

NATIONAL RETAIL PROPERTIES, INC.

Form 10-K

February 12, 2019

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 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization) 56-1431377 (I.R.S. Employer Identification No.)

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (407) 265-7348

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

Title of each class:	Name of exchange on which registered:
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Common Stock, \$0.01 par value	New York Stock Exchange
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5.700% Series E Preferred Stock, \$0.01 par value	New York Stock Exchange
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5.200% Series F Preferred Stock, \$0.01 par value	New York Stock Exchange
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Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

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 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 is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

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in Rule 12b-2 of the Exchange Act. (Check one):

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2018 was \$6,839,989,654.

The number of shares of common stock outstanding as of January 31, 2019 was 161,618,400.

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DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.'s definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Unless the context otherwise requires, references in this Annual Report on Form 10-K to the terms “registrant” or “NNN” or the “Company” refer to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable real estate investment trust subsidiaries, (“TRS”).

Statements contained in this Annual Report on Form 10-K, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Also, when NNN uses any of the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” or similar expressions, NNN is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, NNN’s actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects are described in “Item 1A. Risk Factors” of this Annual Report on Form 10-K.

Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K or any document incorporated herein by reference. NNN undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Annual Report on Form 10-K.

Item 1. Business

The Company

NNN, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. NNN's assets are primarily real estate assets. NNN's consolidated financial statements are included in Item 8 of this Annual Report on Form 10-K.

Real Estate Assets

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment (“Properties” or “Property Portfolio,” or individually a “Property”). NNN owned 2,969 Properties with an aggregate gross leasable area of approximately 30,487,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.5 years as of December 31, 2018. Approximately 98 percent of the Properties were leased as of December 31, 2018.

Competition

NNN generally competes with numerous other REITs, commercial developers, real estate limited partnerships and other investors including but not limited to insurance companies, pension funds and financial institutions that own, manage, finance or develop retail and net leased properties.

Employees

As of January 31, 2019, NNN employed 68 associates.

Other Information

NNN’s executive offices are located at 450 S. Orange Avenue, Suite 900, Orlando, Florida 32801, and its telephone number is (407) 265-7348. NNN has a website at www.nnnreit.com where NNN’s filings with the Securities and Exchange Commission (the “Commission”) can be downloaded free of charge.

The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange (the “NYSE”) under the ticker symbol “NNN.” National Retail Properties, Inc. has two series of preferred shares outstanding which are traded on the NYSE in the form of depositary shares: the depositary shares, each representing 1/100th of a share of 5.700% Series E Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series E Preferred Stock”), are traded on the NYSE under the ticker symbol “NNN/PE” and the depositary shares, each representing 1/100th of a share of 5.200% Series F Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series F Preferred Stock”), are traded on the NYSE under the symbol “NNN/PF.”

Business Strategies and Policies

The following is a discussion of NNN's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been set by management and the Board of Directors and, in general, may be amended or revised from time to time by management and the Board of Directors without a vote of NNN's stockholders.

Operating Strategies

NNN's strategy is to invest primarily in retail real estate that is typically well located within each local market for its tenants' retail lines of trade. Management believes that these types of properties, generally leased pursuant to triple-net leases, provide attractive opportunities for stable current returns and the potential for increased returns and capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as insurance, utilities, repairs, maintenance, capital expenditures and real estate taxes and assessments. Initial lease terms are generally 10 to 20 years.

NNN holds each real estate asset until it determines that the sale of such an asset is advantageous in view of NNN's investment objectives. In deciding whether to sell a real estate asset, factors NNN may consider include, but are not limited to, potential capital appreciation, net cash flow, tenant credit quality, tenant's line of trade, portfolio composition, market lease rates, local market conditions, potential use of sale proceeds and federal income tax considerations.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. These key indicators include the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, industry trends, and industry performance compared to NNN. The operating strategies employed by NNN have allowed NNN to increase the annual dividend (paid quarterly) per common share for 29 consecutive years. NNN is one of only three publicly traded REITs to increase its annual dividend per common share for 29 or more consecutive years.

Investment in Real Estate or Interests in Real Estate

NNN's management believes that single tenant, freestanding net lease retail properties will continue to provide attractive investment opportunities and that NNN is well suited to take advantage of these opportunities because of its experience in accessing capital markets, and its ability to source, underwrite and acquire such properties.

In evaluating a particular acquisition, management may consider a variety of factors, including but not limited to:

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community,
- the local real estate market conditions, including potential for growth, redevelopment, market rents, and existing or potential competing properties or retailers,
- the size, age and title status of the property,
- the quality of construction and design and the current physical condition of the property,
- the potential for, and current extent of, any environmental problems,
- the purchase price,
- the non-financial terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing Property Portfolio,
- the property-level operating history,
- the financial and other characteristics of the existing tenant,
- the tenant's business plan, operating history and management team,
- the tenant's industry,
- the terms of any lease,
- the rent to be paid by the tenant,
- any existing indebtedness encumbering the property which may be assumed in connection with acquiring or refinancing these investments, and
- the merits relative to other opportunities.

NNN intends to engage in future investment activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes. Additionally, NNN does not intend to engage in activities that will make NNN an investment company under the Investment Company Act of 1940, as amended.

Investments in Real Estate Mortgages and Securities of or Interests in Persons Engaged in Real Estate Activities While NNN's primary business objectives emphasize retail properties, NNN may invest in (i) a wide variety of property and tenant types, (ii) leases, mortgages and other types of real estate interests, (iii) loans secured by personal property, (iv) loans secured by partnership or membership interests in partnerships or limited liability companies, respectively, or (v) securities of other REITs, or other issuers, including for the purpose of exercising control over such entities.

Financing Strategy

NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategies while servicing its debt requirements and providing value to its stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, proceeds from the sale of properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements including investments in additional properties with advances from its \$900,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility.

As of December 31, 2018, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 35 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements contain covenants that limit NNN's ability to incur additional debt under certain circumstances.

NNN anticipates it will be able to obtain additional financing for short-term and long-term liquidity requirements as further described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity." However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy at any time.

Strategies and Policy Changes

Any of NNN's strategies or policies described above may be changed at any time by NNN without notice to or a vote of NNN's stockholders.

Property Portfolio

As of December 31, 2018, NNN owned 2,969 Properties with an aggregate gross leasable area of approximately 30,487,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.5 years.

Approximately 98 percent of total Properties were leased as of December 31, 2018.

The following table summarizes the Property Portfolio at December 31, 2018 (in thousands):

	Size ⁽¹⁾			Total Dollars Invested ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	3,733	2	99	\$8,882	\$ 5	\$ 817
Building	142	1	10	45,286	19	1,889

(1) Approximate square feet.

(2) Costs vary depending upon size, improvements, local market conditions and other factors.

As of December 31, 2018, NNN has committed to fund construction on 19 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, as of December 31, 2018, are outlined in the table below (dollars in thousands):

Total commitment ⁽¹⁾	\$34,756
Less amount funded	13,588
Remaining commitment	\$21,168

⁽¹⁾Includes land, construction costs, tenant improvements, lease costs, and capitalized interest.

Leases

The following is a summary of the general structure of the leases in the Property Portfolio, although the specific terms of each lease can vary significantly. Generally, the Property leases provide for initial terms of 10 to 20 years. As of December 31, 2018, the weighted average remaining lease term of the Property Portfolio was approximately 11.5 years. The Properties are generally leased under net leases, pursuant to which the tenant typically bears responsibility for substantially all property costs and expenses associated with ongoing maintenance, repair, replacement and operation of the property, including utilities, property taxes and insurance. NNN's leases provide for annual base rental payments (generally payable in monthly installments) ranging from \$6,000 to \$3,714,000 (average of \$211,000), and generally provide for increases in rent as a result of (i) increases in the Consumer Price Index ("CPI"), (ii) fixed increases, or, to a lesser extent, (iii) increases in the tenant's sales volume.

Generally, NNN's leases provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions provided under the initial lease term. Some of the leases also provide that in the event NNN wishes to sell the Property subject to that lease, NNN first must offer the lessee the right to purchase the Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Property.

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2018:

% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾	Year	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2019 1.7%	51	648,000	2025	4.4%	129	1,130,000
2020 3.0%	116	1,498,000	2026	5.0%	179	1,697,000
2021 3.8%	121	1,317,000	2027	7.6%	193	2,600,000
2022 5.9%	124	1,636,000	2028	5.0%	162	1,188,000
2023 2.9%	113	1,420,000	Thereafter	57.7%	1,651	15,021,000
2024 3.0%	75	1,284,000				

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2018.

⁽²⁾ Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2018	2017	2016
1. Convenience stores	18.0%	18.1%	16.9%
2. Restaurants - full service	11.4%	12.1%	11.8%
3. Restaurants - limited service	8.9%	7.6%	7.5%
4. Automotive service	8.6%	6.9%	6.6%
5. Family entertainment centers	7.1%	6.4%	5.8%
6. Health and fitness	5.6%	5.6%	5.7%
7. Theaters	5.0%	4.8%	4.9%
8. Automotive parts	3.4%	3.6%	3.9%
9. Recreational vehicle dealers, parts and accessories	3.4%	3.4%	3.4%
10. Wholesale clubs	2.3%	2.2%	2.4%
Other	26.3%	29.3%	31.1%
	100.0%	100.0%	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table summarizes the diversification of the Property Portfolio by state as of December 31, 2018:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	472	17.3%
2. Florida	219	8.7%
3. Ohio	195	5.7%
4. Illinois	141	5.2%
5. North Carolina	148	4.6%
6. Georgia	143	4.5%
7. Tennessee	138	3.9%
8. Indiana	125	3.9%
9. Virginia	114	3.7%
10. Alabama	132	3.1%
Other	1,142	39.4%
	2,969	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2018.

As of December 31, 2018, NNN did not have any tenant that accounted for ten percent or more of its rental income.

Governmental Regulations Affecting Properties

Property Environmental Considerations. Subject to a determination of the level of risk and potential cost of remediation, NNN may acquire a property where some level of environmental contamination may exist. Investments in real property create a potential for substantial environmental liability for the owner of such property from the presence or discharge of hazardous materials on the property or the improper disposal of hazardous materials emanating from the property, regardless of fault. In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of the Properties. Such policy expires in August 2023. As a part of its acquisition due diligence process, NNN obtains an environmental site assessment for each property. In such cases where NNN intends to acquire a property where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance to address environmental conditions at the property. NNN may incur costs if the tenant does not comply with these requests.

As of February 5, 2019, NNN has 74 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

Americans with Disabilities Act of 1990. The Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively, the "ADA"). The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 5, 2019, NNN has not been notified by any governmental authority of, nor is NNN's management aware of, any non-compliance with the ADA that NNN's management believes would have a material adverse effect on its business, financial position or results of operations.

Other Regulations. State and local fire, life-safety and similar entities regulate the use of the Properties. NNN's leases generally require each tenant to undertake primary responsibility for complying with regulations, but failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties.

Item 1A. Risk Factors

Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, NNN's business, financial condition or results of operations could be adversely affected. Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general.

Financial and economic conditions can be challenging and volatile and any worsening of such conditions, including any disruption in the capital markets, could adversely affect NNN's business and results of operations. Such conditions could also affect the financial condition of NNN's tenants, developers, borrowers, lenders or the institutions that hold NNN's cash balances and short-term investments, which may expose NNN to increased risks of default by these parties.

There can be no assurance that actions of the United States Government, the Federal Reserve or other government and regulatory bodies intended to stabilize the economy or financial markets will achieve their intended effect.

Additionally, some of these actions may adversely affect financial institutions, capital providers, retailers, consumers, NNN's financial condition, NNN's results of operations or the trading price of NNN's shares.

Potential consequences of challenging and volatile financial and economic conditions include:

- the financial condition of NNN's tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons,
- the ability to borrow on terms and conditions that NNN finds acceptable may be limited or unavailable, which could reduce NNN's ability to pursue acquisition and development opportunities and refinance existing debt, reduce NNN's returns from acquisition and development activities, reduce NNN's ability to make cash distributions to its stockholders and increase NNN's future interest expense,
- the recognition of impairment charges on or reduced values of the Properties, may adversely affect NNN's results of operations,
- reduced values of the Properties may limit NNN's ability to dispose of assets at attractive prices and reduce the availability of buyer financing, and
- the value and liquidity of NNN's short-term investments and cash deposits could be reduced as a result of (i) a deterioration of the financial condition of the institutions that hold NNN's cash deposits or the institutions or assets in which NNN has made short-term investments, (ii) the dislocation of the markets for NNN's short-term investments, (iii) increased volatility in market rates for such investments or (iv) other factors.

NNN may be unable to obtain debt or equity capital on favorable terms, if at all.

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Nearly all of NNN's debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2022 and 2048. NNN's ability to make these scheduled principal payments may be adversely impacted by NNN's inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive which would have an adverse impact on NNN's business, financial condition and results of operations.

Changes in established interest rate index could have an adverse affect on NNN's results of operations.

The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Funding Rate ("SOFR") replace USD-LIBOR. ARRC has proposed that the market transition to SOFR from USD-LIBOR in 2021. NNN's Credit Facility is indexed to USD-LIBOR. Industry organizations are currently working on the transition plan. NNN is currently monitoring this activity and evaluating the risks involved.

Loss of rent from tenants would reduce NNN's cash flow.

NNN's 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 their ability to pay rent. Shifts from in-store to online shopping could increase due to changing consumer shopping patterns as well as the increase in consumer adoption and use of mobile electronic devices. This expansion of e-commerce could have an adverse impact on NNN's tenants' ongoing viability. The default, financial distress, bankruptcy or liquidation of one or more of NNN's tenants could cause substantial vacancies in the Property Portfolio. Vacancies reduce NNN's revenues, increase property expenses and could decrease the value of each such vacant Property. Upon the expiration of a lease, the tenant may choose not to renew the lease and NNN may not be able to re-lease the vacant Property at a comparable lease rate. Furthermore, NNN may incur additional expenditures in connection with such renewal or re-leasing.

A significant portion of the source of the Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and geographic locations.

As of December 31, 2018, approximately,

54.0% of the Property Portfolio annual base rent is generated from tenants in five retail lines of trade, including convenience stores (18.0%) and full-service and limited-service restaurants (20.3%),

21.7% of the Property Portfolio annual base rent is generated from five tenants, 7-Eleven (5.4%), Mister Car Wash (4.4%), Camping World (4.3%), LA Fitness (4.0%) and Flynn Restaurant Group (Taco Bell/Arby's) (3.6%), and

41.5% of the Property Portfolio annual base rent is generated from properties located in five states, including Texas (17.3%) and Florida (8.7%).

Any financial hardship and/or economic changes in these lines of trade, tenants or states could have an adverse effect on NNN's results of operations.

Owning real estate and indirect interests in real estate carries inherent risks.

NNN's economic performance and the value of its real estate assets are subject to the risk that if the Properties do not generate revenues sufficient to meet its operating expenses, including debt service, NNN's cash flow and ability to pay distributions to its stockholders will be adversely affected. As a real estate company, NNN is susceptible to the following real estate industry risks, which are beyond its control:

- changes in national, regional and local economic conditions and outlook,
- decreases in consumer spending and retail sales or adverse changes in consumer preferences for particular goods, services or store based retailing,
- economic downturns in the areas where the Properties are located,
- adverse changes in local real estate market conditions, such as an oversupply of space, reduction in demand for space, loss of a large employer, intense competition for tenants, or a demographic change,
- changes in tenant or consumer preferences that reduce the attractiveness of the Properties to tenants,
- changes in zoning, regulatory restrictions, or tax laws, and
- changes in interest rates or availability of financing.

All of these factors could result in decreases in market rental rates and increases in vacancy rates, which could adversely affect NNN's results of operations.

NNN's real estate investments are illiquid.

Because real estate investments are relatively illiquid, NNN's ability to adjust the portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service (if any), (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 NNN's financial condition.

Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations.

NNN 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 NNN or its Properties, including, but not limited to environmental laws and regulations. Compliance with new laws or regulations, or stricter interpretation of existing laws, may require NNN, its retail tenants, or consumers to incur significant expenditures, impose significant liability, restrict or prohibit business activities and could cause a material adverse effect on NNN's results of operation. NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN.

There may be known or unknown environmental liabilities associated with Properties owned or acquired in the future by NNN. Certain particular uses of some Properties may also 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 and machine solvents. Some of the 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.

As part of its due diligence process, NNN generally obtains an environmental site assessment for each Property it acquires. In cases where NNN intends to acquire real estate where evidence of some level of known contamination may exist, NNN generally requires the seller or tenant to (i) remediate the contamination in accordance with applicable laws, rules and regulations, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance. Although sellers or tenants may be contractually responsible for remediating hazardous materials on a property and may be responsible for indemnifying NNN for any liability resulting from the use of a Property and for any failure to comply with any applicable environmental laws, rules or regulations, NNN has no assurance that sellers

or tenants shall be able to meet their remediation and indemnity obligations to NNN. A tenant or seller may not have the financial ability to meet its remediation and indemnity obligations to

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NNN when required. Furthermore, NNN may have strict liability to governmental agencies or third parties as a result of the existence of hazardous materials on Properties, whether or not NNN knew about or caused such hazardous materials to exist.

As of February 5, 2019, NNN has 74 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

If NNN is responsible for hazardous materials located on its Properties, NNN's liability may include investigation and remediation costs, property damage to third parties, personal injury to third parties, and governmental fines and penalties. Furthermore, the presence of hazardous materials on a Property may adversely impact the Property value or NNN's ability to sell the Property. Significant environmental liability could impact NNN's results of operations, ability to make distributions to stockholders, and its ability to meet its debt obligations.

In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of its Properties. That policy expires in August 2023. However, the policy is subject to exclusions and limitations and does not cover all of the Properties owned by NNN. For those Properties covered under the policy, insurance may not fully compensate NNN for any environmental liability. NNN has no assurance that the insurer on its environmental insurance policy will be able to meet its obligations under the policy. NNN may not desire to renew the environmental insurance policy in place upon expiration or a replacement policy may not be available at a reasonable cost, if at all.

NNN may not be able to successfully execute its acquisition or development strategies.

NNN may not be able to implement its investment strategies successfully. Additionally, NNN cannot assure that its Property Portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because NNN expects to invest in markets other than the ones in which its current Properties are located or properties which may be leased to tenants other than those to which NNN has historically leased properties, NNN will also be subject to the risks associated with investment in new markets, new lines of trade or with new tenants that may be relatively unfamiliar to NNN's management team.

NNN's development activities are subject to, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from factors beyond NNN's control, such as weather or labor conditions or material shortages), the risk of finding tenants for the properties and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to reduce rent or terminate a lease. Any of these situations may delay or eliminate proceeds or cash flows NNN expects from these projects, which could have an adverse effect on NNN's financial condition.

NNN may not be able to dispose of properties consistent with its operating strategy.

NNN may be unable to sell Properties targeted for disposition under favorable terms due to adverse market conditions or possible prohibitive income tax liability. This may adversely affect, among other things, NNN's ability to sell under favorable terms, execute its operating strategy, achieve target earnings or returns, retire or repay debt or pay dividends.

NNN may suffer a loss in the event of a default of or bankruptcy of a borrower.

As of December 31, 2018, NNN had no outstanding mortgages and notes receivable. If a borrower defaults on a mortgage or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the collateral may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN's loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate or other assets and are typically subordinated to senior loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists, the presence of

intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral, if any, in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

Certain provisions of NNN's leases or loan agreements may be unenforceable.

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

Property ownership through joint ventures and partnerships could limit NNN's control of those investments.

Joint ventures or partnerships involve risks not otherwise present for direct investments by NNN. It is possible that NNN's co-venturers or partners may have different interests or goals than NNN at any time and they may take actions contrary to NNN's requests, policies or objectives, including NNN's policy with respect to maintaining its qualification as a REIT. Other risks of joint venture or partnership investments include impasses on decisions because in some instances no single co-venturer or partner has full control over the joint venture or partnership, respectively, or the co-venturer or partner may become insolvent, bankrupt or otherwise unable to contribute to the joint venture or partnership, respectively. Further, disputes may develop with a co-venturer or partner over decisions affecting the property, joint venture or partnership that may result in litigation, arbitration or some other form of dispute resolution. Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow.

NNN may not complete suitable property acquisitions or developments on advantageous terms, if at all, due to competition for such properties with others engaged in real estate investment activities or lack of properties for sale on terms deemed acceptable to NNN. NNN's inability to successfully acquire or develop new properties may affect NNN's ability to achieve anticipated return on investment or realize its investment strategy, which could have an adverse effect on its results of operations.

NNN's loss of key management personnel could adversely affect performance and the value of its securities.

NNN is dependent on the efforts of its key management. Competition for senior management personnel can be intense and NNN may not be able to retain its key management. Although NNN believes qualified replacements could be found for any departures of key management, the loss of their services could adversely affect NNN's performance and the value of its securities.

Uninsured losses may adversely affect NNN's operating results and asset values.

The Properties are generally covered by comprehensive liability, fire, and extended insurance coverage. NNN believes that the insurance carried on its Properties is adequate and in accordance with industry standards. There are, however, types of losses (such as from hurricanes, floods, earthquakes or other types of natural disasters or wars or other acts of violence) which may be uninsurable, self-insured by tenants, or the cost of insuring against these losses may not be economically justifiable in the opinion of tenants or NNN. If an uninsured loss occurs or a loss exceeds policy limits, NNN could lose both its invested capital and anticipated revenues from the property, thereby reducing NNN's cash flow and asset value.

Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN's results of operations.

Terrorist attacks or other acts of violence may negatively affect NNN's operations. There can be no assurance that there will not be terrorist attacks against businesses within the United States. These attacks may directly or indirectly impact NNN's physical facilities or the businesses or the financial condition of its tenants, developers, borrowers, lenders or financial institutions with which NNN has a relationship. The United States is engaged in armed conflict, which could have an impact on these parties. The consequences of armed conflict are unpredictable, and NNN may not be able to foresee events that could have an adverse effect on its business or be insured for such.

More generally, any of these events or threats of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in, or cause a deepening of, economic recession in the United States or abroad. Any of these occurrences could have an adverse impact on NNN's financial condition or results of operations.

Vacant properties or bankrupt tenants could adversely affect NNN's business or financial condition.

As of December 31, 2018, NNN owned 52 vacant, un-leased Properties, which accounted for approximately two percent of total Properties held in the Property Portfolio. NNN is actively marketing these Properties for sale or lease but may not be able to sell or lease these Properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of January 31, 2019, less than one percent of total Properties held in the Property Portfolio was leased to one tenant that filed a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, this tenant has the right to reject or affirm its leases with NNN.

The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition.

As of December 31, 2018, NNN had outstanding debt, including mortgages payable, of \$12,694,000, total unsecured notes payable of \$2,838,701,000 and no outstanding balance on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations.

The amount of debt outstanding at any time could have important consequences to NNN's stockholders. For example, it could:

- require NNN to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, real estate investments and other business opportunities that may arise in the future,
- increase NNN's vulnerability to general adverse economic and industry conditions,
- limit NNN's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes,
- make it difficult to satisfy NNN's debt service requirements,
- limit NNN's ability to pay dividends in cash on its outstanding common and preferred stock,
- limit NNN's flexibility in planning for, or reacting to, changes in its business and the factors that affect the profitability of its business, and
- limit NNN's flexibility in conducting its business, which may place NNN at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

NNN's ability to make scheduled payments of principal or interest on its debt, or to retire or refinance such debt will depend primarily on its future performance, which to a certain extent is subject to the creditworthiness of its tenants, competition, and economic, financial, and other factors beyond its control. There can be no assurance that NNN's business will continue to generate sufficient cash flow from operations in the future to service its debt or meet its other cash needs. If NNN is unable to generate sufficient cash flow from its business, it may be required to refinance all or a portion of its existing debt, sell assets or obtain additional financing to meet its debt obligations and other cash needs. NNN cannot assure stockholders that any such refinancing, sale of assets or additional financing would be possible or, if possible, on terms and conditions, including but not limited to the interest rate, which NNN would find acceptable or would not result in a material decline in earnings.

NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt.

As of December 31, 2018, NNN had approximately \$2,851,395,000 of outstanding indebtedness, of which approximately \$12,694,000 was secured indebtedness. NNN's unsecured debt instruments contain various restrictive covenants which include, among others, provisions restricting NNN's ability to:

- incur or guarantee additional debt,
- make certain distributions, investments and other restricted payments,
- enter into transactions with certain affiliates,
- create certain liens,
- consolidate, merge or sell NNN's assets, and
- pre-pay debt.

NNN's secured debt instruments generally contain customary covenants, including, among others, provisions:

- requiring the maintenance of the property securing the debt,
- restricting its ability to sell, assign or further encumber the properties securing the debt,
- restricting its ability to incur additional debt on the property securing the debt,
- restricting modifications to property improvements,
- restricting its ability to amend or modify existing leases on the property securing the debt, and
- establishing certain prepayment restrictions.

In addition, NNN's debt instruments may contain cross-default provisions, in which case a default of NNN under one debt instrument will be a default of NNN under multiple or all debt instruments of NNN.

NNN's ability to meet some of its debt covenants, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by NNN's tenants under their leases.

In addition, certain covenants in NNN's debt instruments, including its Credit Facility, require NNN, among other things, to:

- limit certain leverage ratios,
- maintain certain minimum interest and debt service coverage ratios, and
- limit investments in certain types of assets.

NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.

The market value of NNN's equity and debt securities is subject to various factors that may cause significant fluctuations or volatility.

As with other publicly traded securities, the market price of NNN's equity and debt securities depends on various factors, which may change from time-to-time and/or may be unrelated to NNN's financial condition, operating performance or prospects that may cause significant fluctuations or volatility in such prices. These factors, among others, include:

- general economic and financial market conditions,
- level and trend of interest rates,
- changes in government taxation or regulatory authorities,
- NNN's ability to access the capital markets to raise additional capital,
- the issuance of additional equity or debt securities,
- changes in NNN's funds from operations or earnings estimates,
- changes in NNN's debt ratings or analyst ratings,
- NNN's financial condition and performance,
- market perception of NNN compared to other REITs, and
- market perception of REITs compared to other investment sectors.

NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability. NNN intends to operate in a manner that will allow NNN to continue to qualify as a REIT. NNN believes it has been organized as, and its past and present operations qualify NNN as a REIT. However, the Internal Revenue Service ("IRS") could successfully assert that NNN is not qualified as such. In addition, NNN may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code") for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within NNN's control. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for NNN to qualify as a REIT or avoid significant tax liability.

If NNN fails to qualify as a REIT, it would not be allowed a deduction for dividends paid to stockholders in computing taxable income and would become subject to federal income tax at regular corporate rates. In this event, NNN could be subject to potentially significant tax liabilities and penalties. Unless entitled to relief under certain statutory provisions, NNN would also be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost.

Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow. Even if NNN remains qualified for taxation as a REIT, NNN is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any increase of these taxes would decrease earnings and cash available for distribution to stockholders. In addition, in order to meet certain REIT qualification requirements, NNN may elect to own some of its assets in a TRS.

Adverse legislative or regulatory tax changes could reduce NNN's earnings and cash flow and the market value of NNN's securities.

At any time, the federal and state income tax laws or the administrative interpretations of those laws may change. Any such changes may have current and retroactive effects, and could adversely affect NNN or its stockholders. Legislation could cause shares in non-REIT entities to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's securities.

Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may negatively affect NNN's operating decisions.

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund expenditures or debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, so long as it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2018, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state income, franchise and excise taxes.

Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance.

Accounting policies and methods are fundamental to how NNN records and reports its financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") and the Commission, who create and interpret appropriate accounting standards, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of NNN's financial statements. These changes could have a material impact on NNN's reported financial condition and results of operations. In some cases, NNN could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Similarly, these changes could have a material impact on NNN's tenants' reported financial condition or results of operations and affect their preferences regarding leasing real estate.

NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and the market value of NNN's securities.

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of the Company's internal control over financial reporting. If NNN fails to maintain the adequacy of its internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, NNN may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for NNN to produce reliable financial reports and to maintain its qualification as a REIT and are important in helping to prevent financial fraud. If NNN cannot provide reliable financial reports or prevent fraud, its business and operating results could be harmed, REIT qualification could be jeopardized, investors could lose confidence in the Company's reported financial information, the company's access to capital could be impaired, and the trading price of NNN's shares could drop significantly.

NNN's ability to pay dividends in the future is subject to many factors.

NNN's ability to pay dividends may be impaired if any of the risks described in this section were to occur. In addition, payment of NNN's dividends depends upon NNN's earnings, financial condition, maintenance of NNN's REIT status and other factors as NNN's Board of Directors may deem relevant from time to time.

Cybersecurity risks and cyber incidents could adversely affect NNN's business, disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties.

NNN uses information technology and other computer resources to carry out important operational activities and to maintain its business records. As part of NNN's normal business activities, NNN collects and stores certain personal identifying and confidential information relating to its tenants, employees, vendors and suppliers, and maintains operational and financial information related to NNN's business. NNN has implemented systems and processes intended to address ongoing and evolving cybersecurity risks, secure its information technology, applications and computer systems, and prevent unauthorized access to or loss of sensitive, confidential and personal data. Although NNN and its service providers employ what NNN believes are adequate security, disaster recovery and other preventative and corrective measures, NNN's security measures, taken as a whole, may not be sufficient for all possible situations and may be vulnerable to, among other things, hacking, employee error, system error, and faulty password management.

NNN's ability to conduct its business may be impaired if its information technology resources, including its websites or e-mail systems, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of its information technology resources by:

- a third party,
- natural disaster,
- a failure of hardware or software due to a design or programmatic flaw,
- a failure of hardware or software security controls,
- telecommunications system failure,
- service provider error or failure,
- intentional or unintentional personnel actions, or
- lost connectivity to NNN's networked resources.

A significant and extended disruption could damage NNN's business or reputation and cause:

- loss of revenues or tenant relations,
- unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information, and

NNN to incur significant expenses to address and remediate or otherwise resolve these kinds of issues.

The release of confidential information may also lead to litigation or other proceedings against NNN by affected individuals, business partners and/or regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against NNN's earnings and cause NNN reputational harm, could have a material and adverse effect on NNN's business, financial position or results of operations.

In addition, the costs of maintaining adequate protection against data security threats, based on considerations of their evolution, increasing sophistication, pervasiveness and frequency and/or government-mandated standards or obligations

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regarding protective efforts, could be material to NNN's financial position or results of operations in a particular period or over various periods.

Future investment in international markets could subject NNN to additional risks.

If NNN expands its operating strategy to include investment in international markets, NNN could face additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Please refer to Item 1. "Business."

Item 3. Legal Proceedings

In the ordinary course of its business, NNN is a party to various legal actions that management believes are routine in nature and incidental to the operation of the business of NNN. Management does not believe that any of these proceedings are material.

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

The common stock of NNN currently is traded on the NYSE under the symbol "NNN." Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P") for the five-year period commencing December 31, 2013 and ending December 31, 2018. The graph assumes an investment of \$100 on December 31, 2013.

Comparison to Five-Year Cumulative Total Return

Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P") for the ten-year period commencing December 31, 2008 and ending December 31, 2018. The graph assumes an investment of \$100 on December 31, 2008.

Comparison to Ten-Year Cumulative Total Return

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For each calendar quarter and year indicated, the following table reflects respective high, low and closing sales prices for the common stock as quoted by the NYSE and the dividends paid per share in each such period.

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$43.32	\$44.13	\$46.44	\$51.48	\$51.48
Low	36.25	36.95	43.04	42.97	36.25
Close	39.26	43.96	44.82	48.51	48.51
Dividends paid per share	0.475	0.475	0.500	0.500	1.950

2017					
High	\$46.34	\$45.63	\$43.41	\$43.90	\$46.34
Low	41.91	36.45	37.45	38.97	36.45
Close	43.62	39.10	41.66	43.13	43.13
Dividends paid per share	0.455	0.455	0.475	0.475	1.860

The following table presents the characterizations for tax purposes of such common stock dividends for the years ended December 31:

	2018			2017		
Ordinary dividends	\$1.658604	85.0566	% ⁽¹⁾	\$1.559781	83.8592	%
Capital gain	0.015534	0.7966	%	0.035041	1.8839	%
Unrecaptured Section 1250 Gain	0.042818	2.1958	%	0.012194	0.6556	%
Nontaxable distributions	0.233044	11.9510	%	0.252984	13.6013	%
	\$1.950000	100.0000	%	\$1.860000	100.0000	%

⁽¹⁾ Eligible for the 20% qualified business income deduction under section 199A of the Code that was established by the Tax Cuts and Jobs Act signed into law on December 22, 2017, ("TCJA").

NNN intends to pay regular quarterly dividends to its stockholders, although all future distributions will be declared and paid at the discretion of the Board of Directors and will depend upon cash generated by operating activities, NNN's financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant.

In January 2019, NNN declared dividends payable to its stockholders of \$80,566,000, or \$0.500 per share, of common stock.

On January 31, 2019, there were 1,746 registered holders of record of NNN's common stock.

Item 6. Selected Financial Data

Historical Financial Highlights

(dollars in thousands, except per share data)

	2018	2017	2016	2015	2014
Gross revenues ⁽¹⁾	\$ 624,471	\$ 585,255	\$ 533,817	\$ 483,025	\$ 435,278
Earnings from continuing operations ⁽²⁾	292,485	265,371	239,506	197,961	191,046
Net earnings	292,485	265,371	239,506	197,961	191,170
Net earnings attributable to NNN	292,447	264,973	239,500	197,836	190,601
Total assets	7,103,438	6,560,534	6,334,151	5,460,044	4,915,551
Total debt	2,851,395	2,580,207	2,311,689	1,975,944	1,729,891
Total stockholders' equity of NNN	4,154,250	3,840,593	3,916,799	3,342,134	3,082,515
Cash dividends declared to:					
Common stockholders	303,164	277,120	257,007	228,699	204,157
Series D preferred stockholders	—	3,598	19,047	19,047	19,047
Series E preferred stockholders	16,387	16,387	16,387	16,387	16,387
Series F preferred stockholders	17,940	17,940	3,189	—	—
Weighted average common shares:					
Basic	155,744,601	149,111,188	144,176,224	133,998,674	124,257,558
Diluted	156,295,619	149,432,641	144,660,633	134,489,416	124,710,226
Earnings from continuing operations per share and net earnings per share:					
Basic	1.65	1.45	1.39	1.21	1.24
Diluted	1.65	1.45	1.38	1.20	1.24
Cash dividends declared per share to:					
Common stockholders	1.95	1.86	1.78	1.71	1.65
Series D preferred depositary stockholders	—	0.312847	1.656250	1.656250	1.656250
Series E preferred depositary stockholders	1.425000	1.425000	1.425000	1.425000	1.425000
Series F preferred depositary stockholders	1.300000	1.300000	0.231111	—	—
Other data:					
Cash flows provided by (used in):					
Operating activities	\$ 471,909	\$ 421,557	\$ 415,337	\$ 341,095	\$ 296,733
Investing activities	(609,371)	(625,557)	(779,943)	(644,544)	(541,558)
Financing activities	250,365	(89,176)	644,886	307,105	253,944
Funds from operations – available to common stockholders ⁽³⁾	395,337	359,179	330,544	289,193	260,902

(1) Gross revenues include the aggregate of total revenue and interest and other income found on the Consolidated Statements of Income and Comprehensive Income.

Certain amounts previously reported in the consolidated financial statements have been reclassified in the accompanying consolidated financial statements to conform to the current period's presentation, primarily to change the presentation of gain on disposition of real estate on the Consolidated Statements of Income and Comprehensive Income. NNN has included gain on disposition of real estate as a component of earnings from

(2) operations to present gain and losses on dispositions of properties in accordance with ASC 360-10-45-5. The change was made for the prior periods as the Securities and Exchange Commission (the "Commission") has eliminated Rule 3-15(a) of Regulation S-X as part of Release No. 33-10532; 34-83875; IC-33203, which had required REITs to present gain and losses on disposition of properties outside of continuing operations in the income statement.

(3) The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a relative non-U.S. generally accepted accounting principles ("GAAP") financial measure of performance of a REIT

in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of real estate assets,

excluding gains (or losses) on the disposition of certain assets, any impairment charges on a depreciable real estate asset and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

Funds From Operations (FFO) Reconciliation

FFO is generally considered by industry analysts to be an appropriate measure of operating performance of real estate companies. FFO does not necessarily represent cash provided by operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of NNN's operating performance or to cash flow as a measure of liquidity or ability to make distributions. Management considers FFO an appropriate measure of operating performance of an equity REIT because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time, and because industry analysts have accepted it as an operating performance measure. NNN's computation of FFO may differ from the methodology for calculating FFO used by other equity REITs, and therefore, may not be comparable to such other REITs.

The following table reconciles FFO to the most directly comparable GAAP measure, net earnings for the years ended December 31:

	2018	2017	2016	2015	2014
Net earnings available to common stockholders	\$258,120	\$217,193	\$200,877	\$162,402	\$155,167
Real estate depreciation and amortization:					
Continuing operations	174,076	173,404	148,779	134,380	115,888
Discontinued operations	—	—	—	—	3
Gain on disposition of real estate, net of income tax expense and noncontrolling interests	(65,070)	(36,258)	(27,137)	(10,397)	(10,904)
Impairment losses – depreciable real estate, net of recoveries and income tax expense	28,211	4,840	8,025	2,808	748
FFO available to common stockholders	\$395,337	\$359,179	\$330,544	\$289,193	\$260,902

For a discussion of material events affecting the comparability of the information reflected in the selected financial data, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

The following discussion and analysis should be read in conjunction with "Item 6. Selected Financial Data," and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K, and the forward-looking disclaimer language in italics before "Item 1. Business."

The term "NNN" or the "Company" refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable real estate investment trust subsidiaries, ("TRS").

Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's assets are primarily real estate assets. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment ("Properties," or "Property Portfolio," or individually a "Property").

NNN owned 2,969 Properties with an aggregate gross leasable area of approximately 30,487,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.5 years as of December 31, 2018. Approximately 98 percent of the Properties were leased as of December 31, 2018.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN include items such as: the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, industry trends and industry performance compared to that of NNN.

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation may include reviewing available financial statements, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN may also evaluate the business and operations of its tenants, including periodically meeting with senior management of certain tenants.

NNN continues to maintain its diversification by tenant, geography and tenant's line of trade. NNN's largest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace and NNN's management believes these sectors present attractive investment opportunities. The Property Portfolio is geographically concentrated in the south and southeast United States, which are regions of historically above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic regions could have a material adverse effect on the financial condition and operating performance of NNN.

As of December 31, 2018, 2017 and 2016, the Property Portfolio has remained at least 98 percent leased. As of December 31, 2018, the average remaining lease term of the Property Portfolio was 11.5 years, which was consistent with the past three years. High occupancy levels coupled with a net lease structure, provides enhanced probability of maintaining operating earnings.

Critical Accounting Policies and Estimates

The preparation of NNN's consolidated financial statements in conformance with accounting principles generally accepted in the United States of America 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 NNN's financial statements. A summary of NNN's accounting policies and procedures are included in Note 1 of NNN's consolidated financial statements. Management believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of NNN's consolidated financial statements.

Real Estate Portfolio. NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of Properties developed or funded by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy.

Purchase Accounting for Acquisition of Real Estate Subject to a Lease. In accordance with the Financial Accounting Standards Board ("FASB") guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated based on their fair values to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, and value of in-place leases. Prior to the adoption of ASU 2017-01, "Business Combinations (Topic 805): Clarifying the definition of a Business," on January 1, 2017, acquisition and closing costs incurred on the acquisition of real estate with an in-place lease were expensed as incurred and recorded as real estate acquisition costs on the Consolidated Statements of Income and Comprehensive Income. This change did not have a material impact on NNN's financial position or results of operations.

Impairment – Real Estate. Based upon certain events or changes in circumstances, management periodically assesses its Properties for possible impairment whenever the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions or the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. Management evaluates whether an impairment in carrying value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying value of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its estimated fair value.

Real Estate – Held For Sale. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less costs to sell.

Revenue Recognition. Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant. Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance on accounting for leases, based on the terms of the lease of the leased asset.

NNN's real estate is generally leased to tenants on a net lease basis, whereby the tenant is responsible for all operating expenses relating to the Property, generally including property taxes, insurance, maintenance, utilities, repairs and capital expenditures. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

Operating method – Properties with leases accounted for using the operating method are recorded at the cost of the real estate. Revenue is recognized as rentals are earned and expenses (including depreciation) are charged to operations as incurred. Buildings are depreciated on the straight-line method over their estimated useful lives. Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled rental revenue varies during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

Direct financing method – Properties with leases accounted for using the direct financing method are recorded at their net investment (which at the inception of the lease generally represents the cost of the Property). Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on NNN's net investment in the leases.

New Accounting Pronouncements. Refer to Note 1 of the December 31, 2018, Consolidated Financial Statements for a summary and the anticipated impact of each accounting pronouncement on NNN's financial position or results of operations.

Results of Operations

Property Analysis

General. The following table summarizes the Property Portfolio as of December 31:

	2018	2017	2016
Properties Owned:			
Number	2,969	2,764	2,535
Total gross leasable area (square feet)	30,487,000	29,093,000	27,204,000
Properties:			
Leased and unimproved land	2,917	2,740	2,508
Percent of Properties – leased and unimproved land	98 %	99 %	99 %
Weighted average remaining lease term (years)	11.5	11.5	11.6
Total gross leasable area (square feet) – leased	29,439,000	28,703,000	26,700,000

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2018:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2019	1.7%	51	648,000	2025	4.4%	129	1,130,000
2020	3.0%	116	1,498,000	2026	5.0%	179	1,697,000
2021	3.8%	121	1,317,000	2027	7.6%	193	2,600,000
2022	5.9%	124	1,636,000	2028	5.0%	162	1,188,000
2023	2.9%	113	1,420,000	Thereafter	57.7%	1,651	15,021,000
2024	3.0%	75	1,284,000				

⁽¹⁾ Based on the annualized base rent for all leases in place as of December 31, 2018.

⁽²⁾ Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2018	2017	2016
1. Convenience stores	18.0%	18.1%	16.9%
2. Restaurants - full service	11.4%	12.1%	11.8%
3. Restaurants - limited service	8.9%	7.6%	7.5%
4. Automotive service	8.6%	6.9%	6.6%
5. Family entertainment centers	7.1%	6.4%	5.8%
6. Health and fitness	5.6%	5.6%	5.7%
7. Theaters	5.0%	4.8%	4.9%
8. Automotive parts	3.4%	3.6%	3.9%
9. Recreational vehicle dealers, parts and accessories	3.4%	3.4%	3.4%
10. Wholesale clubs	2.3%	2.2%	2.4%
Other	26.3%	29.3%	31.1%
	100.0%	100.0%	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table summarizes the diversification of the Property Portfolio by state as of December 31, 2018:

	State	# of Properties	% of Annual Base Rent ⁽¹⁾
1.	Texas	472	17.3%
2.	Florida	219	8.7%
3.	Ohio	195	5.7%
4.	Illinois	141	5.2%
5.	North Carolina	148	4.6%
6.	Georgia	143	4.5%
7.	Tennessee	138	3.9%
8.	Indiana	125	3.9%
9.	Virginia	114	3.7%
10.	Alabama	132	3.1%
	Other	1,142	39.4%
		2,969	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2018.

Property Acquisitions. The following table summarizes the Property acquisitions for each of the years ended December 31 (dollars in thousands):

	2018	2017	2016
Acquisitions:			
Number of Properties	265	276	313
Gross leasable area (square feet)	2,167,000	2,243,000	2,734,000
Initial cash yield	6.8	% 6.9	% 6.9
Total dollars invested ⁽¹⁾	\$715,572	\$754,892	\$846,906

⁽¹⁾ Includes dollars invested in projects under construction or tenant improvements for each respective year.

NNN typically funds Property acquisitions either through borrowings under NNN's unsecured revolving credit facility (the "Credit Facility") or by issuing its debt or equity securities in the capital markets.

Property Dispositions. The following table summarizes the Properties sold by NNN for each of the years ended December 31 (dollars in thousands):

	2018	2017	2016
Number of properties	61	48	38
Gross leasable area (square feet)	686,000	346,000	490,000
Net sales proceeds	\$147,646	\$96,757	\$103,215
Gain on disposition of real estate	\$65,070	\$36,655	\$27,182
Cap rate	5.1	% 6.0	% 6.8

NNN typically uses the proceeds from a Property disposition to either pay down the Credit Facility or reinvest in real estate.

Analysis of Revenue

General. During the year ended December 31, 2018, NNN's rental income increased primarily due to the increase in rental income from Property acquisitions (See "Results of Operations – Property Analysis – Property Acquisitions"). NNN anticipates increases in rental income will continue to come from additional Property acquisitions and increases in rents pursuant to existing lease terms.

The following summarizes NNN's revenues (dollars in thousands):

	2018	2017	2016	Percent of Total			2018	2017
				2018	2017	2016	Versus 2017 Percent	Versus 2016 Percent
Rental Income ⁽¹⁾	\$604,615	\$568,083	\$515,954	97.1 %	97.1 %	96.7 %	6.4 %	10.1 %
Real estate expense reimbursement from tenants	16,784	15,512	14,984	2.7 %	2.7 %	2.8 %	8.2 %	3.5 %
Interest and other income from real estate transactions	1,262	1,338	2,709	0.2 %	0.2 %	0.5 %	(5.7)%	(50.6)%
Total revenues	\$622,661	\$584,933	\$533,647	100.0%	100.0%	100.0%	6.4 %	9.6 %

(1) Includes rental income from operating leases, earned income from direct financing leases and percentage rent ("Rental Income").

Comparison of Revenues – 2018 versus 2017

Rental Income. Rental Income increased in amount but remained flat as a percent of the total revenues for the year ended December 31, 2018 as compared to the same period in 2017. The increase for the year ended December 31, 2018 is primarily due to a partial year of Rental Income received as a result of the acquisition of 265 Properties with aggregate gross leasable area of approximately 2,167,000 square feet during 2018 and a full year of Rental Income received as a result of the acquisition of 276 Properties with a gross leasable area of approximately 2,243,000 square feet in 2017.

Comparison of Revenues – 2017 versus 2016

Rental Income. Rental Income increased in amount and as a percent of the total revenues for the year ended December 31, 2017 as compared to the same period in 2016. The increase for the year ended December 31, 2017 is primarily due to a partial year of Rental Income received as a result of the acquisition of 276 Properties with aggregate gross leasable area of approximately 2,243,000 square feet during 2017 and a full year of Rental Income received as a result of the acquisition of 313 Properties with a gross leasable area of approximately 2,734,000 square feet in 2016.

Analysis of Expenses

General. Operating expenses increased primarily due to an increase in impairment losses recognized on real estate during the year ended December 31, 2018, as compared to the same period in 2017. The following summarizes NNN's expenses for the year ended December 31 (dollars in thousands):

	2018	2017	2016
General and administrative	\$34,248	\$33,805	\$36,508
Real estate	25,099	23,105	20,852
Depreciation and amortization	174,398	173,720	149,101
Impairment – commercial mortgage residual interests valuation	—	—	6,830
Impairment losses – real estate and other charges, net of recoveries	28,211	8,955	11,287
Retirement severance costs	1,013	7,845	—
Total operating expenses	\$262,969	\$247,430	\$224,578
Interest and other income	\$(1,810)	\$(322)	\$(170)
Interest expense	115,847	109,109	96,352
Real estate acquisition costs	—	—	563
Loss on early extinguishment of debt	18,240	—	—
Total other expenses (revenues)	\$132,277	\$108,787	\$96,745

	Percentage of Total Expenses			Percentage of Revenues			2018	2017
	2018	2017	2016	2018	2017	2016	Versus 2017	Versus 2016
General and administrative	13.0 %	13.7 %	16.3 %	5.5 %	5.8 %	6.9 %	1.3 %	(7.4)%
Real estate	9.6 %	9.3 %	9.3 %	4.0 %	4.0 %	3.9 %	8.6 %	10.8 %
Depreciation and amortization	66.3 %	70.2 %	66.4 %	28.0 %	29.7 %	27.9 %	0.4 %	16.5 %
Impairment – commercial mortgage residual interests valuation	—	—	3.0 %	—	—	1.3 %	—	(100.0)%
Impairment losses – real estate and other charges, net of recoveries	10.7 %	3.6 %	5.0 %	4.5 %	1.5 %	2.1 %	215.0 %	(20.7)%
Retirement severance costs	0.4 %	3.2 %	—	0.2 %	1.3 %	—	(87.1)%	N/C ⁽¹⁾
Total operating expenses	100.0 %	100.0 %	100.0 %	42.2 %	42.3 %	42.1 %	6.3 %	10.2 %
Interest and other income	(1.4)%	(0.3)%	(0.2)%	(0.3)%	(0.1)%	—	462.1 %	89.4 %
Interest expense	87.6 %	100.3 %	99.6 %	18.6 %	18.7 %	18.1 %	6.2 %	13.2 %
Real estate acquisition costs	—	—	0.6 %	—	—	0.1 %	—	(100.0)%
Loss on early extinguishment of debt	13.8 %	—	—	2.9 %	—	—	N/C ⁽¹⁾	—
Total other expenses (revenues)	100.0 %	100.0 %	100.0 %	21.2 %	18.6 %	18.2 %	21.6 %	12.4 %

⁽¹⁾ Not calculable ("N/C")

Comparison of Expenses – 2018 versus 2017

General and Administrative Expenses. General and administrative expenses increased in amount but decreased as a percentage of total operating expenses and as a percentage of revenues for the year ended December 31, 2018, as compared to the same period in 2017. The increase in general and administrative expenses for the year ended December 31, 2018, is primarily attributable to an increase in compensation costs.

Real Estate. Real estate expenses increased in amount and as a percentage of total operating expenses and remained flat as a percentage of revenues for the year ended December 31, 2018, as compared to the same period in 2017. NNN focuses on real estate expenses, net of reimbursements from tenants. NNN's net real estate expenses for the years ended December 31, 2018 and 2017 were \$8,315,000 and \$7,593,000, respectively. The increase is primarily attributable to expenses from certain properties that became vacant during the years ended December 31, 2018 and 2017.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount but decreased as a percentage of total operating expenses and as a percentage of revenues for the year ended December 31, 2018, as compared to the same period in 2017. The increase in expenses is primarily due to the acquisition of 265 Properties with an aggregate gross leasable area of approximately 2,167,000 square feet in 2018 and 276 Properties with an aggregate gross leasable area of approximately 2,243,000 square feet during 2017.

Impairment Losses – Real Estate and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the years ended December 31, 2018 and 2017, NNN recorded \$28,211,000 and \$4,953,000, respectively, of real estate impairments. NNN also recorded a \$4,000,000 contract dispute settlement charge during the year ended December 31, 2017.

Retirement Severance Costs. For the years ended December 31, 2018 and 2017, retirement severance costs relate primarily to Craig Macnab's retirement as CEO on April 28, 2017.

Interest Expense. Interest expense increased in amount, decreased as a percentage of total other expenses (revenues) and remained relatively flat as a percentage of revenues for the year ended December 31, 2018, as compared to the same period in 2017.

The following represents the primary changes in debt that have impacted interest expense:

- (i) the issuance in September 2017 of \$400,000,000 principal amount of notes payable with a maturity of October 2027, and stated interest rate of 3.500%,
- (ii) the repayment in October 2017 of \$250,000,000 principal amount of notes payable with a stated interest rate of 6.875%,
- (iii) the issuance in September 2018 of \$400,000,000 principal amount of notes payable with a maturity of October 2028, and stated interest rate of 4.300%,
- (iv) the issuance in September 2018 of \$300,000,000 principal amount of notes payable with a maturity of October 2048, and stated interest rate of 4.800%,
- (v) the redemption in October 2018 of \$300,000,000 principal amount of notes payable with a maturity of July 2021, and stated interest rate of 5.500%, and
- (vi) the increase of \$23,341,000 in the weighted average outstanding balance on the Credit Facility and a higher weighted average interest rate for the year ended December 31, 2018, as compared to the same period in 2017.

Loss on Early Extinguishment of Debt. In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) all accrued and unpaid interest.

Comparison of Expenses – 2017 versus 2016

General and Administrative Expenses. General and administrative expenses decreased in amount for the year ended December 31, 2017, as compared to the same period in 2016, as well as a percentage of total operating expenses and as a percentage of revenues. The decrease in general and administrative expenses for the year ended December 31, 2017, is primarily attributable to a decrease in compensation costs.

Real Estate. Real estate expenses increased for the year ended December 31, 2017, as compared to the same period in 2016, but remained flat as a percentage of total operating expenses and as a percentage of revenues. The increase is primarily due to increases in reimbursable and non-reimbursable expenses from certain properties acquired during the year ended December 31, 2017, and from certain properties acquired during the year ended December 31, 2016, as well as expenses on vacant properties.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount, as a percentage of total operating expenses and as a percentage of revenues for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase in expenses is primarily due to the acquisition of 276 Properties with an aggregate gross leasable area of approximately 2,243,000 square feet in 2017 and 313 Properties with an aggregate gross leasable area of approximately 2,734,000 square feet during 2016.

Impairment Losses – Real Estate and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the years ended December 31, 2017 and 2016, NNN recorded \$4,953,000 and \$8,025,000, respectively, of real estate impairments. NNN also recorded a \$4,000,000 contract dispute settlement charge during the year ended December 31, 2017 and a \$3,269,000 loss on mortgages receivable for the year ended December 31, 2016.

Retirement Severance Costs. For the year ended December 31, 2017, retirement severance costs relate primarily to Craig Macnab's retirement as CEO on April 28, 2017.

Interest Expense. Interest expense increased in amount, as a percentage of total other expenses (revenues) and as a percentage of revenues for the year ended December 31, 2017, as compared to the same period in 2016.

The following represents the primary changes in debt that have impacted interest expense:

- (i) the repayment in January 2016 of \$5,876,000 principal amount of mortgages payable with an interest rate of 5.750%,
- (ii) the repayment in March 2016 of \$722,000 principal amount of mortgages payable with an interest rate of 6.900%,
- (iii) the repayment in October 2016 of \$2,709,000 principal amount of mortgages payable with an interest rate of 6.400%,
- (iv) the issuance in December 2016 of \$350,000,000 principal amount of notes payable with a maturity of December 2026, and stated interest rate of 3.600%,
- (v) the issuance in September 2017 of \$400,000,000 principal amount of notes payable with a maturity of October 2027, and stated interest rate of 3.500%,
- (vi) the repayment in October 2017 of \$250,000,000 principal amount of notes payable with a stated interest rate of 6.875%, and
- (vii) the increase of \$28,138,000 in the weighted average outstanding balance on the Credit Facility and a higher weighted average interest rate for the year ended December 31, 2017, as compared to the same period in 2016.

Impact of Inflation

NNN's leases typically contain provisions to mitigate the adverse impact of inflation on NNN's results of operations. Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or, to a lesser extent, increases in the tenant's sales volume. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

Properties are leased to tenants under long-term, net leases which typically require the tenant to pay certain operating expenses for a Property, thus, NNN's exposure to inflation is reduced with respect to these expenses. Inflation may have an adverse impact on NNN's tenants.

Liquidity

General. NNN's demand for funds has been and will continue to be primarily for (i) payment of operating expenses and cash dividends; (ii) Property acquisitions and development; (iii) capital expenditures; (iv) payment of principal and interest on its outstanding indebtedness; and (v) other investments.

NNN expects to meet short-term liquidity requirements through cash provided from operations and NNN's Credit Facility. As of December 31, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility. NNN anticipates its long-term capital needs will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

Cash and Cash Equivalents. NNN's cash and cash equivalents includes the aggregate of cash and cash equivalents and restricted cash and cash held in escrow from the Consolidated Balance Sheets. The table below summarizes NNN's cash flows for each of the years ended December 31 (dollars in thousands):

	2018	2017	2016
Cash and cash equivalents:			
Provided by operating activities	\$471,909	\$421,557	\$415,337
Used in investing activities	(609,371)	(625,557)	(779,943)
Provided by (used in) financing activities	250,365	(89,176)	644,886
Increase (decrease)	112,903	(293,176)	280,280
Net cash at beginning of year	1,364	294,540	14,260
Net cash at end of year	\$114,267	\$1,364	\$294,540

Cash provided by operating activities represents cash received primarily from Rental Income and interest income less cash used for general and administrative expenses. NNN's cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the years ended December 31, 2018, 2017 and 2016, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to acquisitions and dispositions of Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN's financing activities for the year ended December 31, 2018, included the following significant transactions:

- \$393,502,000 in net proceeds from the issuance in September of the 4.300% notes payable due in October 2028,
- \$292,386,000 in net proceeds from the issuance in September of the 4.800% notes payable due in October 2048,
- \$300,000,000 in redemption of the 5.500% notes payable in October,
- \$18,240,000 payment of the make-whole amount from the early redemption of the 5.500% notes payable in October,
- \$13,264,000 in net proceeds from the issuance of 311,048 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- \$328,196,000 in net proceeds from the issuance of 7,378,163 shares of common stock in connection with the at-the-market ("ATM") equity program,
- \$16,387,000 in dividends paid to holders of the depositary shares of NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"),
- \$17,940,000 in dividends paid to holders of the depositary shares of NNN's 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock"), and
- \$303,164,000 in dividends paid to common stockholders.

Financing Strategy. NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategy while servicing its debt requirements, maintaining its investment grade credit rating, staggering debt maturities and providing value to NNN's stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, proceeds from the disposition of certain properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements, including investments in additional Properties, with cash from its Credit Facility. As of December 31, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility.

As of December 31, 2018, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 35 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur additional debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

Contractual Obligations and Commercial Commitments. The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2018. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2018.

	Expected Maturity Date (dollars in thousands)						
	Total	2019	2020	2021	2022	2023	Thereafter
Long-term debt ⁽¹⁾	\$2,887,404	\$567	\$596	\$630	\$325,664	\$359,947	\$2,200,000
Long-term debt – interest ⁽²⁾	1,104,365	112,394	112,365	112,331	109,724	91,520	566,031
Operating lease	4,991	758	773	788	804	821	1,047
Total contractual cash obligations	\$3,996,760	\$113,719	\$113,734	\$113,749	\$436,192	\$452,288	\$2,767,078

(1) Includes only principal amounts outstanding under mortgages payable and notes payable and excludes unamortized mortgage

premiums, note discounts and note costs.

(2) Interest calculation based on stated rate of the principal amount.

In addition to the contractual obligations outlined above, NNN has committed to fund construction on 19 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, at December 31, 2018, are outlined in the table below (dollars in thousands):

Total commitment ⁽¹⁾	\$34,756
Less amount funded	13,588
Remaining commitment	\$21,168

(1) Includes land, construction costs, tenant improvements, lease costs and capitalized interest

As of December 31, 2018, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

Management anticipates satisfying these obligations with a combination of NNN's cash provided from operations, current capital resources on hand, its Credit Facility, debt or equity financings and asset dispositions.

Generally the Properties are leased under long-term net leases, which require the tenant to pay all property taxes and assessments, to maintain the interior and exterior of the Property, and to carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates the costs associated with these Properties, NNN's vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its Credit Facility or use other sources of capital in the event of significant capital expenditures or major repairs.

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of December 31, 2018, NNN owned 52 vacant, un-leased Properties which accounted for approximately two percent of total Properties held in the Property Portfolio. Additionally, as of January 31, 2019, less than one percent of total Properties held in the Property Portfolio was leased to one tenant that filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, this tenant has the right to reject or affirm its leases with NNN.

NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

Dividends. NNN 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"), and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four years following the year during which qualification is lost. Such an event could materially adversely affect NNN's income and ability to pay dividends. NNN believes it has been structured as, and its past and present operations qualify NNN as, a REIT.

One of NNN's primary objectives is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends, while retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT.

The following table outlines the dividends declared and paid for NNN's common stock for the years ended December 31 (dollars in thousands, except per share data):

	2018	2017	2016
Dividends	\$303,164	\$277,120	\$257,007
Per share	1.950	1.860	1.780

The following presents the characterizations for tax purposes of such common stock dividends for the years ended December 31:

	2018			2017			2016		
Ordinary dividends	\$1.658604	85.0566	% ⁽¹⁾	\$1.559781	83.8592	%	\$1.513705	85.0396	%
Capital gain	0.015534	0.7966	%	0.035041	1.8839	%	—	—	
Unrecaptured Section 1250 Gain	0.042818	2.1958	%	0.012194	0.6556	%	—	—	
Nontaxable distributions	0.233044	11.9510	%	0.252984	13.6013	%	0.266295	14.9604	%
	\$1.950000	100.0000	%	\$1.860000	100.0000	%	\$1.780000	100.0000	%

⁽¹⁾ Eligible for the 20% qualified business income deduction under section 199A of the Code that was established by the Tax Cuts and Jobs Act signed into law on December 22, 2017, ("TCJA").

On January 15, 2019, NNN declared a dividend of \$0.500 per share, payable February 15, 2019, to its common stockholders of record as of January 31, 2019.

Holders of NNN's preferred stock issuances are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum. The following table outlines the dividends declared and paid for NNN's preferred stock for the years ended December 31 (dollars in thousands, except per share data):

	2018	2017	2016
Series D Preferred Stock ⁽¹⁾ :			
Dividends\$	—\$	3,598	\$ 19,047
Per share —		0.312847	1.656250

Series E Preferred Stock ⁽²⁾ :			
Dividends	16,387	16,387	16,387
Per share	1.425000	1.425000	1.425000

Series F Preferred Stock ⁽³⁾ :			
Dividends	17,940	17,940	3,189
Per share	1.300000	1.300000	0.231111

⁽¹⁾ The Series D Preferred Stock was redeemed in February 2017. The dividends paid in 2017 include accumulated and unpaid dividends through the redemption date.

⁽²⁾ The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. As of May 2018, the Series E Preferred Stock is redeemable by NNN.

⁽³⁾ The Series F Preferred Stock was issued in October 2016 and has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

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The following presents the characterizations for tax purposes of such preferred stock dividends for the years ended December 31:

	Ordinary Dividends		Capital Gain		Unrecaptured Section 1250 Gain		Totals	
2018								
Percentage of Total	96.6015	% ⁽³⁾	0.9047	%	2.4938	%	100.0000	%
Series E	\$1.376571		\$0.012892		\$0.035537		\$1.425000	
Series F ⁽²⁾	\$1.255820		\$0.011761		\$0.032419		\$1.300000	
2017								
Percentage of Total	97.0607	%	2.1804	%	0.7589	%	100.0000	%
Series D ⁽¹⁾	\$0.303652		\$0.006821		\$0.002374		\$0.312847	
Series E	\$1.383115		\$0.031071		\$0.010814		\$1.425000	
Series F ⁽²⁾	\$1.261789		\$0.028345		\$0.009866		\$1.300000	
2016								
Percentage of Total	100.0000	%	—		—		100.0000	%
Series D ⁽¹⁾	\$1.656250		—		—		\$1.656250	
Series E	\$1.425000		—		—		\$1.425000	
Series F ⁽²⁾	\$0.231111		—		—		\$0.231111	

⁽¹⁾ The Series D Preferred Stock was redeemed in February 2017. The dividends paid in 2017 included

accumulated and unpaid dividends through the redemption date.

⁽²⁾ The Series F Preferred Stock was issued in October 2016.

⁽³⁾ Eligible for the 20% qualified business income deduction under section 199A of the Code as established by the TCJA.

Capital Resources

Generally, cash needs for Property acquisitions, debt payments, capital expenditures, development and other investments have been funded by equity and debt offerings, bank borrowings, the sale of Properties and, to a lesser extent, by internally generated funds. Cash needs for operating and interest expenses and dividends have generally been funded by internally generated funds. If available, future sources of capital include proceeds from the public or private offering of NNN's debt or equity securities, secured or unsecured borrowings from banks or other lenders, proceeds from the sale of Properties, as well as undistributed funds from operations.

Debt

The following is a summary of NNN's total outstanding debt as of December 31 (dollars in thousands):

	2018	Percentage of Total	2017	Percentage of Total
Line of credit payable	\$—	—	\$120,500	4.7 %
Mortgages payable	12,694	0.4 %	13,300	0.5 %
Notes payable	2,838,701	99.6 %	2,446,407	94.8 %
Total outstanding debt	\$2,851,395	100.0 %	\$2,580,207	100.0 %

Indebtedness. NNN expects to use indebtedness primarily for property acquisitions and development of single-tenant retail properties, either directly or through investment interests. Additionally, indebtedness may be used to refinance existing indebtedness.

Line of Credit Payable. In October 2017, NNN amended its credit agreement to increase the borrowing capacity under its unsecured revolving credit facility from \$650,000,000 to \$900,000,000 and amend certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of \$121,587,000 and a weighted average interest rate of 2.8% for the year ended December 31, 2018. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. As of December 31, 2018, the Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase the facility size up to \$1,600,000,000, subject to lender approval. As of December 31, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2018, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operations.

Mortgages Payable. As of December 31, 2018 and 2017, NNN had mortgages payable, including unamortized premium and net of unamortized debt costs, of \$12,694,000 and \$13,300,000 respectively. The mortgages payable had an interest rate of 5.23% and matures July 2023. The loan is secured by a first lien on five of the Properties and the carrying value of the assets was \$20,430,000 at December 31, 2018.

Notes Payable. Each of NNN's outstanding series of unsecured notes is summarized in the table below (dollars in thousands):

Notes ⁽¹⁾	Issue Date	Principal	Discount ⁽²⁾	Net Price	Stated Rate	Effective Rate ⁽³⁾	Maturity Date
2022	August 2012	\$325,000	\$ 4,989	\$320,011	3.800%	3.985%	October 2022
2023 ⁽⁴⁾	April 2013	350,000	2,594	347,406	3.300%	3.388%	April 2023
2024 ⁽⁵⁾	May 2014	350,000	707	349,293	3.900%	3.924%	June 2024
2025 ⁽⁶⁾	October 2015	400,000	964	399,036	4.000%	4.029%	November 2025
2026 ⁽⁷⁾	December 2016	350,000	3,860	346,140	3.600%	3.733%	December 2026
2027 ⁽⁸⁾	September 2017	400,000	1,628	398,372	3.500%	3.548%	October 2027
2028 ⁽⁹⁾	September 2018	400,000	2,848	397,152	4.300%	4.388%	October 2028
2048	September 2018	300,000	4,239	295,761	4.800%	4.890%	October 2048

The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN's Credit Facility, (1) fund future property acquisitions and for general corporate purposes. Proceeds from the issuance of the 2028 Notes and the 2048 Notes were also used to redeem all of the \$300,000 5.500% notes payable that were due 2021.

(2) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

(3)