REALTY INCOME CORP
Form 10-Q
July 27, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2017, or

o **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 1-13374

REALTY INCOME CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**33-0580106**

(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

11995 El Camino Real, San Diego, California 92130

(Address of Principal Executive Offices)

Registrant s telephone number, including area code: **(858) 284-5000**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Emerging growth company o

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. o

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

There were 274,075,269 shares of common stock outstanding as of July 20, 2017.

Table of Contents

REALTY INCOME CORPORATION

Index to Form 10-Q

June 30, 2017

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and December 31, 2016

(dollars in thousands, except per share data)

		2017		2016
ASSETS		(unaudited)		
Real estate, at cost:				
Land	$	3,916,218	$	3,752,204
Buildings and improvements		10,446,765		10,112,212
Total real estate, at cost		14,362,983		13,864,416
Less accumulated depreciation and amortization		(2,168,248)		(1,987,200)
Net real estate held for investment		12,194,735		11,877,216
Real estate held for sale, net		12,463		26,575
Net real estate		12,207,198		11,903,791
Cash and cash equivalents		10,945		9,420
Accounts receivable, net		107,147		104,584
Acquired lease intangible assets, net		1,180,182		1,082,320
Goodwill		15,001		15,067
Other assets, net		53,643		37,689
Total assets	$	13,574,116	$	13,152,871
LIABILITIES AND EQUITY				
Distributions payable	$	58,284	$	55,235
Accounts payable and accrued expenses		115,595		121,156
Acquired lease intangible liabilities, net		266,365		264,206
Other liabilities		124,772		85,616
Line of credit payable		648,000		1,120,000
Term loans, net		319,273		319,127
Mortgages payable, net		378,352		466,045
Notes payable, net		4,642,423		3,934,433
Total liabilities		6,553,064		6,365,818
Commitments and contingencies				
Stockholders equity:				
Preferred stock and paid in capital, par value $0.01 per share, 69,900,000 shares authorized, no shares issued and outstanding as of June 30, 2017 and 16,350,000 issued and outstanding as of December 31, 2016, liquidation preference $25.00 per share		-		395,378
Common stock and paid in capital, par value $0.01 per share, 370,100,000 shares authorized, 274,064,985 shares issued and outstanding as of June 30, 2017 and 260,168,259 shares issued and outstanding as of December 31, 2016		9,046,533		8,228,594

Distributions in excess of net income		(2,045,127)		(1,857,168)
Total stockholders equity		7,001,406		6,766,804
Noncontrolling interests		19,646		20,249
Total equity		7,021,052		6,787,053
Total liabilities and equity	$	13,574,116	$	13,152,871

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

REALTY INCOME CORPORATION AND SUBSIDIARIES

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

For the three and six months ended June 30, 2017 and 2016

(dollars in thousands, except per share data) (unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
REVENUE				
Rental	$ 288,049	$ 260,056	$ 573,870	$ 516,857
Tenant reimbursements	11,756	11,112	22,985	20,217
Other	365	(129)	1,340	1,081
Total revenue	300,170	271,039	598,195	538,155
EXPENSES				
Depreciation and amortization	123,089	110,342	244,186	218,275
Interest	63,679	57,409	122,985	118,088
General and administrative	15,781	13,985	29,346	26,304
Property (including reimbursable)	16,486	14,671	35,561	29,776
Income taxes	441	953	1,488	1,917
Provisions for impairment	2,274	6,269	7,706	8,192
Total expenses	221,750	203,629	441,272	402,552
Gain on sales of real estate	2,839	8,658	13,371	10,948
Net income	81,259	76,068	170,294	146,551
Net income attributable to noncontrolling interests	(123)	(253)	(288)	(493)
Net income attributable to the Company	81,136	75,815	170,006	146,058
Preferred stock dividends	-	(6,770)	(3,911)	(13,540)
Excess of redemption value over carrying value of preferred shares redeemed	-	-	(13,373)	-
Net income available to common stockholders	$ 81,136	$ 69,045	$ 152,722	$ 132,518
Amounts available to common stockholders per common share:				
Net income, basic and diluted	$ 0.30	$ 0.27	$ 0.57	$ 0.53
Weighted average common shares outstanding:				
Basic	272,588,332	253,375,546	268,024,691	251,792,989
Diluted	273,099,487	253,973,745	268,569,855	252,390,707

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

Table of Contents

REALTY INCOME CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2017 and 2016

(dollars in thousands) (unaudited)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 170,294	$ 146,551
Adjustments to net income:		
Depreciation and amortization	244,186	218,275
Amortization of share-based compensation	7,215	6,552
Non-cash revenue adjustments	(1,564)	(5,279)
Amortization of net premiums on mortgages payable	(1,240)	(1,855)
Amortization of deferred financing costs	4,684	4,384
(Gain) loss on interest rate swaps	(859)	7,886
Gain on sales of real estate	(13,371)	(10,948)
Provisions for impairment on real estate	7,706	8,192
Change in assets and liabilities		
Accounts receivable and other assets	1,946	6,946
Accounts payable, accrued expenses and other liabilities	41,620	(19,277)
Net cash provided by operating activities	460,617	361,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(696,116)	(618,340)
Improvements to real estate, including leasing costs	(9,232)	(2,934)
Proceeds from sales of real estate	44,005	35,020
Collection of loans receivable	61	12,457
Restricted escrow deposits for Section 1031 tax-deferred exchanges and pending acquisitions	(3,983)	(17,291)
Net cash used in investing activities	(665,265)	(591,088)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distributions to common stockholders	(335,380)	(298,581)
Cash dividends to preferred stockholders	(6,168)	(13,540)
Borrowings on line of credit	772,000	2,244,000
Payments on line of credit	(1,244,000)	(1,970,000)
Proceeds from notes and bonds payable issued	711,812	-
Principal payments on mortgages payable	(86,515)	(181,333)
Redemption of preferred stock	(408,750)	-
Proceeds from common stock offerings, net	704,938	383,525
Proceeds from dividend reinvestment and stock purchase plan	59,649	5,806
Proceeds from At-the-Market (ATM) program	52,442	44,565
Distributions to noncontrolling interests	(887)	(747)
Debt issuance costs	(6,663)	-
Other items, including shares withheld upon vesting	(6,305)	(3,885)
Net cash provided by financing activities	206,173	209,810
Net increase (decrease) in cash and cash equivalents	1,525	(19,851)
Cash and cash equivalents, beginning of period	9,420	40,294
Cash and cash equivalents, end of period	$ 10,945	$ 20,443

For supplemental disclosures, see note 17.

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

Table of Contents

REALTY INCOME CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

1. Management Statement

The consolidated financial statements of Realty Income Corporation (Realty Income , the Company , we , our or us) were prepare from our books and records without audit and include all adjustments (consisting of only normal recurring accruals) necessary to present a fair statement of results for the interim periods presented. Readers of this quarterly report should refer to our audited consolidated financial statements for the year ended December 31, 2016, which are included in our 2016 Annual Report on Form 10-K, as certain disclosures that would substantially duplicate those contained in the audited financial statements have not been included in this report.

At June 30, 2017, we owned 5,028 properties, located in 49 states and Puerto Rico, containing over 85.3 million leasable square feet.

2. Summary of Significant Accounting Policies and Procedures and Recent Accounting Pronouncements

A. The accompanying consolidated financial statements include the accounts of Realty Income and other entities for which we make operating and financial decisions (i.e., control), after elimination of all material intercompany balances and transactions. We consolidate entities that we control and record a noncontrolling interest for the portion that we do not own. Noncontrolling interest that was created or assumed as part of a business combination was recognized at fair value as of the date of the transaction (see note 11). We have no unconsolidated investments.

B. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended. We believe we have qualified and continue to qualify as a REIT. Under the REIT operating structure, we are permitted to deduct dividends paid to our stockholders in determining our taxable income. Assuming our dividends equal or exceed our taxable net income, we generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, except for federal income taxes of our taxable REIT subsidiaries. The income taxes recorded on our consolidated statements of income represent amounts paid by Realty Income and its subsidiaries for city and state income and franchise taxes.

C. We recognize an allowance for doubtful accounts relating to accounts receivable for amounts deemed uncollectible. We consider tenant specific issues, such as financial stability and ability to pay rent, when determining collectability of accounts receivable and appropriate allowances to record. The allowance for doubtful accounts was $1.4 million at June 30, 2017 and $74,000 at December 31, 2016.

D. We assign a portion of goodwill to our applicable property sales, which results in a reduction of the carrying amount of our goodwill. In order to allocate goodwill to the carrying amount of properties that we sell, we utilize a relative fair value approach based on the original methodology for assigning goodwill. As we sell properties, our goodwill will likely continue to gradually decrease over time. Based on our analyses of goodwill during the second quarters of 2017 and 2016, we determined there was no impairment on our existing goodwill.

E. In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers, and will apply to transactions such as the sale of real estate. This ASU is effective for interim and annual periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We plan to use the cumulative effect transition method upon adoption of the standard on January 1, 2018, and do not expect this topic to have a material impact on our consolidated financial statements or the related notes.

Table of Contents

In February 2016, FASB issued Topic 842, *Leases*, which amended Topic 840, *Leases.* Under this amended topic, the accounting applied by a lessor is largely unchanged from that applied under Topic 840, *Leases*. The large majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. The amendments included in this topic are effective, on a retrospective or modified retrospective basis, for interim and annual periods beginning after December 15, 2018. We have not yet adopted this topic and are currently evaluating the impact this amendment may have on our consolidated financial statements.

In January 2017, FASB issued ASU 2017-01, which amends Topic 805, *Business Combinations*. FASB issued this ASU to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for interim and annual periods beginning after December 15, 2017. We have not yet adopted this topic and are currently evaluating the impact this amendment may have on our consolidated financial statements.

3. Supplemental Detail for Certain Components of Consolidated Balance Sheets

A. Acquired lease intangible assets, net, consist of the following (dollars in thousands) at:	June 30, 2017	December 31, 2016
Acquired in-place leases	$ 1,231,707	$ 1,164,075
Accumulated amortization of acquired in-place leases	(405,791)	(358,040)
Acquired above-market leases	459,067	365,005
Accumulated amortization of acquired above-market leases	(104,801)	(88,720)
	$ 1,180,182	$ 1,082,320

B. Other assets, net, consist of the following (dollars in thousands) at:	June 30, 2017	December 31, 2016
Prepaid expenses	$ 14,392	$ 14,406
Insurance proceeds receivable	10,731	300
Restricted escrow deposits	8,550	4,246
Credit facility origination costs, net	5,823	7,303
Notes receivable issued in connection with property sales	5,329	5,390
Corporate assets, net	5,292	3,585
Impounds related to mortgages payable	2,916	2,015
Other items	610	444
	$ 53,643	$ 37,689

C. Distributions payable consist of the following declared distributions (dollars in thousands) at:	June 30, 2017	December 31, 2016
Common stock distributions	$ 58,198	$ 52,896
Preferred stock dividends	-	2,257
Noncontrolling interests distributions	86	82
	$ 58,284	$ 55,235

D. Accounts payable and accrued expenses consist of the following (dollars in thousands) at:	June 30, 2017	December 31, 2016
Notes payable - interest payable	$ 72,609	$ 60,668
Property taxes payable	16,150	16,949
Accrued costs on properties under development	5,048	9,049
Mortgages, term loans, credit line - interest payable and interest rate swaps	4,150	5,432
Other items	17,638	29,058
	$ 115,595	$ 121,156

Table of Contents

E. Acquired lease intangible liabilities, net, consist of the following (dollars in thousands) at:		June 30, 2017		December 31, 2016
Acquired below-market leases	$	329,783	$	318,926
Accumulated amortization of acquired below-market leases		(63,418)		(54,720)
	$	266,365	$	264,206

F. Other liabilities consist of the following (dollars in thousands) at:		June 30, 2017		December 31, 2016
Rent received in advance and other deferred revenue (1)	$	113,177	$	74,098
Security deposits		6,424		6,502
Capital lease obligations		5,171		5,016
	$	124,772	$	85,616

(1) In connection with Diageo s sale of its wine business to Treasury Wine Estates, we agreed to release Diageo from its guarantee of our leases in exchange for Diageo s payment of $75 million of additional rent to us. The additional rent was paid in two equal installments, one of which was received in August 2016 for $37.5 million and was recorded as prepaid rent. The final payment of $37.5 million was received in January 2017, at which time Treasury Wine Estates became the guarantor of our leases on those properties. We have accounted for this transaction as a lease modification and the additional rent will be recognized on a straight-line basis over the remaining lease terms of approximately 15 years.

4. Investments in Real Estate

We acquire land, buildings and improvements necessary for the successful operations of commercial tenants.

A. Acquisitions During the First Six Months of 2017 and 2016

During the first six months of 2017, we invested $691.9 million in 126 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.3%. The 126 new properties and properties under development or expansion are located in 30 states, will contain approximately 3.4 million leasable square feet, and are 100% leased with a weighted average lease term of 14.8 years. The tenants occupying the new properties operate in 20 industries and the property types consist of 95.1% retail and 4.9% industrial, based on rental revenue. None of our investments during 2017 caused any one tenant to be 10% or more of our total assets at June 30, 2017.

The $691.9 million invested during the first six months of 2017 was allocated as follows: $170.1 million to land, $395.5 million to buildings and improvements, $130.0 million to intangible assets related to leases, and $3.7 million to intangible liabilities related to leases and other assumed liabilities. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first six months of 2017 generated total revenues of $7.3 million and net income of $3.4 million during the six months ended June 30, 2017.

Of the $691.9 million we invested during the first six months of 2017, $314.9 million of the purchase price allocation is based on a preliminary measurement of fair value and is subject to change. The allocation for these properties represents our current best estimate of fair value, and we expect to finalize the valuations and complete the purchase price allocations in 2017. During the first six months of 2017, we finalized the purchase price allocations for $769.5 million invested in the fourth quarter of 2016. There were no material changes to our consolidated balance sheets or income statements as a result of these purchase price allocations being finalized.

In comparison, during the first six months of 2016, we invested $662.9 million in 153 new properties and properties under development or expansion with an initial weighted average contractual lease rate of 6.5%. The 153 new properties and properties under development or expansion are located in 34 states, contain approximately 3.5 million leasable square feet, and are 100% leased with a weighted average lease term of 14.8 years. The tenants occupying the new properties operate in 23 industries and the property types are 77.6% retail and 22.4% industrial, based on rental revenue.

Table of Contents

The $662.9 million invested during the first six months of 2016 was allocated as follows: $163.0 million to land, $428.9 million to buildings and improvements, $85.0 million to intangible assets related to leases, and $13.3 million to intangible liabilities related to leases and other assumed liabilities. We also recorded mortgage premiums of $692,000. There was no contingent consideration associated with these acquisitions.

The properties acquired during the first six months of 2016 generated total revenues of $8.0 million and net income of $3.8 million during the six months ended June 30, 2016.

The estimated initial weighted average contractual lease rate for a property is generally computed as estimated contractual net operating income, which, in the case of a net leased property, is equal to the aggregate base rent for the first full year of each lease, divided by the total cost of the property. Since it is possible that a tenant could default on the payment of contractual rent, we cannot provide assurance that the actual return on the funds invested will remain at the percentages listed above.

In the case of a property under development or expansion, the contractual lease rate is generally fixed such that rent varies based on the actual total investment in order to provide a fixed rate of return. When the lease does not provide for a fixed rate of return on a property under development or expansion, the estimated initial weighted average contractual lease rate is computed as follows: estimated net operating income (determined by the lease) for the first full year of each lease, divided by our projected total investment in the property, including land, construction and capitalized interest costs. Of the $691.9 million we invested during the first six months of 2017, $9.9 million was invested in 12 properties under development or expansion with an estimated initial weighted average contractual lease rate of 7.9%. Of the $662.9 million we invested during the first six months of 2016, $61.7 million was invested in 27 properties under development or expansion with an estimated initial weighted average contractual lease rate of 7.1%.

B. Acquisition Transaction Costs

Acquisition transaction costs of $210,000 and $85,000 were recorded to general and administrative expense on our consolidated statements of income during the first six months of 2017 and 2016, respectively.

C. Investments in Existing Properties

During the first six months of 2017, we capitalized costs of $6.8 million on existing properties in our portfolio, consisting of $759,000 for re-leasing costs, $365,000 for recurring capital expenditures and $5.7 million for non-recurring building improvements. In comparison, during the first six months of 2016, we capitalized costs of $3.7 million on existing properties in our portfolio, consisting of $277,000 for re-leasing costs, $246,000 for recurring capital expenditures and $3.2 million for non-recurring building improvements.

D. Properties with Existing Leases

Of the $691.9 million we invested during the first six months of 2017, approximately $536.2 million was used to acquire 60 properties with existing leases. In comparison, of the $662.9 million we invested during the first six months of 2016, approximately

$411.2 million was used to acquire 51 properties with existing leases. The value of the in-place and above-market leases is recorded to acquired lease intangible assets, net on our consolidated balance sheets, and the value of the below-market leases is recorded to acquired lease intangible liabilities, net on our consolidated balance sheets.

The values of the in-place leases are amortized as depreciation and amortization expense. The amounts amortized to expense for all of our in-place leases, for the first six months of 2017 and 2016 were $51.2 million and $45.7 million, respectively.

The values of the above-market and below-market leases are amortized over the term of the respective leases, including any bargain renewal options, as an adjustment to rental revenue on our consolidated statements of income. The amounts amortized as a net decrease to rental revenue for capitalized above-market and below-market leases for the first six months of 2017 and 2016 were $6.5 million and $4.2 million, respectively. If a lease was to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recorded to revenue or expense, as appropriate.

Table of Contents

The following table presents the estimated impact during the next five years and thereafter related to the amortization of the acquired above-market and below-market lease intangibles and the amortization of the in-place lease intangibles at June 30, 2017 (in thousands):

		Net decrease to rental revenue		Increase to amortization expense
2017	$	(7,566)	$	51,102
2018		(14,903)		100,243
2019		(13,923)		89,984
2020		(13,154)		84,501
2021		(11,863)		76,535
Thereafter		(26,492)		423,551
Totals	$	(87,901)	$	825,916

5. Credit Facility

We have a $2.0 billion unsecured revolving credit facility, or our credit facility with an initial term that expires in June 2019 and includes, at our option, two six-month extensions. Our credit facility has a $1.0 billion accordion expansion option. Under our credit facility, our investment grade credit ratings as of June 30, 2017 provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 0.90% with a facility commitment fee of 0.15%, for all-in drawn pricing of 1.05% over LIBOR. The borrowing rate is subject to an interest rate floor and may change if our investment grade credit ratings change. We also have other interest rate options available to us under our credit facility. Our credit facility is unsecured and, accordingly, we have not pledged any assets as collateral for this obligation.

At June 30, 2017, credit facility origination costs of $5.8 million are included in other assets, net on our consolidated balance sheet. These costs are being amortized over the remaining term of our credit facility.

At June 30, 2017, we had a borrowing capacity of $1.35 billion available on our credit facility (subject to customary conditions to borrowing) and an outstanding balance of $648.0 million as compared to an outstanding balance of $1.12 billion at December 31, 2016.

The weighted average interest rate on outstanding borrowings under our credit facility was 1.8% during the first six months of 2017 and 1.4% during the first six months of 2016. At June 30, 2017 and 2016, the weighted average interest rate on borrowings outstanding was 2.1% and 1.5%, respectively. Our credit facility is subject to various leverage and interest coverage ratio limitations, and at June 30, 2017, we were in compliance with the covenants on our credit facility.

6. Term Loans

In June 2015, in conjunction with entering into our credit facility, we entered into a $250 million senior unsecured term loan maturing on June 30, 2020. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 0.95%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.67%.

In January 2013, in conjunction with our acquisition of American Realty Capital Trust, Inc., or ARCT, we entered into a $70 million senior unsecured term loan maturing January 2018. Borrowing under this term loan bears interest at the current one-month LIBOR, plus 1.20%. In conjunction with this term loan, we also entered into an interest rate swap which effectively fixes our per annum interest rate on this term loan at 2.15%.

Deferred financing costs of $1.2 million incurred in conjunction with the $250 million term loan and $303,000 incurred in conjunction with the $70 million term loan are being amortized over the remaining terms of each respective term loan. The net balance of these deferred financing costs, which was $727,000 at June 30, 2017, and $873,000 at December 31, 2016, is included within term loans, net on our consolidated balance sheets.

Table of Contents

7. Mortgages Payable

During the first six months of 2017, we made $86.5 million in principal payments, including the repayment of five mortgages in full for $82.9 million. No mortgages were assumed during the first six months of 2017.

During the first six months of 2016, we made $181.3 million in principal payments, including the repayment of eight mortgages in full for $161.5 million. Additionally, we assumed mortgages totaling $32.5 million, excluding net premiums. During the first six months of 2016, aggregate net premiums totaling $692,000 were recorded upon the assumption of a mortgage with an above-market interest rate. Amortization of our net premiums is recorded as a reduction to interest expense over the remaining term of the respective mortgages, using a method that approximates the effective-interest method.

Our mortgages contain customary covenants, such as limiting our ability to further mortgage each applicable property or to discontinue insurance coverage without the prior consent of the lender. At June 30, 2017, we were in compliance with these covenants.

The balance of our deferred financing costs, which are classified as part of mortgages payable, net, on our consolidated balance sheets, was $262,000 at June 30, 2017 and $324,000 at December 31, 2016. These costs are being amortized over the remaining term of each mortgage.

The following is a summary of all our mortgages payable as of June 30, 2017 and December 31, 2016, respectively (dollars in thousands):

As Of	Number of Properties(1)	Weighted Average Stated Interest Rate(2)	Weighted Average Effective Interest Rate(3)	Weighted Average Remaining Years Until	Remaining Principal	Unamortized Premium and Deferred Finance Costs	Mortgage Payable