on the lease commencement date. For leases that have fixed and measurable rent escalations, the difference between such rental income earned and the cash rent due under the provisions of the lease is recorded as Accrued rental income on the Consolidated Balance Sheets.

Rental property accounted for under direct financing leases – The Company utilizes the direct finance method of accounting to record direct financing lease income. For a lease accounted for as a direct financing lease, the net investment in the direct financing lease represents receivables for the sum of future minimum lease payments and the estimated residual value of the leased property, less the unamortized unearned income. Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on the Company’s net investment in the leases.

Adoption of ASU 2014-09, described further in *Recently Adopted Accounting Standards* elsewhere in Note 2, did not have an impact on the nature, amount or timing of revenue recognized for operating leases and direct financing leases as revenue from these sources is derived from lease contracts and therefore falls outside the scope of this guidance.

Rent Received in Advance

Rent received in advance represents tenant payments received prior to the contractual due date and are included in Accounts payable and other liabilities on the Consolidated Balance Sheets. Rents received in advance at December 31, 2018 and 2017 are as follows:

(in thousands)	December 31,	
	2018	2017
Rents received in advance	\$ 7,832	\$ 8,585

Allowance for Doubtful Accounts

Management periodically reviews the sufficiency of the allowance for doubtful accounts, taking into consideration its historical losses and existing economic conditions, and adjusts the allowance as it considers necessary. Uncollected tenant receivables are written off against the allowance when all possible means of collection have been exhausted.

The following table summarizes the changes in the allowance for doubtful accounts for the years ended December 31, 2018, 2017, and 2016:

(in thousands)	For the years ended December 31,		
	2018	2017	2016
Balance as of January 1	\$ 742	\$ 323	\$ 262
Provision for doubtful accounts	1,521	419	67
Write-offs	(177)	—	(6)
Balance as of December 31	<u>\$ 2,086</u>	<u>\$ 742</u>	<u>\$ 323</u>

Notes Receivable

Balances in notes receivable represent interest-only loans to third parties secured by the real estate assets of the obligors. The Manager performs property management functions for each of the loan holders. Management evaluates the creditworthiness of each borrower prior to entering into the loan agreements. Further, management periodically reviews the notes receivable for collectability based on historical experience, continued review of the

obligor's creditworthiness, and other relevant factors. Interest income on notes receivable is recognized as it is earned in accordance with the applicable loan agreement and is included as a component of Other income (expenses) in the Consolidated Statements of Income and Comprehensive Income.

Tenant and Capital Reserves

The terms of one of the Company's operating leases requires the establishment of tenant and capital reserves. Under the tenant reserve requirement, amounts are deposited into an escrow account, to be used to fund certain costs to maintain the rental property. Under the capital reserve lease requirement, the tenant is required to pay additional amounts to fund capital improvements, replacements, and repairs made to the property. The Company has no obligation to fund capital improvements beyond these reserve balances.

The balances of the tenant and capital reserves at December 31, 2018 and 2017 are as follows:

(in thousands)	December 31,	
	2018	2017
Tenant reserve	\$ 774	\$ 627
Capital reserve	362	316
	<u>\$ 1,136</u>	<u>\$ 943</u>

Debt Issuance Costs

Debt issuance costs – Unsecured revolver – Debt issuance costs incurred in connection with the Company's unsecured revolver have been deferred and are being amortized over the term of the loan commitment using the straight-line method, which approximates the effective interest method. In accordance with ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements*, the Company has recorded debt issuance costs associated with the unsecured revolver as an asset on the Consolidated Balance Sheets.

Debt issuance costs – Mortgages and notes payable – Debt issuance costs incurred in connection with the Company's mortgages and notes payable have been deferred and are being amortized over the term of the respective loan term using the straight-line method, which approximates the effective interest method, and are recorded in Mortgages and notes payable, net on the Consolidated Balance Sheets.

Debt issuance costs – Unsecured term notes and senior notes – Debt issuance costs incurred in connection with the Company's unsecured term notes and senior notes have been deferred and are being amortized over the term of the respective loan term using the straight-line method, which approximates the effective interest method, and are recorded in Unsecured term notes, net on the Consolidated Balance Sheets.

In accordance with ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, the Company presents debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of the liability, consistent with debt discounts, in the Consolidated Balance Sheets.

The following table summarizes debt issuance costs on the Consolidated Balance Sheets at December 31, 2018 and 2017:

(in thousands)	December 31,	
	2018	2017
Unsecured Revolver:		
Debt issuance costs	\$ 3,431	\$ 3,431
Less accumulated amortization	(1,170)	(405)
	<u>\$ 2,261</u>	<u>\$ 3,026</u>
Mortgages and notes payable:		
Debt issuance costs	\$ 834	\$ 1,040
Less accumulated amortization	(335)	(402)
	<u>\$ 499</u>	<u>\$ 638</u>
Unsecured term notes and senior notes:		
Debt issuance costs	\$ 6,997	\$ 4,788
Less accumulated amortization	(2,770)	(1,700)
	<u>\$ 4,227</u>	<u>\$ 3,088</u>

Leasing Fees

Leasing fees represent costs incurred to lease properties to tenants and are being amortized using the straight-line method over the term of the lease to which they relate, which range from 9 to 29 years.

Derivative Instruments

The Company uses interest rate swap agreements to manage risks related to interest rate movements. The interest rate swap agreements, designated and qualifying as cash flow hedges, are reported at fair value. As discussed in *Recently Adopted Financial Standards* elsewhere in Note 2, the Company early adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting and Hedging Activities*, effective January 1, 2018 on a modified retrospective basis. ASU 2017-12 amended the designation and measurement guidance for qualifying hedging transactions and the presentation of hedge results in an entity's financial statements.

Prior to the adoption of ASU 2017-12, the gain or loss on the effective portion of the hedge was initially included as a component of other comprehensive income or loss and was subsequently reclassified into earnings when interest payments on the related debt were incurred and as the swap net settlements occurred. If and when there was ineffectiveness realized on a swap agreement, the Company recognized the ineffectiveness as a component of interest expense in the period incurred.

ASU 2017-12 removed the concept of separately measuring and reporting hedge ineffectiveness and requires a company to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. In accordance with ASU 2017-12, the gain or loss on the qualifying hedges is initially included as a component of other comprehensive income or loss and is subsequently reclassified into earnings when interest payments (the forecasted transactions) on the related debt are incurred and as the swap net settlements occur.

When an existing cash flow hedge is terminated, the Company determines the accounting treatment for the accumulated gain or loss recognized in Accumulated other comprehensive income based on the probability of the hedged forecasted transaction occurring within the period the cash flow hedge was anticipated to affect earnings. If the Company determines that the hedged forecasted transaction is probable of occurring during the original period, the accumulated gain or loss is reclassified into earnings over the remaining life of the cash flow hedge using a straight-line method, which approximates an effective interest method. If the Company determines that the hedged forecasted transaction is not probable of occurring during the original period, the entire amount of accumulated gain or loss is reclassified into earnings in the period the cash flow hedge is terminated.

The Company documents its risk management strategy and hedge effectiveness at the inception of, and during the term of, each hedge. The Company's interest rate risk management strategy is intended to stabilize cash flow requirements by maintaining interest rate swap agreements to convert certain variable-rate debt to a fixed rate.

Property Loss and Insurance Recoveries

Property losses, whether full or partial, are accounted for using a combination of impairment, insurance, and revenue recognition guidance prescribed by GAAP. Upon incurring a loss event, the Company evaluates for asset impairment under ASC 350, *Intangibles – Goodwill and Other*, and ASC 360, *Property, Plant, and Equipment*. Under the terms of the Company's lease agreements with tenants, a majority of which are triple-net whereby the tenants are responsible for insurance, taxes, and maintenance, among other property costs, the tenants are responsible for repairs and maintenance to the properties. The terms of the leases also require the tenants to continue making their monthly rental payments despite the property loss. To the extent that the assets are recoverable, determined utilizing undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition, the Company accounts for a full or partial property loss as an acceleration of depreciation and evaluates whether all or a portion of the property loss can be offset by the recognition of insurance recoveries.

Under the terms of the lease agreements with tenants, in the case of full or partial loss to a property, the tenant has an obligation to restore/rebuild the premises as nearly as possible to its value, condition and character immediately prior to such event. To mitigate the risk of loss, the Company requires tenants to maintain general liability insurance policies on the replacement value of the properties. Based on these considerations, the Company follows the guidance in ASC 605-40, *Classification of Insurance Recoveries*, for the conversion of nonmonetary assets (*i.e.*, the properties) to monetary assets (*i.e.*, insurance recoveries or tenant recoveries). Under ASC 605-40, once probable of receipt, the Company recognizes an insurance/tenant recovery receivable in Tenant and other receivables, net, in the Consolidated Balance Sheets, with a corresponding offset to the accelerated depreciation recognized in the Consolidated Statements of Income and Comprehensive Income. If the insurance/tenant recovery is less than the amount of accelerated depreciation recognized, the Company will recognize a net loss in the Consolidated Statements of Income and Comprehensive Income. If the insurance/tenant recovery is greater than the amount of accelerated depreciation recognized, the Company will only recognize a recovery up to the amount of the accelerated depreciation, and will account for the excess as a gain contingency in accordance with ASC 450-30, *Gain Contingencies*. Gain contingencies are recognized when earned and realized, which typically will occur at the time of final settlement or when non-refundable cash advances are received.

Non-controlling Interests

Non-controlling interests represents the membership interests held in the Operating Company of 7.3%, 7.6%, and 8.6% at December 31, 2018, 2017, and 2016, respectively, by third parties which are accounted for as a separate component of equity.

The Company periodically adjusts the carrying value of non-controlling interests to reflect their share of the book value of the Operating Company. Such adjustments are recorded to Additional paid-in capital as a reallocation of Non-controlling interests in the Consolidated Statements of Stockholders' Equity.

Subscriptions Receivable

The subscriptions receivable is related to shares issued to the Corporation's stockholders for which the proceeds have not yet been received solely due to the fact of timing of transfers from the escrow agent holding the funds. The receivables have been fully collected during the following month after the balance sheet date of the Consolidated Financial Statements. In accordance with the Securities and Exchange Commission ("SEC") Rule 5-02.30 of Regulation S-X, the Company records its subscriptions receivable as a deduction from Stockholder's equity in the accompanying Consolidated Balance Sheets.

Segment Reporting

The Company currently operates in a single reportable segment, which includes the acquisition, leasing, and ownership of net leased properties. The Company's chief operating decision maker assesses, measures, and reviews the operating and financial results at the consolidated level for the entire portfolio, and therefore, each property or property type is not considered an individual operating segment. The Company does not evaluate the results of operations based on geography, size, or property type.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices that are available in active markets for identical assets or liabilities. The types of financial instruments included in Level 1 are marketable, available-for-sale equity securities that are traded in an active exchange market.

Level 2 – Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Instruments included in this category are derivative contracts whose value is determined using a pricing model with inputs (such as yield curves and credit spreads) that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 includes assets and liabilities whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The balances of financial instruments measured at fair value on a recurring basis at December 31, 2018 and 2017 are as follows (see Note 11):

		December 31, 2018			
		Total	Level 1	Level 2	Level 3
(in thousands)					
Interest rate swap, assets	\$	17,633	\$ —	\$ 17,633	\$ —
Interest rate swap, liabilities		(1,820)	—	(1,820)	—
	\$	<u>15,813</u>	<u>\$ —</u>	<u>\$ 15,813</u>	<u>\$ —</u>
		December 31, 2017			
		Total	Level 1	Level 2	Level 3
Interest rate swap, assets	\$	11,008	\$ —	\$ 11,008	\$ —
Interest rate swap, liabilities		(5,020)	—	(5,020)	—
	\$	<u>5,988</u>	<u>\$ —</u>	<u>\$ 5,988</u>	<u>\$ —</u>

Interest rate swaps are derivative instruments that have no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using an income approach. Specifically, the fair value of the interest rate swaps is determined using a discounted cash flow analysis on the expected future cash flows of each instrument. This analysis utilizes observable market data including yield curves and implied volatilities to determine the market's expectation of the future cash flows of the variable component. The fixed and variable components of the interest rate swaps are then discounted using calculated discount factors developed based on the overnight indexed swap ("OIS") curve and are aggregated to arrive at a single valuation for the period. The Company also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company has determined that the majority of the inputs used to value its interest rate swaps fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its interest rate swaps utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. At December 31, 2018 and 2017, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation. As a result, the Company has determined that its interest rate swap valuations in their entirety are appropriately classified within Level 2 of the fair value hierarchy.

The Company has estimated that the carrying amount reported on the Consolidated Balance Sheets for Cash and cash equivalents, Restricted cash, Tenant and other receivables, net, Notes receivable, and Accounts payable and other liabilities approximates their fair values due to their short-term nature.

The fair value of the Company's debt was estimated using Level 2 and Level 3 inputs based on recent financing transactions, estimates of the fair value of the property that serves as collateral for such debt, historical risk premiums for loans of comparable quality, current London Interbank Offered Rate ("LIBOR"), U.S. treasury obligation interest rates, and on the discounted estimated future cash payments to be made on such debt. The discount rates estimated reflect the Company's judgment as to the approximate current lending rates for loans or groups of loans with similar maturities and assumes that the debt is outstanding through maturity. Market information, as available, or present value techniques were utilized to estimate the amounts required to be disclosed. Since such amounts are estimates that are based on limited available market information for similar transactions and do not acknowledge transfer or other repayment restrictions that may exist on specific loans, it is unlikely that the estimated fair value of any such debt could be realized by immediate settlement of the obligation.

The following table summarizes the carrying amount reported on the Consolidated Balance Sheets and the Company's estimate of the fair value of the Mortgages and notes payable, net, Unsecured term notes, net, and Unsecured revolver at December 31, 2018 and 2017:

(in thousands)	December 31,	
	2018	2017
Carrying amount	\$ 1,450,551	\$ 1,181,470
Fair value	1,439,264	1,177,197

As disclosed under the *Long-lived Asset Impairment* section elsewhere in Note 2, the Company's non-recurring fair value measurements at December 31, 2018 and 2017, consisted of the fair value of impaired real estate assets that were determined using Level 3 inputs.

Income Taxes

The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, (as amended, the "Code"), commencing with its taxable year ended December 31, 2008. The Company believes it is organized and operates in such a manner as to qualify for treatment as a REIT and intends to operate in the foreseeable future in such a manner so that it will remain qualified as a REIT for federal income tax purposes. Accordingly, the Company is not subject to federal corporate income tax to the extent its dividends paid equals or exceeds its adjusted taxable income, as defined in the Code.

The Company is subject to state and local income or franchise taxes in certain states in which some of its properties are located and records these taxes as state and franchise tax expense in the accompanying Consolidated Statements of Income and Comprehensive Income when due.

The Company is required to file income tax returns with federal and various state taxing authorities. At December 31, 2018, the Company's federal and state income tax returns remain subject to examination by the respective taxing authorities for the 2015 through 2017 tax years.

The Company recognizes and measures uncertain tax positions using a two-step approach. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. In making this assessment, the Company must assume that the taxing authority will examine the income tax position and have full knowledge of all relevant information. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may or may not accurately forecast actual outcomes.

The Company has determined that it has no uncertain tax positions at December 31, 2018 and 2017, or for the years ended December 31, 2018, 2017, and 2016, which include the tax status of the Company.

Interest and penalties related to income taxes are charged to tax expense during the year in which they are incurred.

Taxes Collected From Tenants and Remitted to Governmental Authorities

A majority of the Company's properties are leased on a triple-net basis, which provides that the tenants are responsible for the payment of all property operating expenses, including, but not limited to, property taxes, maintenance, insurance, repairs, and capital costs, during the lease term. The Company records such expenses on a net basis.

The following table summarizes the approximate property tax payments made directly to the taxing authorities by the Company's tenants, pursuant to their lease obligations, for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands)</i>	For the years ended December 31,		
	2018	2017	2016
Property taxes paid by tenants directly to taxing authority	\$ 23,800	\$ 19,700	\$ 16,200

In other situations, the Company may collect property taxes from its tenants and remit those taxes to governmental authorities. Taxes collected from tenants and remitted to governmental authorities are presented on a gross basis, where revenue is included in Operating expenses reimbursed from tenants and expense is included in Property and operating expense in the accompanying Consolidated Statements of Income and Comprehensive Income.

The following table summarizes taxes collected from tenants and remitted to governmental authorities for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands)</i>	For the years ended December 31,		
	2018	2017	2016
Property taxes collected from tenants	\$ 5,572	\$ 2,877	\$ 2,004
Property taxes remitted on behalf of tenants	5,547	2,899	1,933

Recently Adopted Accounting Standards

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 amends the designation and measurement guidance for qualifying hedging transactions and the presentation of hedge results in an entity's financial statements. The new guidance removes the concept of separately measuring and reporting hedge ineffectiveness and requires a company to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. Disclosure requirements have been modified to include a tabular disclosure related to the effect of hedging instruments on the income statement and eliminate the requirement to disclose the ineffective portion of the change in fair value of such instruments. The new guidance is effective January 1, 2019, with early adoption permitted, and provides companies with a modified retrospective transition method for each cash flow and net investment hedge relationship existing on the date of adoption. This adoption method requires a company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. The Company early adopted the guidance effective January 1, 2018. The Company did not recognize a cumulative effect adjustment upon adoption as the Company had not recognized ineffectiveness on any of the hedging instruments existing as of the date of adoption.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. Therefore, amounts generally described as restricted cash and equivalents should be included with cash and cash equivalents when reconciling the beginning and end of period total amounts on the statement of cash flows. Previously, there had been no specific guidance to address how to classify or present these changes. ASU 2016-18 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-18 as of January 1, 2018. In line with the retrospective adoption of this standard, the Company removed the change in restricted cash of \$724 and \$(1,381) from Cash flows used in investing activities for the years ended December 31, 2017 and 2016, respectively. See *Reclassifications* elsewhere in Note 2.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides classification guidance for eight specific topics, including but not limited to, debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investees. ASU 2016-15 became effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-15 as of January 1, 2018. The classification of debt extinguishment costs in the Consolidated Statements of Cash Flows addressed by ASU 2016-15 is applicable to the Company. However, adoption of this guidance did not have an impact on the Company's Consolidated Statements of Cash Flows, as the Company historically classified these cash flows as required by the guidance.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, including all updates, is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASU 2014-09 as of January 1, 2018, on a modified retrospective basis. The adoption had no effect on the Company's Consolidated Financial Statements as the Company's revenues are lease related, which are not subject to provisions of ASU 2014-09.

In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*. This new guidance was required to be adopted concurrently with the amendments in ASU 2014-09. The new pronouncement adds guidance for partial sales of nonfinancial assets, including real estate. In adopting ASU 2017-05, companies may use either a full retrospective or a modified retrospective approach. The Company previously recognized revenue on sales of real estate at the time the asset was transferred (*i.e.*, at the time of closing). Upon adoption of ASU 2014-09, as discussed above, and therefore ASU 2017-05, the Company now evaluates any separate contract or performance obligation to determine proper timing of revenue recognition, as well as sales price allocation when a performance obligation is identified. Adoption of this pronouncement had no effect on the Company's Consolidated Financial Statements during the year ended December 31, 2018 or in any periods.

Other Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the existing guidance for lease accounting, *Leases (Topic 840)*. ASU 2016-02, and related ASUs subsequently issued, are effective January 1, 2019, with early adoption permitted. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability, initially measured at the present value of lease payments, for both operating and financing leases. Under the new pronouncement, lessor accounting is largely unchanged from existing GAAP, however disclosures will be expanded. The new standard provides a number of practical expedients, one of which, ‘the Package of Three’, allows an entity to not reassess (i) whether any expired or existing contracts are, or contain, leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for existing leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) Targeted Improvements* which provides an optional transition method where an entity can initially apply the guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. An entity’s reporting for the comparative periods presented will continue to be in accordance with current GAAP (ASC 840), including the required disclosures. The new guidance also allows lessors to make an accounting policy election, by class of underlying asset, to not separate non-lease components from the associated lease component and to account for those components as a single component if certain conditions are met. The guidance requires all income from leases to be presented as a single line item, rather than the current presentation where rental income from leases is shown separately from reimbursements from tenants on the Consolidated Statements of Income and Comprehensive Income. In addition, bad debt expense is required to be presented as an adjustment to revenue, rather than the current presentation within Operating expenses on the Consolidated Statements of Income and Comprehensive Income.

The Company is primarily a lessor and therefore adoption of ASU 2016-02 will not have a material impact on the Consolidated Financial Statements. The Company has completed its inventory of leases and has identified changes needed to its processes and systems impacted by the new standard and will adopt the guidance using the transition method provided in ASU 2018-11 on January 1, 2019. The Company does not anticipate a material cumulative-effect adjustment to the opening balance of retained earnings. The Company will elect the practical expedient to not separate non-lease components and, based on the assessment of the current leases in the portfolio, the components will be combined and accounted for in accordance with ASC 842. The Company will elect the Package of Three practical expedient and expects to present revenue related to leases as a single line item, net of bad debt expense, on the Consolidated Statements of Income and Comprehensive Income beginning January 1, 2019. Upon adoption, the Company expects to recognize a right-of-use asset and corresponding lease liability of approximately \$1,700 and \$1,300, respectively, for operating leases where it is the lessee (see Note 18). The right-of-use asset will be presented net of the existing straight-line rent liability of \$7 and the ground lease intangible asset of \$432.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* which changes how entities measure credit losses for most financial assets. Financial assets that are measured at amortized cost will be required to be presented at the net amount expected to be collected with an allowance for credit losses deducted from the amortized cost basis. The guidance requires an entity to utilize broader information in estimating the expected credit loss, including forecasted information. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* which clarified that operating lease receivables recorded by lessors are explicitly excluded from the scope of this guidance. ASU 2016-13 is effective January 1, 2020, with early adoption permitted beginning on January 1, 2019, under a modified retrospective application. The Company continues to evaluate the impact this new standard will have on its Consolidated Financial Statements, but does not expect such impact to be material based upon the composition of its current lease portfolio.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments under ASU 2018-13 remove, add, and modify certain disclosure requirements on fair value measurements in ASC 820. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact the new standard will have on its Consolidated Financial Statements and expects to adopt the new disclosures on a prospective basis on January 1, 2020.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. Currently under Topic 815, the eligible benchmark interest rates in the United States are the interest rates on direct Treasury obligations of the U.S. government (UST), the LIBOR swap rate, the OIS Rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate, which was introduced in ASU 2017-12. The amendments in ASU 2018-16 permit the use of the OIS rate based on SOFR as a benchmark interest rate for hedge accounting purposes under Topic 815. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years for public business entities that have already adopted the amendments in ASU 2017-12 (see *Recently Adopted Accounting Standards* elsewhere in Note 2). The Company will adopt the guidance effective January 1, 2019 on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Company does not anticipate the adoption of this guidance to have an impact on the Consolidated Financial Statements.

Reclassifications

As described below, certain prior period amounts have been reclassified to conform with the current period's presentation.

In connection with the adoption of ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, discussed in *Recently Adopted Accounting Standards* elsewhere in Note 2, certain reclassifications have been made to prior-period balances to conform to current presentation in the Consolidated Statements of Cash Flows. Under ASU 2016-18, changes in restricted cash which were previously shown in Cash flows used in investing activities in the Consolidated Statements of Cash Flows are now reflected as part of the total change in cash, cash equivalents and restricted cash in the Consolidated Statements of Cash Flows.

3. Related-Party Transactions

Property Management Agreement

The Corporation and the Operating Company are a party to a property management agreement (as amended, the "Property Management Agreement") with the Manager, a related party in which certain directors of the Corporation have either a direct or indirect ownership interest. Under the terms of the Property Management Agreement, the Manager manages and coordinates certain aspects of the leasing of the Corporation's rental property.

Effective January 1, 2018, the Property Management Agreement was amended to, among other things, extend the recurring term of the agreement from one year to three years, clarify termination provisions, include a Termination Event concept and a Key Person Event concept, each as defined in the Property Management Agreement, and remove fee provisions relating to short-term financing or guarantees provided by the Manager to the Operating Company.

In exchange for services provided under the Property Management Agreement, the Manager receives certain fees and other compensation as follows:

- (i) 3% of gross rentals collected each month from the rental property for property management services (other than one property, which has a separate agreement for 5% of gross rentals); and
- (ii) Re-leasing fees for existing rental property equal to one month's rent for a new lease with an existing tenant and two months' rent for a new lease with a new tenant.

In addition, prior to January 1, 2018, the Manager was able to provide, but was not obligated to provide, short-term financing to, or guarantees for, the Operating Company. In exchange for these services, the Manager was entitled to receive an interest rate of up to the prime rate plus 1.00% in exchange for any advances to the Operating Company, and 0.05% for guaranteeing recourse carve-outs on financing arrangements. No such advances or guarantees were made during the years ended December 31, 2017 and 2016.

The Property Management Agreement will automatically renew on January 1, 2019 for three years ending December 31, 2021, subject to earlier termination pursuant to the terms of the Property Management Agreement. The Property Management Agreement provides for termination (i) immediately by the Corporation's Independent Directors Committee ("IDC") for Cause, as defined in the Property Management Agreement, (ii) by the IDC, upon 30 days' written notice to the Manager, in connection with a change in control of the Manager, as defined in the Property Management Agreement, (iii) by the IDC, by providing the Manager with written notice of termination not less than one year prior to the last calendar day of any renewal term, (iv) by the Manager upon written notice to the Company not less than one year prior to the last calendar day of any renewal period, (v) automatically in the event of a Termination Event, and (vi) by the IDC upon a Key Person Event.

If the Corporation terminates the agreement prior to any renewal term or in any manner described above, other than termination by the Corporation for Cause, the Corporation will be subject to a termination fee equal to three times the Management Fees, as defined in the Property Management Agreement, to which the Manager was entitled during the 12-month period immediately preceding the date of such termination. Although not terminable at December 31, 2018, if the Property Management Agreement had been terminated at December 31, 2018, subject to the conditions noted above, the termination fee would have been \$19,588.

Asset Management Agreement

The Corporation and the Operating Company are party to an asset management agreement (as amended the "Asset Management Agreement") with the Asset Manager, a single member limited liability company with the Manager as the single member, and therefore a related party in which certain directors of the Corporation have an indirect ownership interest. Under the terms of the Asset Management Agreement, the Asset Manager is responsible for, among other things, the Corporation's acquisition, initial leasing, and disposition strategies, financing activities, and providing support to the Corporation's IDC for its valuation functions and other duties. The Asset Manager also nominates two individuals to serve on the Board of Directors of the Corporation.

Effective January 1, 2018, the Asset Management Agreement was amended to, among other things, extend the recurring term of the agreement from one year to three years, provide for additional disposition fee provisions, and include a Disposition Event concept and Key Person Event concept, each as defined in the amended Asset Management Agreement. The Asset Management Agreement defines a Disposition Event in the same manner as a Termination Event is defined in the Property Management Agreement discussed above.

Under the terms of the Asset Management Agreement, the Asset Manager is compensated as follows:

- (i) a quarterly asset management fee equal to 0.25% of the aggregate value of common stock, based on the per share value as determined by the IDC each quarter, on a fully diluted basis as if all interests in the Operating Company had been converted into shares of the Corporation's common stock;
- (ii) 0.5% of the proceeds from future equity closings as reimbursement for offering, marketing, and brokerage expenses;
- (iii) 1% of the gross purchase price paid for each rental property acquired (other than acquisitions described in (iv) below), including any property contributed in exchange for membership interests in the Operating Company;
- (iv) 2% of the gross purchase price paid for each rental property acquired in the event that the acquisition of a rental property requires a new lease (as opposed to the assumption of an existing lease), such as a sale-leaseback transaction; and
- (v) 1% of the gross sale price received for each rental property disposition.

For the year ended December 31, 2018, the following was included in the Asset Management Agreement, in addition to the fees noted above:

- (vi) 1% of the Aggregate Consideration, as defined in the Asset Management Agreement, received in connection with a Disposition Event.

The Asset Management Agreement will automatically renew on January 1, 2019, for three years ending December 31, 2021, subject to earlier termination pursuant to the terms of the Asset Management Agreement. The Asset Management Agreement provides for termination (i) immediately by the IDC for Cause, as defined in the Asset Management Agreement, (ii) by the IDC, upon 30 days' written notice to the Asset Manager, in connection with a change in control of the Asset Manager, as defined in the Asset Management Agreement, (iii) by the IDC, by providing the Asset Manager with written notice of termination not less than one year prior to the last calendar of any renewal term, (iv) by the Asset Manager upon written notice to the Company not less than one year prior to the last calendar day of any renewal period, (v) automatically in the event of a Disposition Event, and (vi) by the IDC upon a Key Person Event

If the Corporation terminates the agreement prior to any renewal term or in any manner described above, other than termination by the Corporation for Cause, the Corporation will be required to pay to the Asset Manager a termination fee equal to three times the Asset Management Fee to which the Asset Manager was entitled during the 12-month period immediately preceding the date of such termination. Although not terminable at December 31, 2018, if the Asset Management Agreement had been terminated at December 31, 2018 subject to the conditions noted above, the termination fee would have been \$54,520.

Total fees incurred under the Property Management Agreement and Asset Management Agreement for the years ended December 31, 2018, 2017, and 2016, are as follows:

<i>(in thousands)</i>		For the years ended December 31,		
Type of Fee	Financial Statement Presentation	2018	2017	2016
Asset management fee	Asset management fees	\$ 18,173	\$ 14,754	\$ 10,955
Property management fee	Property management fees	6,529	4,988	3,939
Total management fee expense		24,702	19,742	14,894
Marketing fee (offering costs)	Additional paid-in capital	1,158	1,380	1,310
Acquisition fee	Capitalized as a component of assets acquired in 2018 and 2017 (See Note 4) and included as acquisition expenses in 2016	5,907	6,580	5,203
Leasing fee	Leasing fees, net	1,399	3,339	2,932
Disposition fee	Gain on sale of real estate	573	605	133
Total management fees		<u>\$ 33,739</u>	<u>\$ 31,646</u>	<u>\$ 24,472</u>

Included in management fees are \$114 and \$722 of unpaid fees recorded in Due to related parties on the Consolidated Balance Sheets at December 31, 2018 and 2017, respectively. All fees related to the Property Management Agreement and the Asset Management Agreement are paid for in cash within the Company's normal payment cycle for vendors.

Investment in Related Party

On June 30, 2015, the Company issued 139 shares with a value of \$10,000 to the Manager in exchange for 100 non-voting convertible preferred units of the Manager, which represented a 6.4% ownership interest in the Manager at the time of the transaction on a fully-diluted basis. The Company had the right to convert the preferred units to non-voting common units of the Manager between January 1, 2018 and December 31, 2019. Subsequent to the conversion period, the Manager had the option to redeem the convertible preferred units at their original value of \$10,000, plus any accrued and unpaid preferred return. On July 31, 2018, the Company sold its investment to an existing owner of the Manager. The preferred units were sold for an aggregate sales price of \$18,500 and had a carrying value of \$10,000 at the time of sale. The transaction was approved by the Board of Directors and IDC. At December 31, 2017, the carrying amount of the investment was \$10,000. The preferred units provided a stated preferred return at inception of 7.0% with 0.25% increases every June 30th. Preferred distributions related to the investment in the Manager for the years ended December 31, 2018, 2017, and 2016 amounted to \$440, \$737, and \$713, respectively.

Legal Services

The Company retains the legal services of Vaisey Nicholson & Nearpass, PLLC (“VNN”), formerly a related party. One former minority partner of VNN is an immediate family member to a member of the management of the Company and an indirect minority owner of the Manager. Beginning January 2017, the family member was no longer an owner or partner of VNN and therefore, prospectively, VNN is no longer deemed a related party. Legal services obtained from VNN are mainly for acquisition and disposition of real estate and related matters, as well as general counsel regarding property management and financing. The Company utilizes the services of other outside legal counsel as well. These fees are paid for in cash within the Company’s normal payment cycle for vendor payments. The following table details the type of legal fees incurred from VNN as a related party for the year ended December 31, 2016:

<i>(in thousands)</i>		December 31,
Type of Fee	Financial Statement Presentation	2016
Legal services – general	General and administrative	\$ 324
Organization costs	General and administrative	22
		346
Finance related costs	Debt issuance costs ^(a)	122
Acquisition related fees	Acquisition expenses	2,520
Legal services - tenant related	Property and operating expenses	40
Property disposition related fees	Gain on sale of real estate	47
Total related party legal expenses		<u>\$ 3,075</u>

^(a) Amounts are recorded within Debt issuance costs – unsecured revolver, net, Mortgages and notes payable, net, and Unsecured term notes, net, on the accompanying Consolidated Balance Sheets.

4. Acquisitions

The Company closed on the following acquisitions during the year ended December 31, 2018:

<i>(in thousands, except number of properties)</i>			
Date	Property Type	Number of Properties	Real Estate Acquisition Price
March 27, 2018	Industrial	1	\$ 22,000
March 30, 2018	Industrial/Retail	26	78,530
April 30, 2018	Other	1	16,170 ^(a)
June 6, 2018	Industrial	1	8,500
June 14, 2018	Industrial	1	39,700
June 14, 2018	Retail	6	14,479
June 21, 2018	Retail	1	20,231
June 21, 2018	Industrial	1	38,340 ^(b)
June 29, 2018	Industrial	1	10,400
June 29, 2018	Retail	2	6,433 ^(c)
July 12, 2018	Industrial	1	11,212
July 17, 2018	Retail	5	14,845
July 17, 2018	Office	1	34,670
August 6, 2018	Industrial	2	4,802
August 10, 2018	Retail	20	44,977
October 11, 2018	Healthcare	4	17,448
October 26, 2019	Industrial	1	8,816
October 31, 2018	Retail	1	2,016
November 30, 2018	Retail	3	5,357
December 4, 2018	Retail	2	6,036
December 6, 2018	Healthcare	6	46,100
December 12, 2018	Healthcare	1	20,312
December 20, 2018	Industrial	1	18,250
December 20, 2018	Healthcare	18	93,129
December 28, 2018	Industrial	1	10,035
December 28, 2018	Healthcare	5	14,037
		<u>113</u>	<u>\$ 606,825</u> ^(d)

^(a) In conjunction with this acquisition, the Company settled a note receivable with the seller in the amount of \$3,700, in exchange for a reduction in the cash paid for the transaction (see Note 8).

^(b) In conjunction with this acquisition, the Company assumed a mortgage with a principal balance of \$20,845 with an interest rate at 4.36% and a maturity date of August 2025 (see Note 10).

^(c) In conjunction with this acquisition, the Company settled a note receivable with the seller in the amount of \$2,827, in exchange for a reduction in the cash paid for the transaction (see Note 8).

^(d) Acquisition price does not include capitalized acquisition costs of \$12,643.

The Company closed on the following acquisitions during the year ended December 31, 2017:

<i>(in thousands, except number of properties)</i>			
Date	Property Type	Number of Properties	Real Estate Acquisition Price
January 18, 2017	Retail	1	\$ 2,520
March 1, 2017	Retail	9	87,196
April 28, 2017	Retail	25	48,898
June 2, 2017	Healthcare	2	13,300
June 15, 2017	Retail	2	2,700
June 30, 2017	Industrial	2	12,250
June 30, 2017	Healthcare	7	25,989
July 7, 2017	Office	1	32,210
August 4, 2017	Healthcare	3	11,732
August 31, 2017	Healthcare	3	16,700
August 31, 2017	Industrial	2	6,148
September 13, 2017	Retail	5	4,994
September 29, 2017	Industrial/Retail	7	30,012
September 29, 2017	Industrial	1	57,372
October 13, 2017	Healthcare	1	10,000 ^(e)
November 1, 2017	Other	4	15,693 ^{(f) (g)}
December 7, 2017	Office	2	19,295
December 7, 2017	Healthcare	1	5,095
December 7, 2017	Healthcare	1	2,678
December 8, 2017	Industrial/Office	3	74,200
December 14, 2017	Office	1	24,500
December 18, 2017	Other	1	22,585
December 22, 2017	Industrial	2	19,000
December 22, 2017	Industrial	1	21,037
December 27, 2017	Retail	1	1,446
December 28, 2017	Industrial	1	28,450
December 29, 2017	Retail	9	28,224
December 29, 2017	Retail	20	39,552
December 29, 2017	Healthcare	6	19,868
		<u>124</u>	<u>\$ 683,644</u> ^(h)

^(e) In conjunction with this acquisition, the Company assumed a mortgage with a principal balance of \$5,205 with a variable interest rate at one-month LIBOR plus 3.0% and a maturity date of August 2021 (see Note 10). The Company also assumed an interest rate swap with a fixed rate of 1.02% and a maturity date of August 2021 (see Note 11).

^(f) The acquisition was conducted with a related party and approved by the IDC. The fees required under the Asset Management Agreement (see Note 3) were waived by the Asset Manager.

^(g) In conjunction with this acquisition, the Company assumed a mortgage with a principal balance of \$6,721 with an interest rate of 3.65% and a maturity date of October 2026 (see Note 10).

^(h) Acquisition price does not include acquisition costs of \$12,349.

The Company closed on the following acquisitions during the year ended December 31, 2016:

<i>(in thousands, except number of properties)</i>			
Date	Property Type	Number of Properties	Real Estate Acquisition Price
January 25, 2016	Retail	3	\$ 13,376
February 1, 2016	Retail	1	27,000
March 24, 2016	Industrial	1	15,650
April 7, 2016	Healthcare	2	17,115
April 25, 2016	Office	2	54,600
May 9, 2016	Retail	5	42,390
May 12, 2016	Office	1	4,500
May 20, 2016	Retail	19	36,843
May 25, 2016	Healthcare	⁽ⁱ⁾	5,624
June 30, 2016	Retail	7	28,477
July 15, 2016	Healthcare	2	26,700
August 12, 2016	Other	3	12,399
September 14, 2016	Office	1	14,000
September 29, 2016	Retail	24	82,338
October 3, 2016	Retail	6	6,872
November 10, 2016	Office	1	10,550
November 21, 2016	Retail	2	7,597
November 29, 2016	Office	4	15,177
December 19, 2016	Industrial	1	23,050
December 23, 2016	Office	1	43,517
December 30, 2016	Office	1	15,550
December 30, 2016	Industrial	1	15,487
		<u>88</u>	<u>\$ 518,812</u>

⁽ⁱ⁾ Acquisition of capital expansion on existing property.

The Company allocated the purchase price of these properties to the fair value of the assets acquired and liabilities assumed. The following table summarizes the purchase price allocation for acquisitions completed during the years ended December 31, 2018, 2017, and 2016:

(in thousands)	December 31,		
	2018	2017	2016
Land	\$ 72,559	\$ 67,945	\$ 70,938
Land improvements	32,498	54,804	38,526
Buildings and other improvements	454,391	508,541	358,058
Equipment	2,892	7,671	—
Acquired in-place leases ⁽ⁱ⁾	62,631	77,073	52,867
Acquired above-market leases ^(k)	5,538	14,905	19,420
Acquired below-market leases ^(l)	(11,471)	(38,493)	(21,541)
Direct financing investments	430	3,546	544
Mortgages payable, net	(20,845)	(11,926)	—
Non-real estate liabilities	(56)	(2,777)	(8,649)
	<u>\$ 598,567</u>	<u>\$ 681,289</u>	<u>\$ 510,163</u>

⁽ⁱ⁾ The weighted average amortization period for acquired in-place leases is 13 years, 15 years, and 17 years for acquisitions completed during the years ended December 31, 2018, 2017, and 2016, respectively.

^(k) The weighted average amortization period for acquired above-market leases is 16 years, 17 years, and 17 years for acquisitions completed during the years ended December 31, 2018, 2017, and 2016, respectively.

^(l) The weighted average amortization period for acquired below-market leases is 13 years, 19 years, and 17 years for acquisitions completed during the years ended December 31, 2018, 2017, and 2016, respectively.

The above acquisitions were funded using a combination of available cash on hand and proceeds from the Company's unsecured revolving line of credit and unsecured term notes. All of the acquisitions closed during the years ended December 31, 2018 and 2017, qualified as asset acquisitions and, as such, acquisition costs were capitalized in accordance with ASU 2017-01. In conjunction with the acquisitions closed during the year ended December 31, 2016, expenses of \$10,880 were incurred and included in Acquisition expenses in the accompanying Consolidated Statements of Income and Comprehensive Income.

The Company recorded the following revenues and net income, excluding the impact of one-time acquisition expenses, in the Consolidated Statements of Income and Comprehensive Income related to properties acquired and accounted for as business combinations from the date of acquisition through December 31, 2016:

(in thousands)	December 31, 2016
Revenues	\$ 17,088
Net income	9,462

Condensed Pro Forma Financial Information (Unaudited)

The results of operations, excluding the impact of one-time acquisition costs of \$10,880 for the year ended December 31, 2016, of the acquisitions accounted for as business combinations, for which financial information was available, are included in the following unaudited pro forma financial information as if these acquisitions had been completed as of the beginning of the comparable prior annual period prior to the acquisition date. The following unaudited pro forma financial information is presented as if the 2016 acquisitions were completed at January 1, 2015. Pro forma financial information is not presented for the 2018 and 2017 acquisitions based on their qualification as asset acquisitions in accordance with ASU 2017-01. These pro forma results are for comparative purposes only and are not necessarily indicative of what the Company's actual results of operations would have been had the acquisitions occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

The unaudited condensed pro forma financial information is as follows for the year ended December 31, 2016:

	December 31, 2016
<i>(in thousands)</i>	
Revenues	\$ 174,727
Net income	69,504

Subsequent to December 31, 2018, the Company closed on the following acquisitions, (see Note 19):

(in thousands, except number of properties)

Date	Property Type	Number of Properties	Acquisition Price
January 31, 2019	Healthcare	1	\$ 4,747
March 12, 2019	Industrial	1	10,217
		<u>2</u>	<u>\$ 14,964</u>

The Company has not completed the allocation of the acquisition date fair values for the properties acquired subsequent to December 31, 2018; however, it expects the acquisitions to qualify as asset acquisitions and that the purchase price of these properties will primarily be allocated to land, land improvements, building, and acquired lease intangibles.

5. Sale of Real Estate

The Company closed on the following sales of real estate, none of which qualified as discontinued operations, during the years ended December 31, 2018, 2017, and 2016:

	For the years ended December 31,		
<i>(in thousands, except number of properties)</i>	2018	2017	2016
Number of properties disposed	20	13	9
Aggregate sale price	\$ 57,402	\$ 66,532	\$ 39,500 ^(a)
Aggregate carrying value	(43,492)	(50,339)	(32,665)
Additional sales expenses	(3,414)	(3,201)	(910)
Gain on sale of real estate	<u>\$ 10,496</u>	<u>\$ 12,992</u>	<u>\$ 5,925</u>

^(a) The Company provided seller financing of \$3,700 in connection with one of the 2016 sales (see Note 8).

6. Investment in Rental Property and Lease Arrangements

The Company generally leases its investment rental property to established tenants. At December 31, 2018, the Company had 605 real estate properties which were leased under leases that have been classified as operating leases and 16 that have been classified as direct financing leases. Of the 16 leases classified as direct financing leases, four include land portions which are accounted for as operating leases (see *Revenue Recognition* within Note 2). Substantially all leases have initial terms of 10 to 20 years and provide for minimum rentals as defined in ASC 840, *Leases*. In addition, the leases generally provide for limited increases in rent as a result of fixed increases, increases in the Consumer Price Index, or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building, and maintain property and liability insurance coverage. The leases also typically provide one or more multiple year renewal options subject to generally the same terms and conditions as the initial lease.

Investment in Rental Property – Accounted for Using the Operating Method

Rental property subject to non-cancelable operating leases with tenants are as follows at December 31, 2018 and 2017:

<i>(in thousands)</i>	December 31,	
	2018	2017
Land	\$ 411,043	\$ 348,940
Land improvements	239,701	211,674
Buildings and building improvements	2,185,024	1,754,796
Tenant improvements	1,475	11,425
Equipment	11,492	7,689
	2,848,735	2,334,524
Less accumulated depreciation	(206,989)	(148,383)
	<u>\$ 2,641,746</u>	<u>\$ 2,186,141</u>

Depreciation expense on investment in rental property was as follows for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands)</i>	For the years ended December 31,		
	2018	2017	2016
Depreciation	\$ 66,055	\$ 50,360	\$ 37,976

Estimated minimum future rental receipts required under non-cancelable operating leases with tenants at December 31, 2018 are as follows:

<i>(in thousands)</i>	
2019	\$ 231,725
2020	235,426
2021	238,223
2022	240,083
2023	241,498
Thereafter	2,007,118
	<u>\$ 3,194,073</u>

Since lease renewal periods are exercisable at the option of the tenant, the above amounts only include future minimum lease payments due during the initial lease terms. In addition, such amounts exclude any potential variable rent increases that are based on the Consumer Price Index or future contingent rents which may be received under the leases based on a percentage of the tenant's gross sales.

Investment in Rental Property – Accounted for Using the Direct Financing Method

The Company's net investment in direct financing leases is as follows at December 31, 2018 and 2017:

<i>(in thousands)</i>	December 31,	
	2018	2017
Minimum lease payments to be received	\$ 76,829	\$ 77,889
Estimated unguaranteed residual values	20,358	19,758
Less unearned revenue	(55,187)	(56,030)
Net investment in direct financing leases	<u>\$ 42,000</u>	<u>\$ 41,617</u>

Minimum future rental receipts required under non-cancelable direct financing leases with tenants at December 31, 2018 are as follows:

(in thousands)

2019	\$	4,076
2020		4,194
2021		4,283
2022		4,369
2023		4,456
Thereafter		55,451
	\$	<u>76,829</u>

The above rental receipts do not include future minimum lease payments for renewal periods, potential variable Consumer Price Index rent increases, or contingent rental payments that may become due in future periods.

7. Intangible Assets and Liabilities

The following is a summary of intangible assets and liabilities and related accumulated amortization at December 31, 2018 and 2017:

(in thousands)	December 31,	
	2018	2017
Lease intangibles:		
Acquired above-market leases	\$ 64,164	\$ 59,502
Less accumulated amortization	(14,740)	(9,183)
Acquired above-market leases, net	49,424	50,319
Acquired in-place leases	277,659	216,858
Less accumulated amortization	(40,825)	(24,518)
Acquired in-place leases, net	236,834	192,340
Total intangible lease assets, net	\$ 286,258	\$ 242,659
Acquired below-market leases	\$ 101,602	\$ 91,667
Less accumulated amortization	(15,655)	(9,923)
Intangible lease liabilities, net	\$ 85,947	\$ 81,744
Leasing fees	\$ 17,274	\$ 16,286
Less accumulated amortization	(3,576)	(2,732)
Leasing fees, net	\$ 13,698	\$ 13,554

Amortization for intangible lease assets and liabilities for the years ended December 31, 2018, 2017, and 2016 is as follows:

(in thousands)	Intangible	Financial Statement Presentation	For the years ended December 31,		
			2018	2017	2016
Acquired in-place leases and leasing fees		Depreciation and amortization	\$ 17,939	\$ 11,903	\$ 8,345
Above-market and below-market leases		Increase (decrease) to rental income from operating leases	304	(496)	482

Estimated future amortization of intangible assets and liabilities at December 31, 2018 is as follows:

<i>(in thousands)</i>	
2019	\$ 19,123
2020	18,844
2021	18,432
2022	17,818
2023	17,438
Thereafter	122,354
	<u>\$ 214,009</u>

8. Notes Receivable

During 2016, the Company, as the lender, entered into two loan agreements in the amount of \$3,700 and \$2,827. The agreements called for interest-only payments at 7.00% and 6.35% per annum through maturity in February and November 2019, respectively. Each of the loans was collateralized by the real estate assets held by the obligors and represented first mortgage liens on net leased commercial properties in Florida and Michigan, respectively. There were no prior liens on the properties at the time the notes were issued. As each of the loans were considered to be fully collectible, the carrying amount of the loans were equal to the face amount as of December 31, 2017. In connection with real estate transactions conducted during the year ended 2018, the Company settled the notes in full, in exchange for a reduction to the cash paid for the associated real estate assets (see Note 4). Interest income earned on the notes receivable amounted to \$174, \$445, and \$77 for the years ended December 31, 2018, 2017, and 2016, respectively.

9. Unsecured Credit Agreements

2015 Unsecured Term Loan Agreement

On June 23, 2017, the Company amended and restated the term loan agreement by and among the Company, the Operating Company, as the borrower, SunTrust Bank, as Administrative Agent, and the lenders party thereto (as amended and restated, the “2015 Unsecured Term Loan Agreement”). The 2015 Unsecured Term Loan Agreement amended certain terms, conditions, covenants, and other provisions to align them with those included in the 2017 Unsecured Revolving Credit and Term Loan Agreement described below, in addition to allowing a one-time, non-pro-rata \$50,000 paydown on the loan (the “2015 Unsecured Term Loan”). On September 27, 2018, the Company made a \$25,000 pro-rata paydown on the 2015 Unsecured Term Loan. The 2015 Unsecured Term Loan has an initial maturity date of February 2019 and provides for two one-year extension options, at the election of the Company, subject to compliance with all covenants and the payment of a 0.10% fee. Borrowings under the 2015 Unsecured Term Loan bear interest at variable rates based on the one-month LIBOR plus a margin based on the Operating Company’s investment grade credit rating ranging between 0.90% and 1.75%. Based on the Operating Company’s current credit rating of Baa3, the applicable margin under the 2015 Unsecured Term Loan is 1.40%.

2017 Unsecured Revolving Credit and Term Loan Agreement

On June 23, 2017, the Corporation and the Operating Company entered into an \$800,000 unsecured revolving credit and term loan agreement (“2017 Unsecured Revolving Credit and Term Loan Agreement”) with Manufacturers & Traders Trust Company (“M&T Bank”), as Administrative Agent, four participating banks as Joint Lead Arrangers and Joint Bookrunners, four participating banks as Co-Syndication Agents, and four participating banks, as Co-Documentation Agents. The 2017 Unsecured Revolving Credit and Term Loan Agreement consisted of a \$400,000 senior unsecured revolving credit facility (“Revolver”), a \$250,000 senior unsecured delayed draw term loan (“5.5-Year Term Loan”), and a \$150,000 senior unsecured delayed draw term loan (“7-Year Term Loan”). The 2017 Unsecured Revolving Credit and Term Loan Agreement provides an accordion feature for up to a total of \$1,000,000 of borrowing capacity. The Revolver includes a \$35,000 sublimit for swingline loans and \$20,000 available for issuance of letters of credit.

On November 20, 2017, pursuant to the terms of a Consent and Agreement Regarding Commitment Increases and Additional Term Loans (the “Commitment Increase”) among the Company, the Operating Company, as the borrower, M&T Bank, as Administrative Agent, and the original parties to the 2017 Unsecured Revolving Credit and Term Loan Agreement, plus U.S. Bank National Association and Raymond James, N.A. as new lenders added pursuant to the Commitment Increase, the Operating Company obtained an additional \$80,000 in credit commitments from the lenders, raising the total available borrowings under the 2017 Unsecured Revolving Credit and Term Loan Agreement to \$880,000. Except as amended by the Commitment Increase, all terms and conditions of the 2017 Unsecured Revolving Credit and Term Loan Agreement remain the same as those in effect prior to the Commitment Increase. As amended by the Commitment Increase, the 2017 Unsecured Revolving Credit and Term Loan Agreement consists of the \$425,000 Revolver, the \$265,000 5.5-Year Term Loan, and the \$190,000 7-Year Term Loan.

The Revolver has an initial maturity date of January 2022 and provides for one five-month extension, at the election of the Company, subject to certain conditions set forth in the agreement and payment of a 0.0625% fee on the revolving commitments. Borrowings on the Revolver bear interest at variable rates based on LIBOR plus a margin based on the Operating Company’s investment grade credit rating ranging between 0.825% and 1.55% per annum. The Revolver contains an applicable facility fee based on the Operating Company’s credit rating ranging between 0.13% and 0.30% per annum. The 5.5-Year Term Loan provided for up to three delayed draws from inception through June 2018 at the request of the Company. All borrowings on the 5.5-Year Term Loan were funded as of December 31, 2017. Borrowings under the 5.5-Year Term Loan bear interest at variable rates based on LIBOR plus a margin based on the Operating Company’s credit rating ranging between 0.90% and 1.75% per annum through the maturity date of January 2023. The 7-Year Term Loan provided for up to three delayed draws from inception through June 2018 at the request of the Company. The Company requested a draw for the remaining available borrowings under the 7-Year term loan in June 2018. Borrowings under the 7-Year Term Loan bear interest at variable rates based on LIBOR plus a margin based on the Operating Company’s credit rating ranging between 1.50% and 2.45% through the maturity date of June 2024. Based on the Operating Company’s current credit rating of Baa3, the applicable margin under the Revolver, 5.5-Year Term Loan, and 7-Year Term Loan are 1.20%, 1.35%, and 1.90%, respectively, and the applicable facility fee is 0.25% per annum. The 5.5-Year Term Loan and 7-Year Term Loan are both subject to a fee of 0.25% per annum on the amount of the commitments, reduced by the amount of term loans outstanding under the applicable loan. The Company is subject to various financial and nonfinancial covenants under the 2017 Unsecured Revolving Credit and Term Loan Agreement.

Senior Notes

In January 2017, the Company commenced a private offering of unsecured, fixed-rate, interest-only senior promissory notes (the “Series A Notes”). On March 16, 2017, the Company entered into a Note and Guaranty Agreement with each of the purchasers of the Series A Notes. On April 18, 2017, the Company closed the offering and issued the Series A Notes for an aggregate principal amount of \$150,000. The Series A Notes were issued by the Operating Company and guaranteed by the Corporation. The Series A Notes were issued at par, bear interest at a rate of 4.84% per annum (priced at 240 basis points above the 10-year U.S. Treasury yield at the time of pricing), and have a 10-year maturity, maturing on April 18, 2027.

On July 2, 2018, the Company entered into a Note and Guaranty Agreement (the “NGA Agreement”) with each of the purchasers of unsecured, fixed-rate, interest-only, guaranteed senior promissory notes. Under the NGA Agreement, the Operating Company issued and sold senior promissory notes in two series, Series B Guaranteed Senior Notes (the “Series B Notes”) and Series C Guaranteed Senior Notes (the “Series C Notes”), for an aggregate principal amount of \$325,000. The Series B Notes provide for an aggregate principal amount of \$225,000 with a fixed-rate of 5.09% through the maturity date of July 2, 2028. The Series C Notes provide for an aggregate principal amount of \$100,000 with a fixed-rate of 5.19% through the maturity date of July 2, 2030. On July 2, 2018, the Operating Company issued \$100,000 of the Series B Notes and \$50,000 of the Series C Notes. The remaining \$125,000 principal of the Series B Notes and \$50,000 principal of the Series C Notes were funded on September 13, 2018. The proceeds of both issuances were used to pay off borrowings on the Revolver, along with \$25,000 of the outstanding principal on the 2015 Unsecured Term Loan.

The following table summarizes the Company's unsecured credit agreements:

	Outstanding Balance			
	December 31,			
(in thousands, except interest rates)	2018	2017	Interest Rate ^(d)	Maturity Date
2015 Unsecured Term Loan ^(a)	\$ 300,000	\$ 325,000	one-month LIBOR + 1.40%	Feb. 2019 ^(f)
2017 Unsecured Revolving Credit and Term Loan Agreement ^(a)				
Revolver ^(b)	141,100	273,000	(c)	Jan. 2022
5.5-Year term loan	265,000	265,000	one- month LIBOR + 1.35%	Jan. 2023
7-Year term loan	190,000	100,000	one- month LIBOR + 1.90%	Jun. 2024
	596,100	638,000		
Senior Notes ^(a)				
Series A	150,000	150,000	4.84%	Apr. 2027
Series B	225,000	—	5.09%	Jul. 2028
Series C	100,000	—	5.19%	Jul. 2030
	475,000	150,000		
Total	1,371,100	1,113,000		
Debt issuance costs, net ^(c)	(4,227)	(3,088)		
	\$ 1,366,873	\$ 1,109,912		

^(a) The Company believes it was in compliance with all financial covenants for all periods presented.

^(b) At December 31, 2018, the Company had an outstanding balance of \$15,000 on the swingline loan feature of the Revolver, due within five business days. On January 2, 2019, the balance became a part of the Revolver and matures January 2022.

^(c) Amounts presented include debt issuance costs, net, related to the unsecured term notes and senior notes only.

^(d) At December 31, 2018 and 2017, the one-month LIBOR rate was 2.35% and 1.37%, respectively. At December 31, 2017, the three-month LIBOR rate was 1.49%.

^(e) At December 31, 2018, the swingline loan balance of \$15,000 bore interest at 5.45% and the remaining Revolver balance of \$126,100 bore interest at one-month LIBOR plus 1.20%. At December 31, 2017, \$223,000 of the Revolver balance bore interest at one-month LIBOR plus 1.20%, while the remaining balance of \$50,000 bore interest at three-month LIBOR plus 1.20%.

^(f) Subsequent to year end, the first one-year extension was exercised, extending the maturity date to February 2020.

At December 31, 2018 and 2017, the weighted average interest rate on all outstanding borrowings was 4.23% and 3.03%, respectively.

Debt issuance costs are amortized as a component of interest expense in the accompanying Consolidated Statements of Income and Comprehensive Income. The following table summarizes debt issuance cost amortization for the years ended December 31, 2018, 2017, and 2016:

	For the years ended December 31,		
	2018	2017	2016
(in thousands)			
Debt issuance costs amortization	\$ 1,918	\$ 1,794	\$ 1,817

For the year ended December 31, 2018, the Company paid \$2,209 in debt issuance costs associated with the Series B Notes and Series C Notes.

For the year ended December 31, 2017, the Company paid \$8,711 in debt issuance costs associated with the Series A Notes, the 2017 Unsecured Revolving Credit and Term Loan Agreement, and the 2015 Unsecured Term Loan Agreement. For each separate debt instrument, on a lender by lender basis, in accordance with ASC 470-50, *Debt Modifications and Extinguishment*, the Company performed an assessment of whether the transaction was deemed to be new debt, a modification of existing debt, or an extinguishment of existing debt. Debt issuance costs are either deferred and amortized over the term of the associated debt or expensed as incurred. Based on this assessment, \$5,810 of the debt issuance costs related to the issuance of new debt and therefore have been deferred and are being amortized over the term of the associated debt. The remaining \$2,901 of debt issuance costs were associated with lenders whose commitments under the new agreements have been determined to be an extinguishment and such debt issuance costs were expensed as a component of the Cost of debt extinguishment in the accompanying Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2017. Additionally, \$654 of unamortized debt issuance costs were expensed and included in Cost of debt extinguishment in the accompanying Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2017.

10. Mortgages and Notes Payable

The Company's mortgages and notes payable consist of the following at December 31, 2018 and 2017:

<i>(in thousands, except interest rates)</i> Lender	Origination Date	Maturity Date	Interest Rate	December 31,		
	(Month/Year)	(Month/Year)		2018	2017	
(1)Wilmington Trust National Association	Jun-18	Aug-25	4.36%	\$ 20,674	\$ —	(a) (b) (c) (m)
(2)PNC Bank	Oct-16	Nov-26	3.62%	18,260	18,622	(b) (c)
(3)Sun Life	Mar-12	Oct-21	5.13%	11,288	11,670	(b) (g)
(4)Aegon	Apr-12	Oct-23	6.38%	8,496	9,168	(b) (h)
(5)Symetra Financial	Nov-17	Oct-26	3.65%	6,467	6,685	(a) (b) (k) (l)
(6)M&T Bank	Oct-17	Aug-21	one - month LIBOR+3%	5,051	5,183	(b) (d) (i) (j)
(7)Legg Mason Mortgage Capital Corporation	Aug-10	Aug-22	7.06%	4,692	5,670	(b) (e)
(8)Standard Insurance Co.	Apr-09	May-34	6.88%	1,751	1,813	(b) (c) (f)
(9)Columbian Mutual Life Insurance Company	Aug-10	Sep-25	7.00%	1,459	1,500	(b) (c) (d)
(10)Note holders	Dec-08	Dec-23	6.25%	750	750	(d)
(11)Standard Insurance Co.	Jul-10	Aug-30	6.75%	563	581	(b) (c) (d) (f)
(12)Siemens Financial Services, Inc.	Sep-10	Sep-20	5.47%	—	5,820	(a) (b)
(13)Symetra Financial	Mar-11	Apr-31	6.34%	—	1,008	(a) (b)
				79,451	68,470	
Debt issuance costs, net				(499)	(638)	
				<u>\$ 78,952</u>	<u>\$ 67,832</u>	

- (a) Non-recourse debt includes the indemnification/guaranty of the Corporation and/or Operating Company pertaining to fraud, environmental claims, insolvency and other matters.
- (b) Debt secured by related rental property and lease rents.
- (c) Debt secured by guaranty of the Operating Company.
- (d) Debt secured by guaranty of the Corporation.
- (e) Debt is guaranteed by a third party.
- (f) The interest rate represents the initial interest rate on the respective notes. The interest rate will be adjusted at Standard Insurance's discretion (based on prevailing rates) at certain times throughout the term of the note, ranging from 119 to 239 months, and the monthly installments will be adjusted accordingly. At the time Standard Insurance may adjust the interest rate for notes payable, the Company has the right to prepay the note without penalty. Subsequent to December 31, 2018, the Company prepaid one of these mortgages with no prepayment penalty (see Note 19).
- (g) Mortgage was assumed in March 2012 as part of an UPREIT transaction. The debt was recorded at fair value at the time of the assumption.
- (h) Mortgage was assumed in April 2012 as part of the acquisition of the related property. The debt was recorded at fair value at the time of the assumption.
- (i) The Company entered into an interest rate swap agreement in connection with the mortgage note, as further described in Note 11.
- (j) Mortgage was assumed in October 2017 as part of an UPREIT transaction. The debt was recorded at fair value at the time of the assumption.
- (k) Mortgage was assumed in November 2017 as part of the acquisition of the related property. The debt was recorded at fair value at the time of the assumption.
- (l) The interest rate will be adjusted to the holder's quoted five-year commercial mortgage rate for similar size and quality.
- (m) Mortgage was assumed in June 2018 as part of the acquisition of the related property. The debt was recorded at fair value at the time of assumption.

At December 31, 2018, investment in rental property of \$139,765 is pledged as collateral against the Company's mortgages and notes payable.

The following table summarizes the mortgages extinguished by the Company during the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands, except number)</i>	For the years ended December 31,		
	2018	2017	2016
Number of mortgages	2	7	4
Outstanding balance of mortgages	\$ 6,666	\$ 48,108	\$ 8,199

The following table summarizes the cost of mortgage extinguishment for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands)</i>	For the years ended December 31,		
	2018	2017	2016
Cost of mortgage extinguishment	\$ 101	\$ 1,596	\$ 133

Estimated future principal payments to be made under the above mortgage and note payable agreements, and the Company's unsecured credit agreements (see Note 9) at December 31, 2018 are as follows:

<i>(in thousands)</i>		
2019	\$	3,433
2020		303,672
2021		18,584
2022		144,166
2023		272,456
Thereafter		708,240
	\$	<u>1,450,551</u>

Certain of the Company's mortgage and note payable agreements provide for prepayment fees and can be terminated under certain events of default as defined under the related agreements. These prepayment fees are not reflected as part of the table above.

11. Interest Rate Swaps

Interest rate swaps were entered into with certain financial institutions in order to mitigate the impact of interest rate variability over the term of the related debt agreements. The interest rate swaps are considered cash flow hedges. In order to reduce counterparty concentration risk, the Company has a diversification policy for institutions that serve as swap counterparties. Under these agreements, the Company receives monthly payments from the counterparties on these interest rate swaps equal to the related variable interest rates multiplied by the outstanding notional amounts. Certain interest rate swaps amortize on a monthly basis. In turn, the Company pays the counterparties each month an amount equal to a fixed rate multiplied by the related outstanding notional amounts. The intended net impact of these transactions is that the Company pays a fixed interest rate on its variable-rate borrowings.

The following is a summary of the Company's outstanding interest rate swap agreements at December 31, 2018 and 2017:

(in thousands, except interest rates)					Fair Value	
					December 31,	
Counterparty	Maturity Date	Fixed Rate	Variable Rate Index	Notional Amount	2018	2017
Bank of America, N.A.	November 2023	2.80%	one-month LIBOR	\$ 25,000	\$ (411)	\$ (863)
Bank of Montreal	July 2024	1.16%	one-month LIBOR	40,000	2,702	2,503
Bank of Montreal	January 2025	1.91%	one-month LIBOR	25,000	769	464
Bank of Montreal	July 2025	2.32%	one-month LIBOR	25,000	222	(194)
Bank of Montreal	January 2026	1.92%	one-month LIBOR	25,000	915	561
Bank of Montreal	January 2026	2.05%	one-month LIBOR	40,000	1,130	520
Bank of Montreal	December 2026	2.33%	one-month LIBOR	10,000	132	(63)
Bank of Montreal	December 2027	2.37%	one-month LIBOR	25,000	355	(192)
Capital One, N.A.	December 2021	1.05%	one-month LIBOR	15,000	605	607
Capital One, N.A.	December 2024	1.58%	one-month LIBOR	15,000	727	603
Capital One, N.A.	January 2026	2.08%	one-month LIBOR	35,000	930	399
Capital One, N.A.	July 2026	1.32%	one-month LIBOR	35,000	2,877	2,565
Capital One, N.A.	December 2027	2.37%	one-month LIBOR	25,000	345	(189)
Capital One, N.A.	April 2026	2.68%	one-month LIBOR	15,000	(189)	—
M&T Bank	August 2021	1.02%	one-month LIBOR	5,051	177	182 ^{(b), (c)}
M&T Bank	September 2022	2.83%	one-month LIBOR	25,000	(362)	(810)
M&T Bank	November 2023	2.65%	one-month LIBOR	25,000	(254)	(686)
Regions Bank	March 2018	1.77%	one-month LIBOR	—	—	(9) ^(a)
Regions Bank	March 2019	1.91%	three-month LIBOR	—	—	2 ^(a)
Regions Bank	May 2020	2.12%	one-month LIBOR	50,000	271	(153)
Regions Bank	March 2022	2.43%	three-month LIBOR	—	—	(254) ^(a)
Regions Bank	December 2023	1.18%	one-month LIBOR	25,000	1,484	1,402
SunTrust Bank	April 2024	1.99%	one-month LIBOR	25,000	554	261
SunTrust Bank	April 2025	2.20%	one-month LIBOR	25,000	382	—
SunTrust Bank	July 2025	1.99%	one-month LIBOR	25,000	728	386
SunTrust Bank	December 2025	2.30%	one-month LIBOR	25,000	299	(138)
SunTrust Bank	January 2026	1.93%	one-month LIBOR	25,000	903	553
Wells Fargo Bank, N.A.	February 2021	2.39%	one-month LIBOR	35,000	59	(369)
Wells Fargo Bank, N.A.	October 2024	2.72%	one-month LIBOR	15,000	(222)	(510)
Wells Fargo Bank, N.A.	January 2028	2.37%	one-month LIBOR	75,000	1,067	(590)
Wells Fargo Bank, N.A.	April 2027	2.72%	one-month LIBOR	25,000	(382)	—
					\$ 15,813	\$ 5,988

(a) Notional amount at December 31, 2017 was \$25,000.

(b) Notional amount at December 31, 2017 was \$5,183.

(c) Interest rate swap was assumed in October 2017 as part of an UPREIT transaction.

The total amounts recognized, and the location in the accompanying Consolidated Statements of Income and Comprehensive Income, from converting from variable rates to fixed rates under these agreements are as follows for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands)</i> For the years ended December 31,	Amount of Gain Recognized in Accumulated Other Comprehensive Income		Reclassification from Accumulated Other Comprehensive Income		Total Interest Expense Presented in the Consolidated Statements of Income and Comprehensive Income
	Income		Location	Amount of Loss	
2018	\$ 10,584		Interest expense	\$ 910	\$ 52,855
2017	4,166		Interest expense	5,099	34,751
2016	13,771		Interest expense	9,322	29,963

Amounts related to the interest rate swaps expected to be reclassified out of Accumulated other comprehensive income to Interest expense during 2019 are estimated to be a gain of \$3,446. The Company is exposed to credit risk in the event of non-performance by the counterparties of the swaps. The Company minimizes this risk exposure by limiting counterparties to major banks who meet established credit and capital guidelines.

The fair value of the interest rate swaps at December 31, 2018 and 2017 are based on a valuation of the discounted future payments as provided by the counterparties, as disclosed in Note 2.

12. Non-Controlling Interests

Under the Company's UPREIT structure, entities and individuals can contribute their properties in exchange for membership interests in the Operating Company. Properties contributed as part of UPREIT transactions were valued at \$15,797, \$10,498, and \$7,190 during the years ended December 31, 2018, 2017, and 2016, respectively, which represents the estimated fair value of the properties contributed, less any assumed debt. The cumulative amount of UPREIT properties contributed, less assumed debt, amounted to \$128,746, \$112,949, and \$102,451 during the years ended December 31, 2018, 2017, and 2016, respectively. In exchange for the properties contributed, 1,737, 1,551, and 1,427 non-controlling membership units were issued and outstanding, representing a 7.3%, 7.6%, and 8.6% interest in the Operating Company at December 31, 2018, 2017, and 2016, respectively.

The Operating Company's membership units are economically equivalent to the Corporation's common stock and, subject to certain restrictions, are convertible into the Company's common stock at the option of the respective unit holders on a one-to-one basis. The membership units are not redeemable for cash in any circumstance and are therefore considered to be permanent equity. Exchanges of membership units of the Operating Company held by non-controlling interest holders are recorded by reducing non-controlling interest on a historical cost basis with a corresponding increase in common stock and additional paid-in capital.

The following table summarizes membership units exchanged for shares of common stock for the years ended December 31, 2018, 2017, and 2016:

(in thousands)	For the years ended December 31,		
	2018	2017	2016
Membership units exchanged	8	37	—
Shares of common stock received	8	37	—
Value of shares/units exchanged	\$ 684	\$ 2,986	\$ —

Holders of the membership units in the Operating Company do not have voting rights at the Corporation level.

13. Credit Risk Concentrations

The Company maintained bank balances that, at times, exceeded the federally insured limit during the years ended December 31, 2018, 2017, and 2016. The Company has not experienced losses relating to these deposits and management does not believe that the Company is exposed to any significant credit risk with respect to these amounts.

The Company's rental property is managed by the Manager and the Asset Manager as described in Note 3. Management fees paid to the Manager and Asset Manager represent 19%, 20%, and 25% of total operating expenses for the years ended December 31, 2018, 2017, and 2016, respectively. The 2018 and 2017 amounts do not include acquisition costs paid to the Asset Manager as they were capitalized in accordance with ASU 2017-01 (see Notes 2 and 3). The Company has mortgages and notes payable with four institutions that comprise 26%, 23%, 14%, and 11% of total mortgages and notes payable at December 31, 2018. The Company had mortgages and notes payable with four institutions that comprise 27%, 17%, 13%, and 11% of total mortgages and notes payable at December 31, 2017. The Company had mortgages and notes payable with four institutions that comprised 20%, 18%, 12%, and 11% of total mortgages and notes payable at December 31, 2016. For the years ended December 31, 2018, 2017, and 2016, the Company had no individual tenants or common franchises that accounted for more than 10% of total revenues.

14. Equity

General

Pursuant to the Corporation's Articles of Incorporation (the "Charter"), the Corporation is authorized to issue an aggregate of 100,000 shares of capital stock, consisting of 80,000 shares designated as common stock with a par value of \$0.001 per share, and 20,000 shares designated as preferred stock with a par value of \$0.001 per share (unrounded). The Board of Directors, without any action by the Corporation's stockholders, may amend the Charter from time to time to increase or decrease the aggregate number of shares of capital stock or the number of shares of capital stock of any class or series that the Corporation has authority to issue.

Common Stock

The shares of the Corporation's common stock entitle the holders to one vote per share on all matters upon which stockholders are entitled to vote, to receive dividends and other distributions as authorized by the Board of Directors in accordance with the Maryland General Corporation Law, and to all rights of a stockholder pursuant to the Maryland General Corporation Law. The common stock has no preferences or preemptive conversion or exchange rights.

Pursuant to the limited liability company agreement between the Corporation and the Operating Company, each outstanding membership unit of the Operating Company is convertible into one share of the Corporation's common stock, subject to the terms and conditions set forth in the Operating Company's operating agreement.

Preferred Stock

The Charter also provides the Board of Directors with the authority to issue one or more classes or series of preferred stock, and prior to the issuance of such shares of preferred stock, the Board of Directors shall have the power from time to time to classify or reclassify, in one or more series, any unissued shares and designate the preferences, rights and privileges of such shares of preferred stock. At December 31, 2018 and 2017, no shares of the Corporation's preferred stock were issued and outstanding.

Share Redemption Program

The Board of Directors approved a share redemption program ("Share Redemption Program") under which the Corporation may repurchase shares of its outstanding common stock after December 31, 2009. The Board of Directors approved and adopted an amended and restated Share Redemption Program effective as of June 28, 2017.

Under the Share Redemption Program, stockholders may request that the Corporation redeem shares after one year from the original investment date, subject to certain exceptions as set forth in the Share Redemption Program. Under the Share Redemption Program, the Corporation is not obligated to repurchase shares and, notwithstanding any other term of the Share Redemption Program, the Board of Directors or IDC may reject any share redemption request made by any stockholder at any time. Shares held for more than 12 months, but less than five years, will be redeemed at a purchase price equal to 95% of the current share value established from time to time by the IDC (the "Determined Share Value"), and shares held for five years or more will be redeemed at a purchase price equal to 100% of the current Determined Share Value, subject to certain exemptions as set forth in the Share Redemption Program.

Total shares redeemed pursuant to the Share Redemption Program in any quarter may not exceed 1% of the total number of shares outstanding at the beginning of the calendar year plus 50% of the total number of any additional shares issued during the prior calendar quarter under the DRIP, provided that the total number of shares redeemed during any calendar year may not exceed 5% of the number of shares outstanding as of the first day of such calendar year. The Board of Directors or the IDC may amend, suspend, or terminate the Share Redemption Program at any time upon 30 days' notice to the Corporation's stockholders.

The following table summarizes redemptions under the Share Redemption Program for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands, except number of redemptions)</i>	For the years ended December 31,		
	2018	2017	2016
Number of redemptions requested	50	32	27
Number of shares	127	119	109
Aggregate redemption price	\$ 10,304	\$ 9,439	\$ 8,154

Distribution Reinvestment Plan

The Corporation has adopted the DRIP, pursuant to which the Corporation's stockholders and holders of membership units in the Operating Company (other than the Corporation), may elect to have cash distributions reinvested in additional shares of the Corporation's common stock. Cash distributions will be reinvested in additional shares of common stock pursuant to the DRIP at a per share price equal to 98% of the Determined Share Value as of the applicable distribution date. The Corporation may amend the DRIP at any time upon written notice to each participant at least 10 days prior to the effective date of the amendment. The Corporation may terminate the DRIP upon written notice to each participant at least 30 days prior to the effective date of the termination. At December 31, 2018, 2017, and 2016, a total of 2,233, 1,592, and 1,076, shares of common stock, respectively, have been issued under the DRIP.

15. Earnings per Share

The following table summarizes the components used in the calculation of basic and diluted earnings per share ("EPS") for the years ended December 31, 2018, 2017, and 2016:

<i>(in thousands, except per share)</i>	For the years ended December 31,		
	2018	2017	2016
Basic earnings:			
Net earnings attributable to Broadstone Net Lease, Inc	\$ 69,375	\$ 54,799	\$ 36,354
Diluted earnings:			
Net earnings attributable to Broadstone Net Lease, Inc	\$ 69,375	\$ 54,799	\$ 36,354
Net earnings attributable to non-controlling interests	5,730	4,756	3,914
	<u>\$ 75,105</u>	<u>\$ 59,555</u>	<u>\$ 40,268</u>
Basic and diluted weighted average shares outstanding:			
Weighted average number of common shares outstanding used in basic earnings per share	20,242	17,084	13,178
Effects of convertible membership units	1,668	1,483	1,419
Weighted average number of common shares outstanding used in diluted earnings per share	<u>21,910</u>	<u>18,567</u>	<u>14,597</u>
Basic and diluted net earnings per common share	<u>\$ 3.43</u>	<u>\$ 3.21</u>	<u>\$ 2.76</u>

In the table above, outstanding membership units are included in the diluted earnings per share calculation. However, because such membership units would also require that the share of the Operating Company income attributable to such membership units also be added back to net income, there is no effect on EPS.

16. Income Taxes

For federal income tax purposes, distributions to stockholders are characterized as ordinary dividends, capital gain distributions, or return of capital distributions. Return of capital distributions will reduce stockholders' basis in their shares, but not below zero. The portion of the distribution that exceeds the adjusted basis of the stock will be treated as gain from the sale or exchange of property. The following table shows the character of the distributions the Company paid on a percentage basis for the years ended December 31, 2018, 2017, and 2016:

Character of Distributions	For the years ended December 31,		
	2018	2017	2016
Ordinary dividends	55%	51%	58%
Capital gain distributions	8%	—%	—%
Return of capital distributions	37%	49%	42%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

17. Supplemental Cash Flow Disclosures

Cash paid for interest was \$44,697, \$32,429, and \$28,147 for the years ended December 31, 2018, 2017, and 2016, respectively. Cash paid for state income and franchise tax was \$947, \$655, and \$310 for the years ended December 31, 2018, 2017, and 2016, respectively.

The following are non-cash transactions and have been excluded from the accompanying Consolidated Statements of Cash Flows:

- During the years ended December 31, 2018, 2017, and 2016, the Company issued 622, 499, and 391 shares, respectively, of common stock with a value of approximately \$50,826, \$38,848, and \$27,615, respectively, under the terms of the DRIP (see Note 14).
- During the years ended December 31, 2018, 2017, and 2016, the Company issued 194, 161, and 97 membership units of the Operating Company, respectively, in exchange for property contributed in UPREIT transactions valued at \$15,797, \$12,913, and \$7,190, respectively (see Note 12).
- During the year ended December 31, 2018, the Corporation cancelled nine thousand shares of common stock with a value of \$748 that were pledged as collateral by a tenant. The cancellation of the shares was used to settle \$748 in outstanding receivables associated with the tenant.
- During the year ended December 31, 2016, the Company issued a note receivable for \$3,700 in connection with the sale of real estate (see Note 8).
- At December 31, 2018, 2017, and 2016, dividend amounts declared and accrued but not yet paid amounted to \$10,111, \$8,449, and \$6,643, respectively.
- In connection with real estate transactions conducted during the year ended December 31, 2018, the Company settled notes receivable in the amount of \$6,527 in exchange for a reduction to the cash paid for the associated real estate assets (see Notes 4 and 8).
- In connection with real estate transactions conducted during the years ended December 31, 2017 and 2016, the Company accepted tenant improvement allowances and credits for rent in advance of \$2,777 and \$1,730, and \$8,649 and \$2,367, respectively, in exchange for a reduction to the cash paid for the associated real estate assets.

18. Commitments and Contingencies

Litigation

From time to time, the Company is a party to various litigation matters incidental to the conduct of the Company's business. While the resolution of such matters cannot be predicted with certainty, based on currently available information, the Company does not believe that the final outcome of any of these matters will have a material effect on its consolidated financial position, results of operations or liquidity.

Property and Acquisition Related

In connection with ownership and operation of real estate, the Company may potentially be liable for cost and damages related to environmental matters. The Company is not aware of any non-compliance, liability, claim, or other environmental condition that would have a material effect on its consolidated financial position, results of operations, or liquidity.

As part of acquisitions closed during 2017 and 2016, the Company assumed six separate lease agreements that provided for a total of \$2,777 and \$10,464, respectively, in tenant improvement allowances.

Balances associated with tenant improvement allowances at December 31, 2018 and 2017 were as follows:

(in thousands)	December 31,	
	2018	2017
Tenant improvement allowances	\$ 2,125	\$ 5,669

Payments made for work completed under tenant improvement allowances for the years ended December 31, 2018 and 2017 were as follows:

(in thousands)	For the years ended December 31,	
	2018	2017
Payments for tenant improvement allowances	\$ 4,026	\$ 6,598

The Company is a party to three separate Tax Protection Agreements (Agreements) with the contributing members (Protected Members) of three distinct UPREIT transactions conducted in October 2017, February 2016, and November 2015. The Agreements require the Company to pay monetary damages in the event of a sale, exchange, transfer or other disposal of the contributed property in a taxable transaction that would cause a Protected Member to recognize a Protected Gain, as defined in the Agreements and subject to certain exceptions. In such an event, the Company will pay monetary damages to the Protected Members in the amount of the aggregate federal, state, and local income taxes incurred as a result of the income or gain allocated or recognized by the Protected Member as an outcome of the transaction, subject to certain caps and limitations contained in the Agreements. The Company is required to allocate to the Protected Members, an amount of nonrecourse liabilities that is at least equal to the Minimum Liability Amount for each Protected Member, as contained in the Agreements. The minimum liability amount and the associated allocation of nonrecourse liabilities are calculated in accordance with applicable tax regulations, are completed at the Operating Company level, and do not represent GAAP accounting. Therefore, there is no impact to the Consolidated Financial Statements. If the nonrecourse liabilities allocated do not meet the requirement, the Company will pay monetary damages to the Protected Members in the amount of the aggregate federal, state, and local income taxes incurred as a result of the income or gain allocated or recognized by the Protected Member as an outcome to the default. The maximum aggregate amount the Company may be liable for under the Agreements is approximately \$12,300. Based on information available, the Company does not believe that the events resulting in damages as detailed above have occurred.

Obligations Under Operating Leases

In connection with 2018 acquisitions, the Company leases land at certain properties under non-cancellable operating leases with initial lease terms ranging from 2025 to 2066. These leases contain provisions for fixed monthly rent

payments, subject to rent escalations. One lease requires the Company to make annual rent payments calculated based upon sales generated at the property (“percentage rent”). For the year ended December 31, 2018, rent expense associated with these leases, included in Property and operating expense on the Consolidated Statements of Income and Comprehensive Income, amounted to \$82, including \$23 of percentage rent expense.

Minimum future rental payments due under non-cancelable operating leases at December 31, 2018 are as follows:

(in thousands)

2019	\$	118
2020		120
2021		122
2022		124
2023		125
Thereafter		2,540
	\$	<u>3,149</u>

The above rental payments include future minimum lease payments due during the initial lease terms. Such amounts exclude any contingent amounts associated with percentage rent or changes in the Consumer Price Index.

19. Subsequent Events

Through February 28, 2019, the most recent monthly equity closing, the Company has raised \$49,800 for a total of 584 shares through monthly equity closings, including dividend reinvestments. Through February 15, 2019, the most recent distribution date, the Company has paid \$20,338 in distributions, including dividend reinvestments.

On February 8, 2019, the Board of Directors declared monthly distributions of \$0.44 per share of the Company’s common stock and membership units of record through April 29, 2019. The distributions are payable on the 15th of the following month to stockholders and unit holders of record on the last day of the month. In addition, the Company’s IDC determined the share value for the Company’s common stock is \$85 per share for subscription agreements received from February 1, 2019 through April 30, 2019.

Subsequent to December 31, 2018, the Company continued to expand its operations through the acquisition of additional rental property and associated intangible assets and liabilities. Through March 14, 2019, the Company acquired approximately \$14,964 of rental property and associated intangible assets and liabilities (see Note 4). Through March 14, 2019 the Company sold four properties with an aggregate carrying value of \$9,213 for total proceeds of \$11,291. The Company incurred additional expenses related to the sales of approximately \$629, resulting in a gain on sale of real estate of approximately \$1,449.

Subsequent to December 31, 2018, the Operating Company paid off borrowings on the Revolver in the aggregate amount of \$40,000 and transferred the \$15,000 outstanding swingline loan at December 31, 2018 to the Revolver. On January 18, 2019, the Company prepaid a mortgage in full in the amount of \$1,745.

On January 10, 2019, the Company exercised its first of two options available under the terms of the 2015 Unsecured Term Loan Agreement (see Note 9), extending the maturity date of the loan through February 6, 2020, in exchange for the payment of a 0.10% fee.

On February 27, 2019, the Company entered into a \$450,000 seven-year unsecured term loan agreement (the “2019 Unsecured Term Loan”) with Capital One, N.A. as administrative agent. The 2019 Unsecured Term Loan provides an accordion feature for up to a total of \$550,000 borrowing capacity. The 2019 Unsecured Term Loan has an initial maturity date of February 27, 2026. Borrowings under the 2019 Unsecured Term Loan are subject to interest only payments at variable rates equal to LIBOR plus a margin based on the Operating Company’s investment grade credit rating between 1.45% and 2.40% per annum. Based on the Operating Company’s current credit rating of Baa3, the applicable margin under the 2019 Unsecured Term Loan is 1.85%. The 2019 Unsecured Term Loan is subject to a fee of 0.25% per annum on the amount of the commitment, reduced by the amount of term loans outstanding. At

closing, \$300,000 of the commitment was funded and used to repay the 2015 Unsecured Term Loan (see Note 9) in full. The remaining \$150,000 commitment can be drawn in up to three requests through August 27, 2019.

On February 28, 2019, the Company amended the 2017 Unsecured Revolving Credit and Term Loan Agreement (see Note 9) to increase the amount available under the Revolver from \$425,000 to \$600,000. This increased the total available borrowings under the 2017 Unsecured Revolving Credit and Term Loan Agreement to \$1,055,000. All other terms and conditions of the 2017 Unsecured Revolving Credit and Term Loan Agreement remain the same as those in effect prior to this amendment.

In connection with the 2019 Unsecured Term Loan and the amended 2017 Unsecured Revolving Credit and Term Loan Agreement, the Company paid approximately \$5,100 in debt issuance costs. The Company is currently performing an analysis of these costs in accordance with ASU 470-50, *Debt Modifications and Extinguishment*, to determine the amount of costs to be deferred and amortized over the term of the associated debt and the amount of the costs, if any, that will be expensed as debt extinguishment.

20. Selected Quarterly Results (unaudited)

Presented below is a summary of the Company's unaudited quarterly financial information for the years ended December 31, 2018 and 2017:

	For the quarter ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
<i>(in thousands, except per share)</i>				
Total revenues	\$ 55,589	\$ 57,032	\$ 61,764	\$ 63,094
Net income	\$ 18,995	\$ 18,386	\$ 23,064	\$ 14,660
Net income attributable to non-controlling interests	(1,422)	(1,412)	(1,797)	(1,099)
Net income attributable to Broadstone Net Lease, Inc.	\$ 17,573	\$ 16,974	\$ 21,267	\$ 13,561
Net earnings per common share basic and diluted	\$ 0.92	\$ 0.86	\$ 1.03	\$ 0.63
Weighted average number of common shares outstanding				
Basic	19,167	19,829	20,554	21,416
Diluted	20,719	21,478	22,291	23,154

	For the quarter ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
<i>(in thousands, except per share)</i>				
Total revenues	\$ 42,185	\$ 43,671	\$ 46,235	\$ 49,472
Net income	\$ 13,747	\$ 15,992	\$ 12,990	\$ 16,826
Net income attributable to non-controlling interests	(1,153)	(1,265)	(1,042)	(1,296)
Net income attributable to Broadstone Net Lease, Inc.	\$ 12,594	\$ 14,727	\$ 11,948	\$ 15,530
Net earnings per common share basic and diluted	\$ 0.81	\$ 0.89	\$ 0.68	\$ 0.84
Weighted average number of common shares outstanding				
Basic	15,582	16,623	17,617	18,515
Diluted	17,009	18,051	19,147	20,096

Broadstone Net Lease, Inc. and Subsidiaries

Schedule III – Real Estate Assets and Accumulated Depreciation
As of December 31, 2018
(in thousands)

City	State	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period			Accumulated Depreciation		Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)						
		Land	Improvements	Land	Improvements	Land	Improvements	Total(B)											
Retail Properties:																			
Augusta	GA	\$	—	\$	1,108	\$	—	\$	270	\$	1,108	\$	1,378	\$	374	1992	2007	2007	15-39
Pensacola	FL	—	207	—	1,595	—	—	207	1,595	1,802	534	1998	2007	15-39					
Jacksonville	FL	—	223	—	1,262	—	—	223	1,262	1,485	495	1987	2007	15-39					
Emporia	VA	—	325	—	1,841	—	—	325	1,841	2,166	643	1993	2007	15-39					
Sarasota	FL	—	553	—	3,131	—	—	553	3,131	3,684	953	1994	2008	15-39					
Jacksonville	FL	1,459	673	—	2,691	—	—	673	2,691	3,364	767	1998	2009	15-39					
Katy	TX	—	500	—	648	—	—	500	648	1,148	201	1997	2009	15-39					
La Porte	TX	—	250	—	1,151	—	—	250	1,151	1,401	342	1996	2009	15-39					
Rowlett	TX	—	350	—	776	—	—	350	776	1,126	247	1995	2009	15-39					
Norman	OK	—	280	—	1,049	—	—	280	1,049	1,329	287	1991	2009	15-39					
Oklahoma City	OK	—	540	—	517	—	—	540	517	1,057	185	2001	2009	15-39					
Ashland City	TN	—	59	—	973	—	—	59	973	1,032	61	1992	2016	15-39					
Cadiz	KY	—	77	—	1,048	—	—	77	1,048	1,125	68	1992	2016	15-39					
Centerville	TN	—	68	—	965	—	—	68	965	1,033	65	2006	2016	15-39					
Kingston Springs	TN	—	92	—	978	—	—	92	978	1,070	68	1998	2016	15-39					
Mount Juliet	TN	—	76	—	995	—	—	76	995	1,071	66	1994	2016	15-39					
White House	TN	—	105	—	927	—	—	105	927	1,032	66	2003	2016	15-39					
Stillwater	OK	—	811	—	1,622	—	—	811	1,622	2,433	440	2008	2010	15-39					
Mountain Home	AR	—	338	—	1,016	—	—	338	1,016	1,354	269	1988	2010	15-39					
Batesville	AR	—	214	—	1,055	—	—	214	1,055	1,269	292	1988	2010	15-39					
Paragould	AR	—	187	—	1,444	—	—	187	1,444	1,631	349	1990	2010	15-39					
Forrest City	AR	—	84	—	941	—	—	84	941	1,025	261	1989	2010	15-39					
Dyersburg	TN	—	276	—	1,250	—	—	276	1,250	1,526	315	1989	2010	15-39					
Martin	TN	—	152	—	858	—	—	152	858	1,010	241	1999	2010	15-39					
Union City	TN	—	72	—	806	—	—	72	806	878	217	1988	2010	15-39					
Highland Heights	KY	—	850	—	1,984	—	—	850	1,984	2,834	469	1985	2010	15-39					
Somerset	NJ	—	912	—	2,735	—	—	912	2,735	3,647	637	1992	2011	15-39					
Inver Grove Heights	MN	—	592	—	1,777	—	—	592	1,777	2,369	436	1997	2011	15-39					

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition			Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)					
Mankato	MN	—	712	2,136	—	—	712	2,136	2,848	498	1994	2011	15-39	
Saint Paul	MN	—	606	1,817	—	—	606	1,817	2,423	448	1994	2011	15-39	
Jackson	TN	—	204	1,154	—	—	204	1,154	1,358	253	1999	2011	15-39	
Henderson	TN	—	141	800	—	—	141	800	941	167	1986	2012	15-39	
Lexington	TN	—	150	848	—	—	150	848	998	179	1995	2012	15-39	
Humboldt	TN	—	118	669	—	—	118	669	787	157	1993	2012	15-39	
Cocoa Beach	FL	—	283	848	—	—	283	848	1,131	174	1992	2012	15-39	
Lake Mary	FL	—	422	1,265	—	—	422	1,265	1,687	243	1989	2012	15-39	
New Smyrna Beach	FL	—	382	1,146	—	—	382	1,146	1,528	273	2008	2012	15-39	
Orlando	FL	—	351	1,052	—	—	351	1,052	1,403	213	1990	2012	15-39	
Orlando	FL	—	219	656	—	—	219	656	875	153	1996	2012	15-39	
Savannah	GA	—	390	1,170	—	—	390	1,170	1,560	241	2009	2012	15-39	
Savannah	GA	—	376	1,129	—	—	376	1,129	1,505	226	2009	2012	15-39	
Oakwood	GA	—	400	1,199	—	—	400	1,199	1,599	244	2008	2012	15-39	
Hinesville	GA	—	402	1,207	—	—	402	1,207	1,609	262	2008	2012	15-39	
Princeton	WV	—	269	1,524	—	—	269	1,524	1,793	285	1976	2012	15-39	
Princeton	WV	—	301	1,703	—	—	301	1,703	2,004	317	1991	2012	15-39	
Marietta	OH	—	246	1,395	—	—	246	1,395	1,641	253	2007	2012	15-39	
Pomeroy	OH	—	208	1,178	—	—	208	1,178	1,386	232	1997	2012	15-39	
Elkins	WV	—	452	1,355	—	—	452	1,355	1,807	252	1980	2012	15-39	
State College	PA	—	365	1,461	—	—	365	1,461	1,826	262	1976	2012	15-39	
Summerville	WV	—	109	2,366	—	—	109	2,366	2,475	125	1993	2017	15-39	
Oxford	AL	—	240	958	—	—	240	958	1,198	186	1999	2012	15-39	
Oxford	AL	—	320	158	—	1,100	320	1,258	1,578	96	2009	2012	15-39	
Pell City	AL	—	237	1,340	—	—	237	1,340	1,577	238	2002	2012	15-39	
Tuscaloosa	AL	—	449	1,796	—	—	449	1,796	2,245	321	2010	2012	15-39	
Jacksonville	AL	—	190	1,077	—	—	190	1,077	1,267	202	2000	2012	15-39	
Tuscaloosa	AL	—	422	1,686	—	—	422	1,686	2,108	314	2001	2012	15-39	
Tampa	FL	—	208	1,179	—	—	208	1,179	1,387	208	1980	2012	15-39	
Tampa	FL	—	288	1,634	—	—	288	1,634	1,922	298	1987	2012	15-39	
Richmond	VA	—	202	1,147	—	—	202	1,147	1,349	212	1984	2012	15-39	
Exton	PA	—	470	1,882	—	—	470	1,882	2,352	357	1982	2012	15-39	
Richmond	VA	—	133	755	—	—	133	755	888	154	1981	2012	15-39	
Paoli	PA	—	360	1,440	—	—	360	1,440	1,800	256	1982	2012	15-39	
Seffner	FL	—	127	1,910	—	—	127	1,910	2,037	285	1992	2013	15-39	
Bradenton	FL	—	277	1,621	—	—	277	1,621	1,898	249	1996	2013	15-39	

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Zephyrhills	FL	—	127	1,696	—	—	—	127	1,696	1,823	262	1992	2013	2013	15-39	
Saint Petersburg	FL	—	233	1,440	—	—	—	233	1,440	1,673	218	1988	2013	2013	15-39	
Tampa	FL	—	189	1,234	—	—	—	189	1,234	1,423	200	1996	2013	2013	15-39	
Dade City	FL	—	163	802	—	—	—	163	802	965	140	2008	2013	2013	15-39	
White Marsh	MD	—	3,223	200	—	—	—	3,223	200	3,423	47	1986	2013	2013	15-39	
Manassas	VA	—	1,187	197	—	—	—	1,187	197	1,384	39	1986	2013	2013	15-39	
Morrisville	NC	—	235	46	—	—	—	235	46	281	12	1960	2013	2013	15-39	
Aston	PA	—	2,554	126	—	—	—	2,554	126	2,680	28	1984	2013	2013	15-39	
Cincinnati	OH	—	1,001	173	—	—	—	1,001	173	1,174	47	1976	2013	2013	15-39	
Columbus	OH	—	757	77	—	—	—	757	77	834	17	1981	2013	2013	15-39	
Windsor	CT	—	1,887	204	—	—	—	1,887	204	2,091	56	1986	2013	2013	15-39	
Pittsburgh	PA	—	1,691	244	—	—	—	1,691	244	1,935	56	1989	2013	2013	15-39	
Palmdale	CA	—	995	2,811	—	—	—	995	2,811	3,806	572	1991	2013	2013	15-39	
Palmdale	CA	—	670	1,610	—	—	—	670	1,610	2,280	350	2006	2013	2013	15-39	
Palmdale	CA	—	987	3,817	—	—	—	987	3,817	4,804	696	1991	2013	2013	15-39	
Alamogordo	NM	—	22	2,117	—	—	—	22	2,117	2,139	292	1983	2014	2014	15-39	
Roswell	NM	—	64	2,059	—	—	—	64	2,059	2,123	275	1990	2014	2014	15-39	
Moore	OK	—	64	1,249	—	—	—	64	1,249	1,313	179	1975	2014	2014	15-39	
Del City	OK	—	40	1,370	—	—	—	40	1,370	1,410	188	1980	2014	2014	15-39	
Oklahoma City	OK	—	105	1,150	—	—	—	105	1,150	1,255	157	1977	2014	2014	15-39	
Oklahoma City	OK	—	721	1,049	—	—	—	721	1,049	1,770	163	2003	2014	2014	15-39	
Mustang	OK	—	70	1,722	—	—	—	70	1,722	1,792	239	2004	2014	2014	15-39	
Yukon	OK	—	63	1,851	—	—	—	63	1,851	1,914	262	1994	2014	2014	15-39	
Fort Worth	TX	—	487	934	—	—	—	487	934	1,421	133	2003	2014	2014	15-39	
Kearney	NE	—	113	1,242	—	—	—	113	1,242	1,355	177	1982	2014	2014	15-39	
Kearney	NE	—	176	1,238	—	—	—	176	1,238	1,414	182	1991	2014	2014	15-39	
Grand Island	NE	—	425	—	—	—	—	425	—	425	—	1992	2014	2014	—	
Ogallala	NE	—	291	1,243	—	—	—	291	1,243	1,534	194	1986	2014	2014	15-39	
McAlester	OK	—	52	1,521	—	—	—	52	1,521	1,573	217	2006	2014	2014	15-39	
Oklahoma City	OK	—	466	928	—	—	—	466	928	1,394	106	1970	2015	2015	15-39	
Laredo	TX	—	425	2,476	—	—	—	425	2,476	2,901	330	2001	2014	2014	15-39	
Mt. Pleasant	TX	—	1,141	997	—	—	—	1,141	997	2,138	208	1972	2014	2014	15-39	
Madill	OK	—	739	714	—	—	—	739	714	1,453	89	1993	2014	2014	15-39	
Fort Worth	TX	—	1,142	554	—	—	—	1,142	554	1,696	88	1980	2014	2014	15-39	
Dallas	TX	—	454	449	—	—	—	454	449	903	81	1984	2014	2014	15-39	
Wichita Falls	TX	—	674	186	—	—	—	674	186	860	33	1995	2014	2014	15-39	

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)						
Lytle	TX	—	97	815	—	—	97	815	912	100	2008	2015	15-39		
New Caney	TX	—	37	875	—	—	37	875	912	96	1972	2015	15-39		
St. George	UT	—	362	2,447	(80)	(539)	282	1,908	2,190	229	2000	2015	15-39		
Tooele	UT	—	389	1,945	(45)	(223)	344	1,722	2,066	203	2000	2015	15-39		
Cedar City	UT	—	333	2,544	(4)	(31)	329	2,513	2,842	311	2000	2015	15-39		
West Valley City	UT	—	326	2,222	(22)	(152)	304	2,070	2,374	236	1998	2015	15-39		
Renton	WA	—	539	1,141	—	—	539	1,141	1,680	128	1986	2015	15-39		
Tacoma	WA	—	807	643	—	—	807	643	1,450	91	1991	2015	15-39		
Tacoma	WA	—	562	897	—	—	562	897	1,459	105	1993	2015	15-39		
Tukwila	WA	—	1,170	419	—	—	1,170	419	1,589	92	1993	2015	15-39		
Federal Way	WA	—	334	1,088	—	—	334	1,088	1,422	111	1995	2015	15-39		
Lakewood	WA	—	1,372	878	—	—	1,372	878	2,250	120	1995	2015	15-39		
Burlington	WA	—	178	1,982	—	—	178	1,982	2,160	204	2000	2015	15-39		
Everett	WA	—	175	1,473	—	—	175	1,473	1,648	163	1986	2015	15-39		
Puyallup	WA	—	622	—	—	—	622	—	622	—	1994	2015	—		
Aberdeen	WA	—	218	1,446	—	—	218	1,446	1,664	150	2006	2015	15-39		
Florence	AL	—	337	2,609	—	—	337	2,609	2,946	267	2011	2015	15-39		
Decatur	AL	—	364	3,708	—	—	364	3,708	4,072	375	2014	2015	15-39		
Tupelo	MS	—	297	3,030	—	—	297	3,030	3,327	300	2012	2015	15-39		
Russellville	AR	—	250	3,354	(54)	(725)	196	2,629	2,825	268	2014	2015	15-39		
Adamsville	TN	—	59	1,675	—	—	59	1,675	1,734	158	2005	2015	15-39		
Adamsville	AL	—	123	1,924	—	—	123	1,924	2,047	191	1989	2015	15-39		
Alexandria	AL	—	79	2,318	—	—	79	2,318	2,397	214	2004	2015	15-39		
Ashville	AL	—	124	1,696	—	—	124	1,696	1,820	156	1999	2015	15-39		
Athens	AL	—	143	1,996	—	—	143	1,996	2,139	184	2007	2015	15-39		
Carbon Hill	AL	—	54	1,634	—	—	54	1,634	1,688	154	1998	2015	15-39		
Carrollton	GA	—	77	2,030	—	—	77	2,030	2,107	187	2008	2015	15-39		
Centreville	AL	—	140	2,251	—	—	140	2,251	2,391	200	2013	2015	15-39		
Gadsden	AL	—	42	2,571	—	—	42	2,571	2,613	230	1991	2015	15-39		
Cullman	AL	—	71	1,799	—	—	71	1,799	1,870	164	1997	2015	15-39		
Cullman	AL	—	79	1,949	—	—	79	1,949	2,028	185	2006	2015	15-39		
Dora	AL	—	18	—	—	2,095	18	2,095	2,113	—	1968	2015	15-39		
Double Springs	AL	—	306	1,752	—	—	306	1,752	2,058	168	1995	2015	15-39		
Moulton	AL	—	117	1,752	—	—	117	1,752	1,869	169	2003	2015	15-39		
Guntersville	AL	—	382	2,020	—	—	382	2,020	2,402	197	2015	2015	15-39		
Harpersville	AL	—	48	2,645	—	—	48	2,645	2,693	230	1995	2015	15-39		

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)	Accumulated Depreciation					
Harvest	AL	—	163	2,060	—	—	163	2,060	2,223	194	2014	2015	15-39		
Henderson	TN	—	111	1,608	—	—	111	1,608	1,719	173	1987	2015	15-39		
Madison	AL	—	209	1,958	—	—	209	1,958	2,167	190	2011	2015	15-39		
Lawrenceburg	TN	—	117	1,832	—	—	117	1,832	1,949	215	2014	2015	15-39		
Montevallo	AL	—	60	2,203	—	—	60	2,203	2,263	202	2009	2015	15-39		
Muscle Shoals	AL	—	44	—	1,867	—	44	1,867	1,911	—	1984	2015	15-39		
Odenville	AL	—	100	1,652	—	—	100	1,652	1,752	169	2000	2015	15-39		
Piedmont	AL	—	33	1,934	—	—	33	1,934	1,967	170	1981	2015	15-39		
Reform	AL	—	201	1,979	—	—	201	1,979	2,180	205	1992	2015	15-39		
Roanoke	AL	—	83	1,625	—	—	83	1,625	1,708	149	2006	2015	15-39		
Savannah	TN	—	62	1,693	—	—	62	1,693	1,755	165	2012	2015	15-39		
Sheffield	AL	—	43	1,730	—	—	43	1,730	1,773	150	1967	2015	15-39		
Somerville	AL	—	28	1,758	—	—	28	1,758	1,786	182	2001	2015	15-39		
Springville	AL	—	31	1,994	—	—	31	1,994	2,025	176	1993	2015	15-39		
Stevenson	AL	—	306	1,862	—	—	306	1,862	2,168	170	1985	2015	15-39		
Trussville	AL	—	34	2,039	—	—	34	2,039	2,073	178	1992	2015	15-39		
Tusculum	AL	—	117	1,831	—	—	117	1,831	1,948	179	2004	2015	15-39		
Wedowee	AL	—	92	1,454	—	—	92	1,454	1,546	129	2002	2015	15-39		
Huntsville	AL	—	133	2,029	—	—	133	2,029	2,162	184	2010	2015	15-39		
Ashwaubenon	WI	—	86	2,008	—	—	86	2,008	2,094	186	1994	2015	15-39		
Oshkosh	WI	—	145	1,795	—	—	145	1,795	1,940	175	1996	2015	15-39		
Green Bay	WI	—	106	1,713	—	—	106	1,713	1,819	165	1996	2015	15-39		
West Bend	WI	—	113	1,704	—	—	113	1,704	1,817	163	1996	2015	15-39		
Appleton	WI	—	96	1,637	—	—	96	1,637	1,733	157	1996	2015	15-39		
Appleton	WI	—	95	2,478	—	—	95	2,478	2,573	225	1976	2015	15-39		
Manitowoc	WI	—	106	1,714	—	—	106	1,714	1,820	166	1996	2015	15-39		
Eau Claire	WI	—	137	2,245	—	—	137	2,245	2,382	219	1994	2015	15-39		
Dover	DE	—	211	3,455	—	—	211	3,455	3,666	307	1991	2015	15-39		
Norman	OK	—	232	3,733	—	—	232	3,733	3,965	334	1982	2015	15-39		
Knoxville	TN	—	151	2,775	—	—	151	2,775	2,926	267	1978	2015	15-39		
Wichita	KS	—	468	3,475	—	—	468	3,475	3,943	311	1982	2015	15-39		
Las Cruces	NM	—	108	4,069	—	—	108	4,069	4,177	369	1991	2015	15-39		
Lee's Summit	MO	—	132	3,447	—	—	132	3,447	3,579	324	2010	2015	15-39		
Gadsden	AL	—	219	2,915	—	—	219	2,915	3,134	266	1981	2015	15-39		
Murfreesboro	TN	—	247	2,747	—	—	247	2,747	2,994	266	1987	2015	15-39		
Macon	GA	—	258	3,235	—	—	258	3,235	3,493	287	1972	2015	15-39		

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Accumulated Depreciation	Date is Computed (Years)	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Lexington	KY	—	1,258	—	—	—	—	1,258	—	1,258	—	1976	—	2015	—	15-39
Joliet	IL	—	686	3,072	—	—	—	686	3,072	3,758	298	1991	2015	2015	15-39	15-39
Wheat Ridge	CO	—	451	3,614	—	—	—	451	3,614	4,065	317	1974	2015	2015	15-39	15-39
Tulsa	OK	—	125	3,846	—	—	—	125	3,846	3,971	338	1987	2015	2015	15-39	15-39
Oakdale	MN	—	197	3,455	—	—	—	197	3,455	3,652	303	2006	2015	2015	15-39	15-39
Pineville	NC	—	74	3,587	—	—	—	74	3,587	3,661	325	1991	2015	2015	15-39	15-39
Albuquerque	NM	—	196	3,389	—	—	—	196	3,389	3,585	311	2002	2015	2015	15-39	15-39
Maple Grove	MN	—	243	3,253	—	—	—	243	3,253	3,496	296	2001	2015	2015	15-39	15-39
Madison	TN	—	97	4,617	—	—	—	97	4,617	4,714	341	1972	2016	2016	15-39	15-39
Florence	KY	—	61	4,687	—	—	—	61	4,687	4,748	350	1977	2016	2016	15-39	15-39
Maplewood	MN	—	315	1,551	—	—	—	315	1,551	1,866	154	1983	2016	2016	15-39	15-39
Santa Fe	NM	—	121	2,979	—	—	—	121	2,979	3,100	219	1990	2016	2016	15-39	15-39
Memphis	TN	—	103	3,327	—	—	—	103	3,327	3,430	260	2008	2016	2016	15-39	15-39
Jonesboro	AR	—	324	3,383	—	—	—	324	3,383	3,707	259	2011	2016	2016	15-39	15-39
Lafayette	IN	—	285	3,436	—	—	—	285	3,436	3,721	263	2012	2016	2016	15-39	15-39
Bridgeport	WV	—	88	4,074	—	—	—	88	4,074	4,162	334	2007	2016	2016	15-39	15-39
St. Mary's	OH	—	56	3,997	—	—	—	56	3,997	4,053	335	2011	2016	2016	15-39	15-39
Lima	OH	—	69	3,813	—	—	—	69	3,813	3,882	317	2009	2016	2016	15-39	15-39
Sterling	VA	18,260	24,395	—	—	—	—	24,395	—	24,395	—	2004	2016	2016	—	—
Round Rock	TX	—	769	4,176	—	—	—	769	4,176	4,945	304	1984	2016	2016	15-39	15-39
Austin	TX	—	1,184	5,678	—	—	—	1,184	5,678	6,862	418	1998	2016	2016	15-39	15-39
Austin	TX	—	2,104	7,566	—	—	—	2,104	7,566	9,670	585	2006	2016	2016	15-39	15-39
Austin	TX	—	4,190	7,829	—	—	—	4,190	7,829	12,019	579	1994	2016	2016	15-39	15-39
Central City	KY	—	315	580	—	—	—	315	580	895	50	1978	2016	2016	15-39	15-39
Owensboro	KY	—	177	615	—	—	—	177	615	792	46	1972	2016	2016	15-39	15-39
Newburgh	IN	—	330	—	—	—	—	330	—	330	—	1994	2016	2016	—	—
Sikeston	MO	—	205	2,235	—	—	—	205	2,235	2,440	171	1940	2016	2016	15-39	15-39
Evansville	IN	—	636	3,655	—	—	—	636	3,655	4,291	264	1949	2016	2016	15-39	15-39
Evansville	IN	—	244	2,375	—	—	—	244	2,375	2,619	167	1909	2016	2016	15-39	15-39
Marion	IL	—	314	2,089	—	—	—	314	2,089	2,403	152	1970	2016	2016	15-39	15-39
Kennett	MO	—	191	1,198	—	—	—	191	1,198	1,389	89	1970	2016	2016	15-39	15-39
Poplar Bluff	MO	—	149	1,794	—	—	—	149	1,794	1,943	138	1970	2016	2016	15-39	15-39
Cape Girardeau	MO	—	76	542	—	—	—	76	542	618	46	1988	2016	2016	15-39	15-39
Scott City	MO	—	260	3,052	—	—	—	260	3,052	3,312	225	1978	2016	2016	15-39	15-39
Henderson	KY	—	290	729	—	—	—	290	729	1,019	61	1973	2016	2016	15-39	15-39
Blytheville	AR	—	413	3,405	—	—	—	413	3,405	3,818	267	1966	2016	2016	15-39	15-39

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)				
Harrisburg	IL	—	131	839	—	—	131	839	970	59	1970	2016	15-39
Clarksville	IN	—	1,091	3,890	—	—	1,091	3,890	4,981	309	1961	2016	15-39
Owensboro	KY	—	499	734	—	—	499	734	1,233	59	1976	2016	15-39
Evansville	IN	—	203	369	—	—	203	369	572	41	2001	2016	15-39
Haubstadt	IN	—	379	1,349	—	—	379	1,349	1,728	117	2005	2016	15-39
Otterbein	IN	—	177	1,385	—	—	177	1,385	1,562	127	1978	2016	15-39
Dothan	AL	—	539	2,551	—	—	539	2,551	3,090	177	1997	2016	15-39
Tallahassee	FL	—	864	2,184	—	—	864	2,184	3,048	161	1995	2016	15-39
Peachtree City	GA	—	476	2,590	—	—	476	2,590	3,066	185	1997	2016	15-39
Valdosta	GA	—	524	2,504	—	—	524	2,504	3,028	179	1997	2016	15-39
Orland Park	IL	—	686	2,358	—	—	686	2,358	3,044	176	1994	2016	15-39
Rockford	IL	—	450	2,701	—	—	450	2,701	3,151	188	1996	2016	15-39
Bloomington	IN	—	240	2,761	—	—	240	2,761	3,001	177	1994	2016	15-39
Kokomo	IN	—	106	3,065	—	—	106	3,065	3,171	189	1995	2016	15-39
Clarkston	MI	—	284	2,788	—	—	284	2,788	3,072	212	1997	2016	15-39
Madison Heights	MI	—	58	3,094	—	—	58	3,094	3,152	190	1995	2016	15-39
Brighton	MI	—	102	2,920	—	—	102	2,920	3,022	209	1998	2016	15-39
Jackson	MI	—	177	2,846	—	—	177	2,846	3,023	199	1996	2016	15-39
Hendersonville	NC	—	165	2,928	—	—	165	2,928	3,093	215	2000	2016	15-39
New Bern	NC	—	284	2,525	—	—	284	2,525	2,809	177	2000	2016	15-39
Las Vegas	NV	—	962	2,086	—	—	962	2,086	3,048	165	2002	2016	15-39
Cherry Hill	NJ	—	791	2,340	—	—	791	2,340	3,131	174	1992	2016	15-39
Harrisburg	PA	—	735	2,340	—	—	735	2,340	3,075	168	1994	2016	15-39
Pittsburgh	PA	—	363	3,488	—	—	363	3,488	3,851	241	1996	2016	15-39
Beaumont	TX	—	206	3,241	—	—	206	3,241	3,447	222	1996	2016	15-39
Desoto	TX	—	535	2,542	—	—	535	2,542	3,077	186	1999	2016	15-39
Lewisville	TX	—	299	2,786	—	—	299	2,786	3,085	182	1994	2016	15-39
Webster	TX	—	591	2,622	—	—	591	2,622	3,213	188	1995	2016	15-39
Harrisonburg	VA	—	444	2,645	—	—	444	2,645	3,089	196	1998	2016	15-39
Beckley	WV	—	194	3,049	—	—	194	3,049	3,243	206	1997	2016	15-39
Ithaca	MI	—	739	2,669	—	—	739	2,669	3,408	200	2015	2016	15-39
Gillette	WY	—	366	3,447	—	—	366	3,447	3,813	245	2014	2016	15-39
Novi	MI	—	201	12,681	—	—	201	12,681	12,882	677	1985	2017	15-39
Lansing	MI	—	88	13,919	—	3	88	13,922	14,010	715	1999	2017	15-39
Flint	MI	—	83	7,987	—	—	83	7,987	8,070	412	1977	2017	15-39
Clinton Township	MI	—	358	9,551	—	—	358	9,551	9,909	495	1987	2017	15-39

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)	Accumulated Depreciation					
Chesterfield	MI	—	753	9,716	—	—	—	753	9,716	10,469	519	2003	2017	2017	15-39
Traverse City	MI	—	106	8,468	—	—	—	106	8,468	8,574	438	1998	2017	2017	15-39
Warren	MI	—	158	5,394	—	—	—	158	5,394	5,552	278	1991	2017	2017	15-39
Grandville	MI	—	339	4,368	—	—	—	339	4,368	4,707	232	2002	2017	2017	15-39
Grand Rapids	MI	—	68	1,038	—	—	—	68	1,038	1,106	57	2014	2017	2017	15-39
Portage	MI	—	38	2,041	—	—	—	38	2,041	2,079	108	1981	2017	2017	15-39
Brook Park	OH	—	180	1,875	—	—	—	180	1,875	2,055	96	2000	2017	2017	15-39
Terre Haute	IN	—	207	1,860	—	—	—	207	1,860	2,067	93	1984	2017	2017	15-39
Harmarville	PA	—	157	1,761	—	—	—	157	1,761	1,918	98	1984	2017	2017	15-39
Youngstown	OH	—	72	1,945	—	—	—	72	1,945	2,017	98	1983	2017	2017	15-39
Mars	PA	—	381	1,572	—	—	—	381	1,572	1,953	90	2004	2017	2017	15-39
Lafayette	IN	—	125	1,793	—	—	—	125	1,793	1,918	88	1976	2017	2017	15-39
Joliet	IL	—	366	1,505	—	—	—	366	1,505	1,871	89	1983	2017	2017	15-39
Cincinnati	OH	—	638	1,515	—	—	—	638	1,515	2,153	87	1988	2017	2017	15-39
Delaware	OH	—	54	1,788	—	—	—	54	1,788	1,842	90	1987	2017	2017	15-39
Wadsworth	OH	—	310	1,612	—	—	—	310	1,612	1,922	91	1989	2017	2017	15-39
Fort Wright	KY	—	68	2,374	—	9	—	68	2,383	2,451	121	1997	2017	2017	15-39
Akron	OH	—	134	1,605	—	—	—	134	1,605	1,739	106	1998	2017	2017	15-39
Mt. Vernon	IL	—	68	1,849	—	—	—	68	1,849	1,917	102	2001	2017	2017	15-39
Maysville	KY	—	37	1,889	—	—	—	37	1,889	1,926	98	2003	2017	2017	15-39
Parkersburg	WV	—	280	1,631	—	—	—	280	1,631	1,911	88	2004	2017	2017	15-39
Chesterton	IN	—	343	1,613	—	—	—	343	1,613	1,956	88	2004	2017	2017	15-39
Huntington	WV	—	344	1,575	—	—	—	344	1,575	1,919	84	2005	2017	2017	15-39
Amelia	OH	—	315	1,719	—	—	—	315	1,719	2,034	87	2006	2017	2017	15-39
Bellefontaine	OH	—	100	1,833	—	—	—	100	1,833	1,933	99	1994	2017	2017	15-39
Logan	OH	—	153	1,880	—	—	—	153	1,880	2,033	110	2008	2017	2017	15-39
Harrison	OH	—	204	1,514	—	—	—	204	1,514	1,718	82	2014	2017	2017	15-39
Upper Sandusky	OH	—	171	1,198	—	—	—	171	1,198	1,369	64	1994	2017	2017	15-39
San Antonio	TX	—	300	1,277	—	1	—	300	1,278	1,578	63	1998	2017	2017	15-39
Selma	TX	—	269	805	—	—	—	269	805	1,074	53	2013	2017	2017	15-39
Linwood	NC	—	206	475	—	—	—	206	475	681	40	1997	2017	2017	15-39
Vinton	TX	—	469	384	—	—	—	469	384	853	30	2016	2017	2017	15-39
Columbus	MN	—	406	945	—	2	—	406	947	1,353	48	1983	2017	2017	15-39
Louisville	KY	—	370	240	—	—	—	370	240	610	17	2002	2017	2017	15-39
Dunn	NC	—	199	659	—	—	—	199	659	858	35	2017	2017	2017	15-39
San Marcos	TX	—	486	776	—	—	—	486	776	1,262	44	2017	2017	2017	15-39

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Oshkosh	WI	—	134	5,372	—	—	—	134	5,372	5,506	210	1995	2017	2017	15-39	
Sheboygan	WI	—	266	2,787	—	—	—	266	2,787	3,053	127	2002	2017	2017	15-39	
Fond du Lac	WI	—	120	658	—	—	—	120	658	778	33	2006	2017	2017	15-39	
Green Bay	WI	—	398	9,087	—	2	—	398	9,089	9,487	351	1992	2017	2017	15-39	
Manitowoc	WI	—	293	2,926	—	—	—	293	2,926	3,219	127	1993	2017	2017	15-39	
Boynton Beach	FL	—	960	2,803	—	10	—	960	2,813	3,773	197	2007	2017	2017	7-39	
Jacksonville	FL	—	444	2,179	—	—	—	444	2,179	2,623	183	2008	2017	2017	7-39	
Jacksonville	FL	—	319	2,191	—	—	—	319	2,191	2,510	130	1999	2017	2017	7-39	
Miami Gardens	FL	—	803	2,181	—	—	—	803	2,181	2,984	179	2009	2017	2017	7-39	
Orange Park	FL	—	365	2,471	—	—	—	365	2,471	2,836	241	2006	2017	2017	7-39	
Milton	FL	—	505	1,994	—	—	—	505	1,994	2,499	172	2005	2017	2017	7-39	
Wichita	KS	—	488	2,135	—	—	—	488	2,135	2,623	170	2008	2017	2017	7-39	
Tulsa	OK	—	113	1,890	—	—	—	113	1,890	2,003	165	2008	2017	2017	7-39	
Alcoa	TN	—	751	1,829	—	—	—	751	1,829	2,580	169	1993	2017	2017	7-39	
Wichita	KS	—	233	2,443	—	—	—	233	2,443	2,676	58	2006	2018	2018	7-39	
Wichita	KS	—	206	2,262	—	—	—	206	2,262	2,468	58	2006	2018	2018	7-39	
Wichita	KS	—	234	1,761	—	—	—	234	1,761	1,995	52	2008	2018	2018	7-39	
Texarkana	TX	—	139	3,211	—	—	—	139	3,211	3,350	71	2016	2018	2018	7-39	
Pace	FL	—	215	2,955	—	—	—	215	2,955	3,170	74	2015	2018	2018	7-39	
Hoosick Falls	NY	—	78	1,612	—	—	—	78	1,612	1,690	63	2012	2017	2017	15-39	
Hadley	NY	—	100	1,586	—	—	—	100	1,586	1,686	65	2014	2017	2017	15-39	
Cairo	NY	—	106	1,609	—	—	—	106	1,609	1,715	58	2014	2017	2017	15-39	
Bridgewater	NY	—	241	1,482	—	—	—	241	1,482	1,723	59	2014	2017	2017	15-39	
Valatie	NY	—	102	1,720	—	—	—	102	1,720	1,822	62	2014	2017	2017	15-39	
Wurtsboro	NY	—	83	1,640	—	—	—	83	1,640	1,723	64	2014	2017	2017	15-39	
Ellensburg Center	NY	—	133	1,595	—	—	—	133	1,595	1,728	59	2014	2017	2017	15-39	
Marion	NY	—	149	1,457	—	—	—	149	1,457	1,606	50	2013	2017	2017	15-39	
Oswego	NY	—	124	1,636	—	—	—	124	1,636	1,760	60	2015	2017	2017	15-39	
Cincinnati	OH	—	367	1,168	—	—	—	367	1,168	1,535	40	2014	2017	2017	15-39	
Dayton	OH	—	249	1,240	—	—	—	249	1,240	1,489	45	2013	2017	2017	15-39	
West Alexandria	OH	—	371	1,108	—	—	—	371	1,108	1,479	39	2011	2017	2017	15-39	
Sheffield	MA	—	109	1,687	—	6	—	109	1,693	1,802	55	2015	2017	2017	15-39	
Cedar Hill	TX	—	501	1,842	—	—	—	501	1,842	2,343	59	2015	2017	2017	15-39	
Bear	DE	—	398	2,164	—	6	—	398	2,170	2,568	72	2017	2017	2017	15-39	
Charlotte	NC	—	1,148	1,789	—	6	—	1,148	1,795	2,943	60	2013	2017	2017	15-39	
Oak Ridge	TN	—	1,167	1,684	—	—	—	1,167	1,684	2,851	61	2013	2017	2017	15-39	

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Alcoa	TN	—	1,022	1,760	—	—	1,022	1,760	2,782	63	2015	2017	15-39			
Smyrna	DE	—	1,366	2,708	—	—	1,366	2,708	4,074	113	2016	2017	15-39			
North Fort Myers	FL	—	1,011	3,353	—	6	1,011	3,359	4,370	139	2015	2017	15-39			
Salisbury	NC	—	131	1,243	—	—	131	1,243	1,374	27	1974	2018	15-39			
High Point	NC	—	202	1,765	—	—	202	1,765	1,967	39	1975	2018	15-39			
Fayetteville	NC	—	251	3,324	—	—	251	3,324	3,575	69	1970	2018	15-39			
Raleigh	NC	—	619	3,327	—	—	619	3,327	3,946	70	1971	2018	15-39			
Gastonia	NC	—	236	1,311	—	—	236	1,311	1,547	29	1991	2018	15-39			
Virginia Beach	VA	—	665	4,104	—	—	665	4,104	4,769	87	1966	2018	15-39			
Hampton	VA	—	642	1,108	—	—	642	1,108	1,750	28	2016	2018	15-39			
Greenville	SC	—	946	3,068	—	—	946	3,068	4,014	64	1973	2018	15-39			
Riverdale	GA	—	311	2,518	—	—	311	2,518	2,829	55	2003	2018	15-39			
Marietta	GA	—	152	1,732	—	—	152	1,732	1,884	37	1986	2018	15-39			
Memphis	TN	—	632	2,376	—	—	632	2,376	3,008	54	1978	2018	15-39			
Chattanooga	TN	—	470	3,391	—	—	470	3,391	3,861	72	1970	2018	15-39			
Florence	AL	—	234	1,534	—	—	234	1,534	1,768	35	2004	2018	15-39			
Madison	TN	—	325	1,026	—	—	325	1,026	1,351	23	2014	2018	15-39			
Louisville	KY	—	387	4,698	—	—	387	4,698	5,085	99	1965	2018	15-39			
Louisville	KY	—	297	2,867	—	—	297	2,867	3,164	60	1966	2018	15-39			
Huntsville	AL	—	251	3,819	—	—	251	3,819	4,070	79	1968	2018	15-39			
Mathews	NC	—	432	941	—	—	432	941	1,373	23	2013	2018	15-39			
Brentwood	TN	—	924	803	—	—	924	803	1,727	22	2004	2018	15-39			
Pensacola	FL	—	328	2,600	—	—	328	2,600	2,928	55	2007	2018	15-39			
Augusta	GA	—	253	772	—	—	253	772	1,025	17	2012	2018	15-39			
Columbus	OH	—	587	503	—	—	587	503	1,090	14	1995	2018	15-39			
Evansville	IN	—	158	1,403	—	—	158	1,403	1,561	32	2003	2018	15-39			
Mishawaka	IN	—	330	2,074	—	—	330	2,074	2,404	46	2003	2018	15-39			
Nashville	TN	—	416	1,511	—	—	416	1,511	1,927	9	2003	2018	15-39			
Miles City	MT	—	547	1,616	—	—	547	1,616	2,163	29	1995	2018	15-39			
Dickinson	ND	—	294	2,447	—	—	294	2,447	2,741	37	1983	2018	15-39			
Billings	MT	—	516	2,128	—	—	516	2,128	2,644	36	1977	2018	15-39			
Billings	MT	—	356	1,728	—	—	356	1,728	2,084	29	1976	2018	15-39			
Billings	MT	—	753	1,448	—	—	753	1,448	2,201	25	2003	2018	15-39			
Downers Grove	IL	—	1,919	16,366	—	—	1,919	16,366	18,285	243	1974	2018	15-39			
Benzonia	MI	—	89	3,009	—	—	89	3,009	3,098	49	2014	2018	15-39			
Flushing	MI	—	201	2,863	—	—	201	2,863	3,064	48	2014	2018	15-39			

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Irmo	SC	—	119	4,255	—	—	119	4,255	4,374	43	2006	2018	15-39			
Anderson	SC	—	312	4,113	—	—	312	4,113	4,425	43	2008	2018	15-39			
Elizabethton	TN	—	270	4,077	—	—	270	4,077	4,347	41	2005	2018	15-39			
Albany	GA	—	164	3,816	—	—	164	3,816	3,980	40	2007	2018	15-39			
Moncks Corner	SC	—	265	4,307	—	—	265	4,307	4,572	44	2006	2018	15-39			
Greenville	TN	—	117	4,122	—	—	117	4,122	4,239	41	2003	2018	15-39			
Lexington	SC	—	219	898	—	—	219	898	1,117	11	2015	2018	15-39			
Lexington	SC	—	348	714	—	—	348	714	1,062	9	2015	2018	15-39			
Orangeburg	SC	—	238	3,323	—	—	238	3,323	3,561	38	2006	2018	15-39			
West Columbia	SC	—	296	1,140	—	—	296	1,140	1,436	13	2016	2018	15-39			
Brooklet	GA	—	—	497	—	—	—	497	497	5	1999	2018	15-39			
Rex	GA	—	175	885	—	—	175	885	1,060	12	1999	2018	15-39			
Pendleton	SC	—	313	538	—	—	313	538	851	10	1998	2018	15-39			
Pembroke	GA	—	213	393	—	—	213	393	606	7	2000	2018	15-39			
Loganville	GA	—	422	2,353	—	—	422	2,353	2,775	34	1998	2018	15-39			
Campobello	SC	—	189	437	—	—	189	437	626	7	2000	2018	15-39			
Central	SC	—	323	552	—	—	323	552	875	10	2001	2018	15-39			
Moncks Corner	SC	—	213	562	—	—	213	562	775	8	2003	2018	15-39			
Camden	SC	—	614	613	—	—	614	613	1,227	11	2000	2018	15-39			
Lincolnton	GA	—	172	625	—	—	172	625	797	9	2001	2018	15-39			
Louisville	KY	—	162	948	—	—	162	948	1,110	4	2002	2018	15-39			
Cincinnati	OH	—	184	1,396	—	—	184	1,396	1,580	5	1987	2018	15-39			
Madison	IN	—	126	2,230	—	—	126	2,230	2,356	8	1996	2018	15-39			
Big Spring	TX	—	465	2,363	—	—	465	2,363	2,828	3	2008	2018	15-39			
Cuero	TX	—	472	2,285	—	—	472	2,285	2,757	3	2010	2018	15-39			
Industrial Properties:																
Becker	MN	750	921	4,540	—	—	921	4,540	5,461	1,405	2000	2008	15-39			
Tacoma	WA	—	1,634	4,902	—	—	1,634	4,902	6,536	1,244	1977	2011	15-39			
New Haven	IN	—	445	2,521	—	—	445	2,521	2,966	748	1960	2011	15-39			
Raleigh	NC	—	2,034	8,137	—	—	2,034	8,137	10,171	1,754	1999	2012	15-39			
Eureka	MO	—	2,328	9,311	—	—	2,328	9,311	11,639	2,741	1990	2012	15-39			
Durham	NC	11,288	3,000	17,531	—	—	3,000	17,531	20,531	4,022	2009	2012	15-39			
Kilgore	TX	—	160	908	—	—	160	908	1,068	259	2008	2012	15-39			
American Canyon	CA	8,496	2,378	26,142	—	—	2,378	26,142	28,520	5,277	2002	2012	15-39			
Huber Heights	OH	—	583	1,748	—	—	583	1,748	2,331	495	1985	2012	15-39			
Eastlake	OH	—	854	2,562	—	—	854	2,562	3,416	620	1981	2012	15-39			

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)	Accumulated Depreciation					
Houston	TX	—	3,250	9,751	—	—	3,250	9,751	13,001	1,766	2005	2012	15-39		
Katy	TX	—	1,978	7,912	—	—	1,978	7,912	9,890	1,450	2012	2012	15-39		
Union Grove	WI	—	239	957	—	—	239	957	1,196	167	1993	2012	15-39		
Union Grove	WI	—	347	1,386	—	—	347	1,386	1,733	233	1979	2012	15-39		
Rock Hill	SC	—	796	3,185	—	72	796	3,257	4,053	769	1999	2012	15-39		
Union Grove	WI	—	427	3,413	—	—	427	3,413	3,840	437	2014	2015	15-39		
Oshkosh	WI	—	456	869	—	—	456	869	1,325	116	2007	2015	15-39		
Hoffman Estates	IL	—	12,253	23,456	—	—	12,253	23,456	35,709	4,450	1988	2013	15-39		
Norton Shores	MI	—	198	2,932	—	—	198	2,932	3,130	405	2002	2014	15-39		
Muskegon	MI	—	168	2,751	—	13	168	2,764	2,932	468	1985	2013	15-39		
Muskegon	MI	—	454	6,889	—	3	454	6,892	7,346	1,195	2012	2013	15-39		
Muskegon	MI	—	463	2,512	—	23	463	2,535	2,998	463	1978	2013	15-39		
Muskegon	MI	—	257	655	—	—	257	655	912	129	2005	2013	15-39		
Greenwich	CT	—	16,898	959	—	—	16,898	959	17,857	168	1967	2014	15-39		
Elgin	IL	—	4,339	17,458	—	—	4,339	17,458	21,797	2,402	2009	2014	15-39		
Shakopee	MN	—	3,962	21,296	—	—	3,962	21,296	25,258	3,071	2014	2014	15-39		
Houston	TX	—	1,242	2,698	—	—	1,242	2,698	3,940	463	1972	2014	15-39		
Winona	MN	—	1,653	7,694	—	—	1,653	7,694	9,347	920	2008	2014	15-39		
Winona	MN	—	804	4,412	—	—	804	4,412	5,216	515	2008	2014	15-39		
Mt. Pleasant	TX	—	1,785	5,540	—	—	1,785	5,540	7,325	737	1994	2014	15-39		
Madill	OK	—	1,395	5,796	—	—	1,395	5,796	7,191	737	1999	2014	15-39		
Madill	OK	—	2,657	1,566	—	1,001	2,657	2,567	5,224	240	1972	2014	15-39		
Madill	OK	—	621	1,759	—	—	621	1,759	2,380	224	1977	2014	15-39		
Willis Point	TX	—	3,102	2,420	—	—	3,102	2,420	5,522	380	2003	2014	15-39		
Fitzgerald	GA	—	1,939	3,316	—	—	1,939	3,316	5,255	478	1997	2014	15-39		
Cordele	GA	—	2,705	3,786	—	—	2,705	3,786	6,491	473	2000	2014	15-39		
Kingston	OK	—	1,857	1,692	—	—	1,857	1,692	3,549	252	2013	2014	15-39		
Odessa	TX	—	529	3,327	—	—	529	3,327	3,856	409	2012	2015	15-39		
Columbia	MD	—	667	9,220	—	—	667	9,220	9,887	1,041	1984	2015	15-39		
Menomonee Falls	WI	—	1,378	18,557	—	—	1,378	18,557	19,935	2,007	2001	2015	15-39		
Elk River	MN	—	763	4,937	—	—	763	4,937	5,700	632	2008	2015	15-39		
Elk River	MN	—	477	2,517	—	—	477	2,517	2,994	322	2006	2015	15-39		
Sanford	FL	—	2,075	7,600	—	—	2,075	7,600	9,675	851	2002	2015	15-39		
Columbus	GA	—	615	9,942	—	—	615	9,942	10,557	977	1907	2015	15-39		
Ephrata	PA	—	531	6,995	—	—	531	6,995	7,526	1,021	2000	2015	15-39		
Greer	SC	—	607	2,502	—	—	607	2,502	3,109	304	1978	2015	15-39		

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Joplin	MO	—	831	9,600	—	—	831	9,600	10,431	1,027	1993	2015	15-39			
Katy	TX	—	1,493	3,883	—	—	1,493	3,883	5,376	463	1996	2015	15-39			
Kinston	NC	—	1,017	10,418	—	—	1,017	10,418	11,435	1,101	1979	2015	15-39			
Euless	TX	—	1,487	3,051	—	—	1,487	4,538	337	1991	2015	15-39				
Jacksonville	TX	—	1,221	3,316	—	—	1,221	3,316	4,537	334	1974	2015	15-39			
Lima	OH	—	656	21,645	—	—	656	21,645	22,301	1,942	2009	2015	15-39			
Sulphur Springs	TX	—	1,720	20,756	—	—	1,720	20,756	22,476	1,862	1989	2015	15-39			
Portage	IN	—	1,181	13,130	—	—	1,181	13,130	14,311	1,375	2001	2016	15-39			
St. Cloud	MN	—	565	20,420	—	—	565	20,420	20,985	1,391	1999	2016	15-39			
New Kensington	PA	—	907	13,058	—	—	907	13,058	13,965	778	2015	2016	15-39			
Denver	CO	—	1,105	8,077	—	1,050	1,105	9,127	10,232	389	1975	2017	15-39			
Denver	CO	—	252	1,658	—	—	252	1,658	1,910	75	1977	2017	15-39			
Germantown	WI	—	612	2,062	—	—	612	2,062	2,674	85	1989	2017	15-39			
Germantown	WI	—	575	2,086	—	—	575	2,086	2,661	84	2000	2017	15-39			
Green Bay	WI	—	406	7,032	—	—	406	7,032	7,438	287	1989	2017	15-39			
Two Rivers	WI	—	445	1,885	—	—	445	1,885	2,330	97	1994	2017	15-39			
Little Chute	WI	—	342	52,744	—	2	342	52,746	53,088	2,119	2017	2017	7-39			
Las Vegas	NV	—	3,034	11,857	—	—	3,034	11,857	14,891	375	2017	2017	15-39			
Walker	LA	—	4,646	30,310	—	—	4,646	30,310	34,956	1,041	2017	2017	15-39			
Saxonburg	PA	—	1,048	7,545	—	1	1,048	7,546	8,594	274	2008	2017	15-39			
Butler	PA	—	1,885	6,294	—	—	1,885	6,294	8,179	244	1990	2017	15-39			
Story City	IA	—	5,700	13,916	—	20	5,700	13,936	19,636	498	1997	2017	15-39			
San Jose	CA	—	9,489	18,617	—	956	9,489	19,573	29,062	648	1983	2017	15-39			
Taunton	MA	—	3,157	16,851	—	—	3,157	16,851	20,008	433	1987	2018	15-39			
Knoxville	TN	—	447	4,276	—	—	447	4,276	4,723	90	1977	2018	15-39			
Elk Grove Village	IL	—	2,014	3,686	—	—	2,014	3,686	5,700	85	2014	2018	15-39			
Elgin	IL	—	3,265	4,947	—	—	3,265	4,947	8,212	96	1981	2018	15-39			
Lordstown	OH	—	1,028	36,068	—	—	1,028	36,068	37,096	540	2012	2018	15-39			
Perth Amboy	NJ	20,674	5,622	35,420	—	—	5,622	35,420	41,042	501	1933	2018	15-39			
Indianapolis	IN	—	840	8,395	—	—	840	8,395	9,235	133	1972	2018	15-39			
Hazelwood	MO	—	2,936	7,565	—	—	2,936	7,565	10,501	105	1966	2018	15-39			
Fridley	MN	—	273	1,986	—	—	273	1,986	2,259	23	1973	2018	15-39			
Burnsville	MN	—	207	2,209	—	—	207	2,209	2,416	26	1973	2018	15-39			
North Canton	OH	—	338	8,263	—	—	338	8,263	8,601	51	1988	2018	15-39			
Madison	MS	—	3,348	11,997	—	—	3,348	11,997	15,345	15	2003	2018	15-39			
Novi	MI	—	872	8,274	—	—	872	8,274	9,146	10	2018	2018	15-39			

City	State	Encumbrance	Initial Costs to Company(A)				Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land		Buildings and Improvements		Land		Improvements		Land		Buildings and Improvements				
Healthcare Properties:																	
Fayetteville	GA	—	865	4,901	—	—	—	865	4,901	5,766	1,427	1985	2008	2008	15-39		
Houston	TX	1,751	598	3,388	—	—	—	598	3,388	3,986	958	1980	2008	2008	15-39		
Rockford	IL	—	216	1,225	—	—	—	216	1,225	1,441	376	1993	2008	2008	15-39		
Machesney Park	IL	—	218	1,237	—	—	—	218	1,237	1,455	403	1996	2008	2008	15-39		
Loves Park	IL	563	190	890	—	—	—	190	890	1,080	274	1982	2010	2010	15-39		
Memphis	TN	—	530	2,722	—	—	—	530	2,722	3,252	804	1993	2009	2009	15-39		
Savannah	GA	—	160	641	—	—	—	160	641	801	182	1986	2009	2009	15-39		
Pooler	GA	—	272	1,089	—	—	—	272	1,089	1,361	305	1990	2009	2009	15-39		
Savannah	GA	—	114	457	—	—	—	114	457	571	116	1978	2009	2009	15-39		
Savannah	GA	—	148	590	—	—	—	148	590	738	182	1981	2009	2009	15-39		
Houston	TX	—	2,022	6,065	—	—	—	2,022	6,065	8,087	1,561	2002	2010	2010	15-39		
Greece	NY	—	1,391	30,442	—	—	3,268	1,391	33,710	35,101	7,425	2011	2010	2010	7-39		
Tampa	FL	—	580	3,304	—	—	—	580	3,304	3,884	765	2002	2011	2011	15-39		
Tampa	FL	—	790	4,021	—	—	—	790	4,021	4,811	903	1985	2011	2011	15-39		
Wesley Chapel	FL	—	340	2,862	—	—	—	340	2,862	3,202	650	2008	2011	2011	15-39		
Brandon	FL	—	292	1,961	—	—	—	292	1,961	2,253	440	1998	2011	2011	15-39		
Plano	TX	—	965	2,895	—	—	—	965	2,895	3,860	642	2000	2011	2011	15-39		
Ada	OK	—	293	1,172	—	—	—	293	1,172	1,465	262	2011	2011	2011	15-39		
Oklahoma City	OK	—	427	1,282	—	—	—	427	1,282	1,709	270	2001	2011	2011	15-39		
Sapulpa	OK	—	510	1,271	—	—	—	510	1,271	1,781	245	2011	2012	2012	15-39		
Lawton	OK	—	357	1,422	—	—	—	357	1,422	1,779	258	2012	2012	2012	15-39		
McAlester	OK	—	413	1,669	—	—	—	413	1,669	2,082	301	2012	2012	2012	15-39		
Weatherford	OK	—	357	1,419	—	—	—	357	1,419	1,776	266	2012	2012	2012	15-39		
Ardmore	OK	—	575	1,400	—	—	—	575	1,400	1,975	227	2013	2013	2013	15-39		
Wichita	KS	—	295	1,606	—	—	—	295	1,606	1,901	252	2013	2013	2013	15-39		
Bartlesville	OK	—	505	1,629	—	—	—	505	1,629	2,134	262	2013	2013	2013	15-39		
Melbourne	FL	—	3,320	13,281	—	—	—	3,320	13,281	16,601	2,490	1993	2012	2012	15-39		
Sarasota	FL	—	1,290	4,899	—	—	—	1,290	4,899	6,189	848	2002	2013	2013	15-39		
Sarasota	FL	—	934	5,013	—	282	—	934	5,295	6,229	836	2002	2013	2013	15-39		
Englewood	FL	—	207	679	—	—	—	207	679	886	116	1985	2013	2013	15-39		
Brookfield	WI	—	338	4,603	—	—	—	338	4,603	4,941	767	2005	2013	2013	15-39		
Waukesha	WI	—	302	11,218	—	—	—	302	11,218	11,520	1,724	2005	2013	2013	15-39		
Plainfield	IL	—	128	7,843	702	1,489	830	9,332	10,162	1,297	2012	2013	2013	2013	15-39		
Greenfield	WI	—	212	7,163	—	—	212	7,163	7,375	1,097	2011	2013	2013	2013	15-39		
Brookfield	WI	—	331	7,542	—	—	331	7,542	7,873	1,194	2008	2013	2013	2013	15-39		

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition			Gross Amount at Which Carried at Close of Period			Date of Construction	Accumulated Depreciation	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)					
Goodyear	AZ	—	558	3,529	—	—	558	3,529	4,087	534	2013	2013	15-39	
Richmond	VA	—	348	2,986	—	—	348	2,986	3,334	420	2011	2013	15-39	
Montgomery	AL	—	94	1,303	—	—	94	1,303	1,397	214	2013	2013	15-39	
Kingwood	TX	—	253	5,236	—	—	253	5,236	5,489	630	2009	2014	15-39	
Lubbock	TX	—	1,616	6,195	—	135	1,616	6,330	7,946	751	2001	2014	15-39	
Russellville	AR	—	1,232	4,752	—	—	1,232	4,752	5,984	653	2010	2014	15-39	
Little Rock	AR	—	1,866	5,294	—	—	1,866	5,294	7,160	747	2012	2014	15-39	
Conway	AR	—	1,522	3,579	—	5,624	1,522	9,203	10,725	821	2007	2014	15-39	
Hudsonville	MI	—	199	3,631	—	—	199	3,631	3,830	385	2007	2015	15-39	
Franklin	TN	—	766	3,728	—	—	766	3,728	4,494	451	2005	2015	15-39	
Elk Grove Village	IL	—	252	2,933	—	—	252	2,933	3,185	314	1985	2015	15-39	
Virginia Beach	VA	—	827	3,310	—	—	827	3,310	4,137	262	2008	2016	15-39	
Tampa	FL	—	42	6,945	—	—	42	6,945	6,987	378	1999	2016	39	
Tampa	FL	—	8	732	—	—	8	732	740	40	1999	2016	39	
Tampa	FL	—	33	2,094	—	—	33	2,094	2,127	114	2013	2016	39	
Houston	TX	—	405	2,586	—	—	405	2,586	2,991	151	2002	2016	15-39	
Mt. Dora	FL	—	1,338	4,788	—	—	1,338	4,788	6,126	482	1988	2015	15-39	
Mt. Dora	FL	—	477	691	—	—	477	691	1,168	92	1987	2015	15-39	
Summerfield	FL	—	295	2,146	—	—	295	2,146	2,441	216	2000	2015	15-39	
Summerfield	FL	—	362	2,632	—	—	362	2,632	2,994	265	2008	2015	15-39	
Leesburg	FL	—	402	1,869	—	—	402	1,869	2,271	201	1994	2015	15-39	
Tempe	AZ	—	1,181	14,580	—	—	1,181	14,580	15,761	1,529	2006	2015	15-39	
Lincoln	NE	—	1,300	13,163	—	—	1,300	13,163	14,463	1,319	1973	2015	15-39	
North Little Rock	AR	—	532	51,843	—	—	532	51,843	52,375	4,391	2005	2015	15-39	
Worthington	OH	—	264	12,053	—	—	264	12,053	12,317	878	1979	2016	15-39	
Carmel	IN	—	243	3,519	—	—	243	3,519	3,762	343	2006	2016	15-39	
Copley	OH	—	104	6,359	—	—	104	6,359	6,463	245	1996	2017	15-39	
Cleveland	OH	—	323	2,744	—	—	323	2,744	3,067	116	2007	2017	15-39	
Girard	OH	—	75	1,107	—	—	75	1,107	1,182	56	2003	2017	15-39	
Moraine (Dayton)	OH	—	336	3,654	—	2	336	3,656	3,992	128	2017	2017	15-39	
Commerce Township	MI	—	412	1,935	—	2	412	1,937	2,349	75	2007	2017	15-39	
Modesto	CA	—	689	19,200	—	—	689	19,200	19,889	1,226	1984	2016	15-39	
Modesto	CA	—	300	4,273	—	—	300	4,273	4,573	285	1984	2016	15-39	
Clinton Township	MI	—	396	6,694	—	35	396	6,729	7,125	328	2016	2017	15-39	
Westland	MI	—	394	6,106	—	9	394	6,115	6,509	286	1994	2017	15-39	
Lenoir	NC	—	150	3,622	—	—	150	3,622	3,772	167	2010	2017	15-39	

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Date of Construction	Accumulated Depreciation	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Morganton	NC	—	164	3,010	—	—	164	3,010	—	—	3,174	141	2000	2017	2017	15-39
Rutherford College	NC	—	130	2,692	—	—	130	2,692	—	—	2,822	126	2007	2017	2017	15-39
Hickory	NC	—	473	4,991	—	—	473	4,991	—	—	5,464	244	2000	2017	2017	15-39
Newton	NC	—	195	1,085	—	—	195	1,085	—	—	1,280	56	1994	2017	2017	15-39
Newton	NC	—	101	458	—	—	101	458	—	—	559	22	1998	2017	2017	15-39
Wilson	NC	—	547	6,214	—	51	547	6,265	—	—	6,812	294	1993	2017	2017	15-39
Overland Park	KS	—	456	3,789	—	—	456	3,789	—	—	4,245	147	2006	2017	2017	15-39
Overland Park	KS	—	205	8,045	—	—	205	8,045	—	—	8,250	287	2016	2017	2017	15-39
Overland Park	KS	—	571	3,715	—	—	571	3,715	—	—	4,286	173	1965	2017	2017	15-39
Crestview Hills	KY	5,051	192	8,342	—	—	192	8,342	—	—	8,534	266	2005	2017	2017	15-39
Pittsburg	KS	—	103	2,264	—	—	103	2,264	—	—	2,367	70	2016	2017	2017	15-39
Prairieville	LA	—	369	3,275	—	—	369	3,275	—	—	3,644	103	2016	2017	2017	15-39
Charlotte	NC	—	825	4,969	—	14	825	4,983	—	—	5,808	151	1989	2017	2017	15-39
Tulsa	OK	—	734	3,143	—	—	734	3,143	—	—	3,877	97	2016	2017	2017	15-39
Rhineland	WI	—	55	1,689	—	—	55	1,689	—	—	1,744	55	2013	2017	2017	15-39
Charlotte	NC	—	534	1,101	—	—	534	1,101	—	—	1,635	58	1999	2017	2017	15-39
Zionsville	IN	—	591	4,243	—	—	591	4,243	—	—	4,834	25	2016	2018	2018	15-39
Noblesville	IN	—	—	6,216	—	—	—	6,216	—	—	6,216	33	2017	2018	2018	15-39
Warren	MI	—	110	1,604	—	—	110	1,604	—	—	1,714	9	1998	2018	2018	15-39
Tulahoma	TN	—	114	3,674	—	—	114	3,674	—	—	3,788	22	2003	2018	2018	15-39
Brandon	FL	—	475	2,438	—	—	475	2,438	—	—	2,913	3	2008	2018	2018	15-39
Atlanta	GA	—	2,397	12,271	—	—	2,397	12,271	—	—	14,668	14	1999	2018	2018	15-39
Northfield	IL	—	548	4,184	—	—	548	4,184	—	—	4,732	5	1964	2018	2018	15-39
Ann Arbor	MI	—	209	562	—	—	209	562	—	—	771	1	1954	2018	2018	15-39
Southfield	MI	—	1,013	14,967	—	—	1,013	14,967	—	—	15,980	17	2004	2018	2018	15-39
Clearwater	FL	—	819	961	—	—	819	961	—	—	1,780	1	1977	2018	2018	15-39
Arlington	TX	—	1,931	15,873	—	—	1,931	15,873	—	—	17,804	18	2015	2018	2018	15-39
Naperville	IL	—	711	5,349	—	—	711	5,349	—	—	6,060	6	2005	2018	2018	15-39
Yorkville	IL	—	234	4,003	—	—	234	4,003	—	—	4,237	5	2000	2018	2018	15-39
Yorkville	IL	—	260	1,944	—	—	260	1,944	—	—	2,204	2	2006	2018	2018	15-39
Sycamore	IL	—	152	3,621	—	—	152	3,621	—	—	3,773	4	1999	2018	2018	15-39
Sycamore	IL	—	13	282	—	—	13	282	—	—	295	—	1999	2018	2018	15-39
Sandwich	IL	—	315	4,876	—	—	315	4,876	—	—	5,191	6	1995	2018	2018	15-39
Olympia Fields	IL	—	565	5,698	—	—	565	5,698	—	—	6,263	7	2007	2018	2018	15-39
Shelby	NC	—	124	2,217	—	—	124	2,217	—	—	2,341	2	2006	2018	2018	15-39
Lacey	WA	—	2,441	15,769	—	—	2,441	15,769	—	—	18,210	18	2004	2018	2018	15-39

City	State	Encumbrance	Initial Costs to Company(A)		Costs Capitalized Subsequent to Acquisition				Gross Amount at Which Carried at Close of Period				Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Land	Improvements	Land	Improvements	Total(B)							
Aberdeen	WA	—	899	4,482	—	—	—	899	4,482	5,381	5	2007	2018	15-39		
Bremerton	WA	—	140	3,154	—	—	—	140	3,154	3,294	4	1999	2018	15-39		
Spartanburg	SC	—	251	3,821	—	—	—	251	3,821	4,072	5	2006	2018	15-39		
Newport News	VA	—	831	3,977	—	—	—	831	3,977	4,808	5	2004	2018	15-39		
Newport News	VA	—	587	3,466	—	—	—	587	3,466	4,053	4	2006	2018	15-39		
Hanover	PA	—	80	3,752	—	—	—	80	3,752	3,832	4	2003	2018	15-39		
Roanoke	VA	—	267	3,027	—	—	—	267	3,027	3,294	3	1990	2018	15-39		
Wayland	MI	—	373	2,592	—	—	—	373	2,592	2,965	3	1999	2018	15-39		
Johnson City	NY	—	357	4,934	—	—	—	357	4,934	5,291	5	1970	2018	15-39		
Bradenton	FL	—	547	5,055	—	—	—	547	5,055	5,602	6	1984	2018	15-39		
Bradenton	FL	—	292	2,085	—	—	—	292	2,085	2,377	2	1982	2018	15-39		
Bradenton	FL	—	112	1,167	—	—	—	112	1,167	1,279	1	1982	2018	15-39		
Bradenton	FL	—	274	1,589	—	—	—	274	1,589	1,863	2	1995	2018	15-39		
Ruskin	FL	—	203	1,526	—	—	—	203	1,526	1,729	3	2004	2018	15-39		
Office Properties:																
Union Grove	WI	—	85	340	—	—	—	85	340	425	59	1993	2012	15-39		
Milwaukee	WI	—	668	5,650	—	—	—	668	5,650	6,318	647	1989	2014	15-39		
Mt. Pleasant	TX	—	2,214	3,717	—	—	—	2,214	3,717	5,931	573	2008	2014	15-39		
Harleysville	PA	—	3,513	24,767	—	—	—	3,513	24,767	28,280	2,167	1950	2016	15-39		
Harrisburg	PA	—	958	19,060	—	—	—	958	19,060	20,018	1,439	1976	2016	15-39		
Wood Dale	IL	—	2,806	8,726	—	—	—	2,806	8,726	11,532	659	1986	2016	15-39		
Milpitas	CA	—	1,478	8,164	—	—	—	1,478	8,164	9,642	501	1982	2016	15-39		
Austin	TX	—	300	29,681	—	—	8,649	300	38,330	38,630	2,312	1984	2016	7-39		
Melbourne	FL	—	1,701	12,141	—	—	—	1,701	12,141	13,842	723	2012	2016	15-39		
Pittsford	NY	—	40	29,530	—	—	1,000	40	30,530	30,570	1,243	1975	2017	15-39		
Mesa	AZ	—	785	5,034	—	—	—	785	5,034	5,819	162	1998	2017	15-39		
Albuquerque	NM	—	987	11,357	—	—	3	987	11,360	12,347	346	1996	2017	15-39		
Jacksonville	FL	—	1,251	19,784	—	—	—	1,251	19,784	21,035	598	1984	2017	15-39		
Troy	MI	—	1,665	19,798	—	—	1	1,665	19,799	21,464	618	1984	2017	15-39		
Tampa	FL	—	3,954	10,732	—	—	—	3,954	10,732	14,686	215	1984	2018	15-39		
Carrollton	TX	—	3,743	28,025	—	—	—	3,743	28,025	31,768	357	1999	2018	15-39		
Other Properties:																
Rochester	NY	4,692	589	9,872	—	—	—	589	9,872	10,461	2,420	2001	2010	15-39		
Knoxville	TN	—	744	2,246	—	—	—	744	2,246	2,990	576	1975	2011	15-39		
Melbourne	FL	—	809	3,235	—	—	—	809	3,235	4,044	678	1998	2012	15-39		
Groveport	OH	—	710	5,087	—	—	—	710	5,087	5,797	817	1979	2014	15-39		

City	State	Encumbrance	Initial Costs to Company(A)			Costs Capitalized Subsequent to Acquisition			Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation is Computed (Years)
			Land	Improvements	Buildings and	Land	Improvements	Buildings and	Land	Improvements	Total(B)				
West Valley City	UT	—	1,336	5,822	—	—	10,000	—	1,336	15,822	17,158	2,610	1998	2014	15-39
San Jose	CA	—	914	2,704	—	—	—	—	914	2,704	3,618	238	1920	2016	15-27.5
Norman	OK	—	68	5,358	—	—	—	—	68	5,358	5,426	472	1965	2016	15-27.5
Corvallis	OR	—	122	1,114	—	—	—	—	122	1,114	1,236	100	1939	2016	15-27.5
Oneonta	NY	—	23	838	—	—	—	—	23	838	861	36	1893	2017	15-27.5
Lexington	KY	—	28	2,605	—	—	—	—	28	2,605	2,633	109	1985	2017	15-27.5
Tallahassee	FL	6,467	74	7,476	—	—	—	—	74	7,476	7,550	310	2015	2017	15-27.5
Greenville	NC	—	122	1,700	—	—	—	—	122	1,700	1,822	74	1923	2017	15-27.5
Indianapolis	IN	—	1,086	18,552	—	—	1,050	—	1,086	19,602	20,688	620	1995	2017	15-39
Acquisitions in Progress(C)		—	—	202	—	—	—	—	—	202	202				
Total(D)		\$ 79,451	\$ 410,546	\$ 2,399,494	\$ 497	\$ 38,198	\$ 411,043	\$ 2,437,692	\$ 2,848,735	\$ 206,989					

Notes:

- (A) The initial cost to the Company represents the original purchase price of the property (see Note 4).
- (B) The aggregate cost of real estate owned as of December 31, 2018 for U.S. federal income tax purposes was approximately \$3,000,000.
- (C) Acquisition costs in progress represents costs incurred during the year ended December 31, 2018 related to asset acquisitions expected to close during the year ended December 31, 2019.
- (D) This schedule excludes properties subject to leases that are classified as direct financing leases.

Change in Total Real Estate Assets

	For the years ended December 31,		
	2018	2017	2016
Balance, beginning of period	\$ 2,334,524	\$ 1,743,403	\$ 1,306,515
Acquisitions and building improvements	568,036	640,961	469,460
Dispositions	(51,950)	(47,181)	(32,572)
Impairment	(1,875)	(2,659)	—
Balance, end of period	<u>\$ 2,848,735</u>	<u>\$ 2,334,524</u>	<u>\$ 1,743,403</u>

Change in Accumulated Depreciation

	For the years ended December 31,		
	2018	2017	2016
Balance, beginning of period	\$ 148,383	\$ 105,703	\$ 70,171
Acquisitions and building improvements	66,156	49,832	37,976
Dispositions	(7,376)	(6,942)	(2,444)
Impairment	(174)	(210)	—
Balance, end of period	<u>\$ 206,989</u>	<u>\$ 148,383</u>	<u>\$ 105,703</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of and for the year ended December 31, 2018, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Part III.

Item 10. Directors, Executive Officers, and Corporate Governance.

The information required by this Item will be set forth under the captions *Information About Director Nominees, Executive Officers of the Company* and *Section 16(a) Beneficial Ownership Reporting Compliance* in our Proxy Statement and are incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item will be set forth under the captions *Executive Compensation, Director Compensation, and Compensation Committee Interlocks and Insider Participation* in the Proxy Statement and are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this Item will be set forth under the caption *Security Ownership of Certain Beneficial Owners and Management* in the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this Item will be set forth under the captions *Director Independence and Related Party Transactions* and *Certain Relationships and Related Transactions* in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this Item will be set forth under the caption *Proposal No. 2 : Ratification of the Appointment of Independent Registered Public Accounting Firm* in the Proxy Statement and is incorporated herein by reference.

PART IV.

Item 15. Exhibits and Financial Statement Schedules.

Financial Statements

See Item 8. “Financial Statements and Supplementary Data” of this Form 10-K.

Financial Statement Schedules

See Item 8. “Financial Statements and Supplementary Data” of this Form 10-K. All other schedules are omitted because they are not applicable or because the required information is shown in the financial statements or the notes thereto.

Item 16. Form 10-K Summary.

None.

Index to Exhibits.

Exhibit No.	Description
3.1	Articles of Incorporation of Broadstone Net Lease, Inc. (filed as Exhibit 3.1 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated by reference)
3.2	Amended and Restated Bylaws of Broadstone Net Lease, Inc. (filed as Exhibit 3.2 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
4.1	Broadstone Net Lease, Inc. Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
4.2	Broadstone Net Lease, Inc. Share Redemption Program (filed as Exhibit 4.2 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
4.3	Amended and Restated Broadstone Net Lease, Inc. Share Redemption Program, dated June 28, 2017 (filed as Exhibit 4.2 to the Company's Amended Registration on Form 10 filed June 29, 2017 and incorporated herein by reference)
10.1	Amended and Restated Asset Management Agreement, dated February 8, 2013, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Broadstone Asset Management, LLC (filed as Exhibit 10.1 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.2	Second Amended and Restated Property Management Agreement, dated December 31, 2007, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Broadstone Real Estate, LLC (filed as Exhibit 10.2 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.3	Amendment No. 1 to Amended and Restated Asset Management Agreement, dated June 30, 2015, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Broadstone Asset Management, LLC (filed as Exhibit 10.3 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.4	Amendment No. 1 to Second Amended and Restated Property Management Agreement, dated June 30, 2015, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Broadstone Real Estate, LLC (filed as Exhibit 10.4 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.5	Credit Agreement, dated October 2, 2012, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (the "Credit Agreement") (filed as Exhibit 10.5 to the Company's Amended Registration Statement on Form 10 filed June 1, 2017 and incorporated herein by reference)
10.6	First Amendment to Credit Agreement, dated as of June 27, 2014, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.6 to the Company's Amended Registration Statement on Form 10 filed June 1, 2017 and incorporated herein by reference)
10.7	Second Amendment to Credit Agreement, dated as of December 22, 2014, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.7 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.8	Third Amendment to Credit Agreement, dated as of November 6, 2015, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.8 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)

Exhibit No.	Description
10.9	Fourth Amendment to Credit Agreement, dated as of June 30, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.9 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.10	Fifth Amendment to Credit Agreement, dated as of December 23, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.10 to the Company's Registration Statement on Form 10 filed on April 24, 2017 and incorporated herein by reference)
10.11	Sixth Amendment to Credit Agreement, dated as of March 23, 2017, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.11 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.12	Term Loan Agreement, dated May 24, 2013, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Regions Bank ("Regions Term Loan Agreement") (filed as Exhibit 10.12 to the Company's Amended Registration Statement on Form 10 filed June 1, 2017 and incorporated herein by reference)
10.13	First Amendment to Regions Term Loan Agreement, dated as of October 11, 2013, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC and Regions Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.13 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.14	Second Amendment to Regions Term Loan Agreement, dated as of November 6, 2015, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Regions Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.14 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.15	Third Amendment to Regions Term Loan Agreement, dated as of June 30, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Regions Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.15 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.16	Fourth Amendment to Regions Term Loan Agreement, dated as of December 23, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Regions Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.16 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.17	Term Loan Agreement, dated November 6, 2015, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, SunTrust Bank, as administrative agent, and the lenders party thereto ("SunTrust Term Loan Agreement") (filed as Exhibit 10.17 to the Company's Amended Registration Statement on Form 10 filed June 1, 2017 and incorporated herein by reference)
10.18	First Amendment to SunTrust Term Loan Agreement, dated as of June 30, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, SunTrust Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.18 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.19	Second Amendment to SunTrust Term Loan Agreement, dated as of December 23, 2016, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, SunTrust Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.19 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.20	Guaranty, dated October 2, 2012, by Broadstone Net Lease, Inc. and Broadstone Net Lease, LLC in favor of Manufacturers and Traders Trust Company, as administrative agent, and the lenders party to the Credit Agreement (filed as Exhibit 10.20 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)

Exhibit No.	Description
10.21	Guaranty, dated May 24, 2013, by Broadstone Net Lease, Inc. and Broadstone Net Lease, LLC in favor of Regions Bank, as administrative agent, and the lenders party to the Regions Term Loan Agreement (filed as Exhibit 10.21 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.22	Guaranty, dated November 6, 2015, by Broadstone Net Lease, Inc. and Broadstone Net Lease, LLC in favor of SunTrust Bank, as administrative agent, and the lenders party to the SunTrust Term Loan Agreement (filed as Exhibit 10.22 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.23	Note and Guaranty Agreement, dated March 16, 2017, for 4.84% Guaranteed Senior Notes due April 18, 2027, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, and the purchasers party thereto (filed as Exhibit 10.23 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.24	Director Compensation and Stock Ownership Policy, effective as of January 1, 2017 (filed as Exhibit 10.24 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.25	Form of Indemnification Agreement, between Broadstone Net Lease, Inc. and each of its officers and directors (filed as Exhibit 10.25 to the Company's Registration Statement on Form 10 filed April 24, 2017 and incorporated herein by reference)
10.26	Seventh Amendment to Credit Agreement, dated as of May 25, 2017, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.26 to the Company's Amended Registration Statement on Form 10 filed June 1, 2017 and incorporated herein by reference)
10.27	Revolving Credit and Term Loan Agreement, dated as of June 23, 2017, by and among Broadstone Net Lease, LLC, Broadstone Net Lease, Inc., Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 29, 2017, and incorporated herein by reference)
10.28	Amended and Restated Term Loan Agreement, dated as of June 23, 2017, by and among Broadstone Net Lease, LLC, Broadstone Net Lease, Inc., SunTrust Bank, as administrative agent, and the lenders party thereto (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 29, 2017, and incorporated herein by reference)
10.29	Director Compensation and Stock Ownership Policy, effective as of January 1, 2018 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 13, 2017, and incorporated herein by reference)
10.30	Consent and Agreement Regarding Commitment Increases and Additional Term Loans, dated as of November 20, 2017, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, Manufacturers and Traders Trust Company, as administrative agent, and the lenders party thereto (filed as Exhibit 10.1 on the Company's Current Report on Form 8-K filed November 27, 2017, and incorporated herein by reference)
10.31	Second Amended and Restated Asset Management Agreement, effective as of January 1, 2018, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, and Broadstone Asset Management, LLC (filed as Exhibit 10.1 on the Company's Current Report on Form 8-K filed December 22, 2017, and incorporated herein by reference)
10.32	Third Amended and Restated Property Management Agreement, effective as of January 1, 2018, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, and Broadstone Real Estate, LLC (filed as Exhibit 10.2 on the Company's Current Report on Form 8-K filed December 22, 2017, and incorporated herein by reference)

Exhibit No.	Description
10.33	Note and Guaranty Agreement, dated July 2, 2018, for 5.09% Series B Guaranteed Senior Notes due July 2, 2028 and 5.19% Series C Guaranteed Senior Notes due July 2, 2030, by and among Broadstone Net Lease, Inc., Broadstone Net Lease, LLC, and the purchasers party thereto (filed as Exhibit 10.1 on the Company's Current Report on Form 8-K filed July 6, 2018, and incorporated herein by reference)
21.1*	List of Subsidiaries of Broadstone Net Lease, Inc.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from the Company's annual report on Form 10-K for the year ended December 31, 2017, formatted in Extensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, and (vi) Schedule III Real Estate and Accumulated Depreciation.

* Filed herewith.

† In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADSTONE NET LEASE, INC.

Date: March 14, 2019

/s/ Christopher J. Czarnecki
Christopher J. Czarnecki
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 14, 2019

/s/ Amy L. Tait
Amy L. Tait
Chairman of the Board of Directors

Date: March 14, 2019

/s/ Christopher J. Czarnecki
Christopher J. Czarnecki
Director, Chief Executive Officer and President
(Principal Executive Officer)

Date: March 14, 2019

/s/ Laurie A. Hawkes
Laurie A. Hawkes
Director

Date: March 14, 2019

/s/ David M. Jacobstein
David M. Jacobstein
Director

Date: March 14, 2019

/s/ Agha S. Khan
Agha S. Khan
Director

Date: March 14, 2019

/s/ Thomas P. Lydon, Jr.
Thomas P. Lydon, Jr.
Director

Date: March 14, 2019

/s/ Shekar Narasimhan
Shekar Narasimhan
Director

Date: March 14, 2019

/s/ Geoffrey H. Rosenberger
Geoffrey H. Rosenberger
Director

Date: March 14, 2019

/s/ James H. Watters
James H. Watters
Director

Date: March 14, 2019

/s/ Ryan M. Albano
Ryan M. Albano
Executive Vice President and Chief Financial
Officer (Principal Financial Officer)

Date: March 14, 2019

/s/ Timothy D. Dieffenbacher
Timothy D. Dieffenbacher
Chief Accounting Officer and Treasurer (Principal
Accounting Officer)

(This Page Intentionally Left Blank)

(This Page Intentionally Left Blank)

EXECUTIVE TEAM

Amy L. Tait

Founder and Chairman

Sean T. Cutt

Chief Investment Officer

David E. Kasprzak

EVP and Chief Business Development Officer

Timothy D. Dieffenbacher

SVP, Chief Accounting Officer, and Treasurer

Stephen S. Haupt

SVP, Portfolio Management

Roderick A. Pickney

SVP, Acquisitions

Christopher J. Czarnecki

Chief Executive Officer and President

Ryan M. Albano

EVP and Chief Financial Officer

John D. Moragne

EVP, Chief Operating Officer, and Secretary

Christopher J. Brodhead

SVP, Investor Relations

Laurier James Lessard, Jr.

SVP, Asset Management

BOARD OF DIRECTORS

Amy L. Tait

Chairman and Founder
of Broadstone Real Estate, LLC

Laurie A. Hawkes

Lead Independent Director of BNL
Former President and Chief Operating Officer of
American Residential Properties, Inc.

Shekar Narasimhan

Managing Partner at Beekman Advisors, Inc.

David M. Jacobstein

Former President and Chief Operating Officer
of DDR Corp.

Agha S. Khan

Senior Principal of Stone Point Capital LLC

Christopher J. Czarnecki

Chief Executive Officer and President
of Broadstone Real Estate, LLC

Geoffrey H. Rosenberger

Former Managing Director and Co-Founder of
Clover Capital Management, Inc.

James H. Watters

Senior Vice President and Treasurer, Finance
and Administration of Rochester Institute of
Technology

Thomas P. Lydon, Jr.

President of The City Investment Fund, L.P.

INVESTOR RELATIONS

investorrelations@broadstone.com
585.287.6500

CORPORATE OFFICE & CONTACT

800 Clinton Square
Rochester, New York 14604
585.287.6500

BNL is not affiliated or associated with, is not endorsed by, does not endorse, and is not sponsored by or a sponsor of the tenants or of their products or services pictured or mentioned. The names, logos, and all related product and service names, design marks, and slogans are the trademarks or service marks of their respective companies. © 2019 Broadstone Net Lease, Inc. All rights reserved.



ANNUAL REPORT 2018

