

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2024

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: 001-41812



Net Lease Office Properties

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation)

92-0887849

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

One Manhattan West, 395 9th Avenue, 58th Floor
New York, New York

(Address of principal executive offices)

10001

(Zip Code)

Investor Relations (212) 492-1140

(844) 656-7348

(Registrant's telephone numbers, including area code)

(Former name or former address, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value \$0.001 per share	NLOP	New York Stock Exchange

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

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

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

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

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

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

Registrant has 14,785,014 common shares of beneficial interest, \$0.001 par value, outstanding at November 1, 2024.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Report”), including Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: our corporate strategy and estimated or future economic performance and results, including our expectations surrounding the impact of the broader macroeconomic environment and the ability of tenants to pay rent, financial condition, liquidity, results of operations, and prospects; our future capital expenditure and leverage levels, debt service obligations, and plans to fund our liquidity needs, including our ability to sell or dispose of properties; prospective statements regarding our access to the capital markets; statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust (“REIT”); and the impact of recently issued accounting pronouncements and regulatory activity.

These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable risks or uncertainties, like the risks related to inflation and increased interest rates, the effects of pandemics and global outbreaks of contagious diseases, and domestic or geopolitical crises, such as terrorism, military conflict, war or the perception that hostilities may be imminent, political instability or civil unrest, or other conflict, could also have material adverse effects on our business, financial condition, liquidity, results of operations, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements, or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report, as well as in our other filings with the Securities and Exchange Commission (“SEC”), including but not limited to those described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC on March 6, 2024 (the “2023 Annual Report”). Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1. Financial Statements (Unaudited).

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

NET LEASE OFFICE PROPERTIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share and per share amounts)

	September 30, 2024	December 31, 2023
Assets		
Investments in real estate:		
Land, buildings and improvements	\$ 867,072	\$ 1,203,991
Net investments in finance leases	—	10,522
In-place lease intangible assets and other	238,305	357,788
Above-market rent intangible assets	40,104	57,954
Investments in real estate	1,145,481	1,630,255
Accumulated depreciation and amortization	(342,457)	(458,430)
Net investments in real estate	803,024	1,171,825
Restricted cash	49,370	51,560
Cash and cash equivalents	36,102	16,269
Other assets, net	31,419	65,435
Total assets ^(a)	\$ 919,915	\$ 1,305,089
Liabilities and Equity		
Debt:		
NLOP Mortgage Loan, net	\$ 47,767	\$ 266,844
NLOP Mezzanine Loan, net	75,810	106,299
Non-recourse mortgages, net	115,835	168,836
Debt, net	239,412	541,979
Accounts payable, accrued expenses and other liabilities	43,788	59,527
Below-market rent intangible liabilities, net	7,494	10,643
Deferred income taxes	3,118	10,450
Dividends payable	—	1,060
Total liabilities ^(a)	293,812	623,659
Commitments and contingencies (Note 10)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 45,000,000 shares authorized; 14,785,014 and 14,620,919 shares, respectively, issued and outstanding	15	15
Additional paid-in capital	855,788	855,554
Distributions in excess of accumulated earnings	(198,657)	(142,960)
Accumulated other comprehensive loss	(35,287)	(35,600)
Total shareholders' equity	621,859	677,009
Noncontrolling interests	4,244	4,421
Total equity	626,103	681,430
Total liabilities and equity	\$ 919,915	\$ 1,305,089

(a) See [Note 2](#) for details related to variable interest entities (“VIEs”).

See Notes to Consolidated Financial Statements.

NET LEASE OFFICE PROPERTIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues				
Lease revenues	\$ 29,975	\$ 41,977	\$ 103,438	\$ 124,972
Income from finance leases	—	294	89	1,175
Other lease-related income	1,506	835	10,990	2,424
	<u>31,481</u>	<u>43,106</u>	<u>114,517</u>	<u>128,571</u>
Operating Expenses				
Impairment charges — real estate	34,164	—	46,451	—
Depreciation and amortization	12,375	17,785	45,467	53,226
Reimbursable tenant costs	6,415	7,091	19,804	20,831
Property expenses, excluding reimbursable tenant costs	3,035	2,352	7,938	6,479
General and administrative	1,823	3,435	5,604	10,034
Asset management fees	1,465	—	4,868	—
Separation and distribution related costs and other	—	1,343	16	2,882
	<u>59,277</u>	<u>32,006</u>	<u>130,148</u>	<u>93,452</u>
Other Income and Expenses				
Interest expense	(11,744)	(8,053)	(60,342)	(24,433)
(Loss) gain on sale of real estate, net	(644)	—	21,303	—
Other gains and (losses)	395	(25)	(94)	26
	<u>(11,993)</u>	<u>(8,078)</u>	<u>(39,133)</u>	<u>(24,407)</u>
(Loss) income before income taxes	(39,789)	3,022	(54,764)	10,712
Provision for income taxes	(485)	(232)	(858)	(303)
Net (Loss) Income	<u>(40,274)</u>	<u>2,790</u>	<u>(55,622)</u>	<u>10,409</u>
Net income attributable to noncontrolling interests	(21)	(26)	(64)	(77)
Net (Loss) Income Attributable to NLOP	<u>\$ (40,295)</u>	<u>\$ 2,764</u>	<u>\$ (55,686)</u>	<u>\$ 10,332</u>
Basic and Diluted (Loss) Earnings Per Share				
	<u>\$ (2.73)</u>	<u>\$ 0.19</u>	<u>\$ (3.77)</u>	<u>\$ 0.71</u>
Weighted-Average Shares Outstanding				
Basic and Diluted	<u>14,785,020</u>	<u>14,620,919</u>	<u>14,785,085</u>	<u>14,620,919</u>

See Notes to Consolidated Financial Statements.

NET LEASE OFFICE PROPERTIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net (Loss) Income	\$ (40,274)	\$ 2,790	\$ (55,622)	\$ 10,409
Other Comprehensive Income				
Foreign currency translation adjustments	1,348	1,282	(878)	939
Unrealized gain on derivative instruments	407	—	1,191	—
	<u>1,755</u>	<u>1,282</u>	<u>313</u>	<u>939</u>
Comprehensive (Loss) Income	<u>(38,519)</u>	<u>4,072</u>	<u>(55,309)</u>	<u>11,348</u>
Amounts Attributable to Noncontrolling Interests				
Net income	(21)	(26)	(64)	(77)
Comprehensive income attributable to noncontrolling interests	(21)	(26)	(64)	(77)
Comprehensive (Loss) Income Attributable to NLOP	<u>\$ (38,540)</u>	<u>\$ 4,046</u>	<u>\$ (55,373)</u>	<u>\$ 11,271</u>

See Notes to Consolidated Financial Statements.

NET LEASE OFFICE PROPERTIES
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	\$0.001 Par Value							
	Shares	Amount						
Balance at July 1, 2024	14,785,118	\$ 15	\$ 855,716	\$ (158,362)	\$ (37,042)	\$ 660,327	\$ 4,313	\$ 664,640
Net income				(40,295)		(40,295)	21	(40,274)
Tax withholding for shares issued upon delivery of vested restricted share awards	(104)	—	(3)			(3)		(3)
Amortization of stock-based compensation expense			75			75		75
Distributions to noncontrolling interests						—	(90)	(90)
Other comprehensive income:								
Foreign currency translation adjustments					1,348	1,348		1,348
Unrealized gain on derivative instruments					407	407		407
Balance at September 30, 2024	<u>14,785,014</u>	<u>\$ 15</u>	<u>\$ 855,788</u>	<u>\$ (198,657)</u>	<u>\$ (35,287)</u>	<u>\$ 621,859</u>	<u>\$ 4,244</u>	<u>\$ 626,103</u>

	Accumulated Other Comprehensive Loss	Net Parent Investment	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at July 1, 2023	\$ (42,807)	\$ 1,121,578	\$ 1,078,771	\$ 4,634	\$ 1,083,405
Net income		2,764	2,764	26	2,790
Net transfers from parent		737	737		737
Distributions to noncontrolling interests			—	(65)	(65)
Other comprehensive income:					
Foreign currency translation adjustments	1,282		1,282		1,282
Balance at September 30, 2023	<u>\$ (41,525)</u>	<u>\$ 1,125,079</u>	<u>\$ 1,083,554</u>	<u>\$ 4,595</u>	<u>\$ 1,088,149</u>

(Continued)

NET LEASE OFFICE PROPERTIES
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(Continued)
(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
Balance at January 1, 2024	14,620,919	\$ 15	\$ 855,554	\$ (142,960)	\$ (35,600)	\$ 677,009	\$ 4,421	\$ 681,430
Net income				(55,686)		(55,686)	64	(55,622)
Shares issued	164,199	—	12	(11)		1		1
Tax withholding for shares issued upon delivery of vested restricted share awards	(104)	—	(3)			(3)		(3)
Amortization of stock-based compensation expense			225			225		225
Distributions to noncontrolling interests						—	(241)	(241)
Other comprehensive income:								
Unrealized gain on derivative instruments					1,191	1,191		1,191
Foreign currency translation adjustments					(878)	(878)		(878)
Balance at September 30, 2024	<u>14,785,014</u>	<u>\$ 15</u>	<u>\$ 855,788</u>	<u>\$ (198,657)</u>	<u>\$ (35,287)</u>	<u>\$ 621,859</u>	<u>\$ 4,244</u>	<u>\$ 626,103</u>

	Accumulated Other Comprehensive Loss	Net Parent Investment	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2023	\$ (42,464)	\$ 1,150,240	\$ 1,107,776	\$ 1,743	\$ 1,109,519
Net income		10,332	10,332	77	10,409
Net transfers from parent		(35,493)	(35,493)		(35,493)
Contributions from noncontrolling interests				2,775	2,775
Other comprehensive income:					
Foreign currency translation adjustments	939		939		939
Balance at September 30, 2023	<u>\$ (41,525)</u>	<u>\$ 1,125,079</u>	<u>\$ 1,083,554</u>	<u>\$ 4,595</u>	<u>\$ 1,088,149</u>

See Notes to Consolidated Financial Statements.

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NET LEASE OFFICE PROPERTIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash Flows — Operating Activities		
Net (loss) income	\$ (55,622)	\$ 10,409
Adjustments to net (loss) income:		
Depreciation and amortization, including intangible assets and deferred financing costs	71,577	54,755
Impairment charges — real estate	46,451	—
Gain on sale of real estate, net	(21,303)	—
Amortization of rent-related intangibles and deferred rental revenue	(5,954)	2,720
Net realized and unrealized losses on extinguishment of debt, foreign currency exchange rate movements, and other	2,853	1,041
Straight-line rent adjustments	2,005	(1,116)
Deferred income tax benefit	(371)	(821)
Stock-based compensation expense	225	2,566
Proceeds from sales of net investments in sales-type leases	10,341	—
Net changes in other operating assets and liabilities	11,176	(5,685)
Net Cash Provided by Operating Activities	61,378	63,869
Cash Flows — Investing Activities		
Proceeds from sales of real estate	263,987	—
Funding for real estate construction, redevelopments, and other capital expenditures on real estate	(9,292)	(4,617)
Net Cash Provided by (Used in) Investing Activities	254,695	(4,617)
Cash Flows — Financing Activities		
Payments of mortgage principal and other debt instruments	(296,806)	(25,772)
Distributions paid	(1,071)	—
Distributions to noncontrolling interests	(241)	—
Other financing activities, net	10	(526)
Net transfers with Parent	—	(35,493)
Contributions from noncontrolling interests	—	2,775
Net Cash Used in Financing Activities	(298,108)	(59,016)
Change in Cash and Cash Equivalents and Restricted Cash During the Period		
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(322)	(35)
Net increase in cash and cash equivalents and restricted cash	17,643	201
Cash and cash equivalents and restricted cash, beginning of period	67,829	5,998
Cash and cash equivalents and restricted cash, end of period	\$ 85,472	\$ 6,199

See Notes to Consolidated Financial Statements.

NET LEASE OFFICE PROPERTIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

Pursuant to the terms of a separation and distribution agreement, W. P. Carey Inc. (“WPC”) spun off a portfolio of 59 office assets into a separate publicly-traded company (the “Spin-Off”). To accomplish this Spin-Off, WPC formed a Maryland real estate investment trust, Net Lease Office Properties (“NLOP”), on October 21, 2022, to own the 59 office assets. Information with respect to number of properties and square footage is unaudited.

On November 1, 2023, WPC completed the Spin-Off, contributing 59 office properties to NLOP. Following the closing of the Spin-Off, NLOP operates as a separate publicly-traded REIT, and certain wholly-owned affiliates of WPC (our “Advisor”) externally manage NLOP pursuant to certain advisory agreements (the “NLOP Advisory Agreements”). The Spin-Off was accomplished via a pro rata dividend of 1 NLOP common share for every 15 shares of WPC common stock outstanding.

NLOP intends to qualify and elect to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with the Company’s taxable year ended December 31, 2023.

NLOP operates as one segment, and through its subsidiaries, owns, operates, and finances office buildings. As of September 30, 2024, NLOP’s portfolio was comprised of full or partial ownership interests in 45 properties, net leased to 48 corporate tenants, totaling approximately 7.1 million leasable square feet (including 0.6 million of operating square footage for a parking garage at a domestic property), with a weighted-average lease term of 4.3 years.

Note 2. Basis of Presentation

Basis of Presentation

NLOP

For periods after November 1, 2023, the consolidated financial statements include the results of NLOP and all entities in which the Company has a controlling interest. Intercompany transactions and balances have been eliminated in consolidation.

Our interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a complete statement of our consolidated financial position, results of operations, and cash flows in accordance with generally accepted accounting principles in the United States (“GAAP”). In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair presentation of financial position, results of operations, and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2023, which are included in the 2023 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Prior to the Spin-Off

For periods prior to November 1, 2023, the accompanying historical consolidated financial statements and related notes of NLOP do not represent the balance sheet, statement of operations and cash flows of a legal entity, but rather a combination of entities under common control that have been “carved-out” of WPC’s consolidated financial statements and presented herein, in each case, in accordance with GAAP. Intercompany transactions and balances have been eliminated in combination. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. In the opinion of management, the financial information for the periods presented in this Report reflects all normal and recurring adjustments necessary for a fair presentation of financial position, results of operations, and cash flows.

These consolidated financial statements reflect the revenues and direct expenses of NLOP and include material assets and liabilities of WPC that are specifically attributable to NLOP. Equity in these consolidated financial statements represents the excess of total assets over total liabilities. Equity is impacted by contributions from and distributions to WPC, which are the result of treasury activities and net funding provided by or distributed to WPC prior to the Spin-Off, as well as the allocated costs and expenses described below.

The consolidated financial statements also include an allocation of indirect costs and expenses incurred by WPC related to NLOP, primarily consisting of compensation and other general and administrative costs using the relative percentage of property annualized base rent (“ABR”) of NLOP and WPC management’s knowledge of NLOP. In addition, the consolidated financial statements reflect the allocation of interest expense from WPC unsecured debt, excluding debt that is specifically attributable to NLOP (Note 9); interest expense was allocated by calculating the unencumbered net investment in real estate of each property held by NLOP as a percentage of WPC’s total consolidated unencumbered net investment in real estate and multiplying that percentage by the corporate interest expense on WPC unsecured debt (Note 9). The amounts allocated in the accompanying consolidated financial statements are not necessarily indicative of the actual amount of such indirect expenses that would have been recorded had NLOP been a separate independent entity during the applicable periods. WPC believes the assumptions underlying WPC’s allocation of indirect expenses are reasonable.

The amounts allocated in the accompanying consolidated financial statements are not necessarily indicative of the actual amount of such indirect expenses that would have been recorded had NLOP been a separate independent entity. WPC believes the assumptions underlying WPC’s allocation of indirect expenses are reasonable.

Basis of Consolidation

Our consolidated financial statements reflect all of our accounts, including those of our controlled subsidiaries. The portions of equity in consolidated subsidiaries that are not attributable, directly or indirectly, to us are presented as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if it should be deemed a VIE and, if so, whether we are the primary beneficiary and are therefore required to consolidate the entity. There have been no significant changes in our VIE policies from what was disclosed in the 2023 Annual Report.

At both September 30, 2024 and December 31, 2023, we considered one entity to be a VIE (given certain decision-making rights each partner has in accordance with the partnership agreement), which we consolidated, as we are considered the primary beneficiary. The following table presents a summary of selected financial data of the consolidated VIE included in our consolidated balance sheets (in thousands):

	September 30, 2024	December 31, 2023
Land, buildings and improvements	\$ 37,917	\$ 37,917
In-place lease intangible assets and other	9,685	9,685
Above-market rent intangible assets	4,338	4,338
Accumulated depreciation and amortization	(5,623)	(3,679)
Total assets	47,845	49,410
Total liabilities	\$ 304	\$ 304

Cash and Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the consolidated statements of cash flows (in thousands):

	September 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 36,102	\$ 16,269
Restricted cash ^(a)	49,370	51,560
Total cash and cash equivalents and restricted cash	\$ 85,472	\$ 67,829

(a) Amounts as of September 30, 2024 and December 31, 2023 include approximately \$48.1 million and \$48.4 million, respectively, related to certain reserve requirements pursuant to the NLOP Financing Arrangements ([Note 9](#)).

Net Parent Investment

In the consolidated statements of equity, the net parent investment represents WPC's historical investment in NLOP prior to the Spin-Off, accumulated net earnings after taxes, and the net effect of transactions between NLOP and WPC.

Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common shares outstanding during the year. Diluted earnings per share reflects potentially dilutive securities using the treasury stock method, except when the effect would be anti-dilutive.

Earnings per share is computed by dividing the net income for the period by the weighted-average number of common shares outstanding during the period post Spin-Off. For the three and nine months ended September 30, 2024, we recognized net loss. Therefore, all potentially dilutive securities were antidilutive and accordingly, basic net loss per share equals diluted net loss per share for the three and nine months ended September 30, 2024. The calculation of basic and diluted earnings per share for any of the periods presented prior to the Spin-Off were based on the number of shares outstanding on November 1, 2023. For periods prior to the Spin-Off, it is assumed that there are no dilutive equity instruments as there were no NLOP stock-based awards outstanding prior to the Spin-Off.

Note 3. Agreements and Transactions with Related Parties**Advisory Agreements**

Pursuant to the NLOP Advisory Agreements, which we entered into on November 1, 2023, our Advisor provides us with strategic management services, including asset management, property disposition support, and various related services. We pay our Advisor an asset management fee that was initially set at an annual amount of \$7.5 million and is being proportionately reduced each month following the disposition of each portfolio property. In addition, we reimburse our Advisor a base administrative amount of approximately \$4.0 million annually, for certain administrative services, including day-to-day management services, investor relations, accounting, tax, legal, and other administrative matters.

The following tables present a summary of fees we paid and expenses we reimbursed to our Advisor in accordance with the terms of the NLOP Advisory Agreements (in thousands):

	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
Asset management fees ^(a)	\$ 1,465	\$ 4,868
Administrative reimbursements ^(b)	1,000	3,000
	<u>\$ 2,465</u>	<u>\$ 7,868</u>

(a) Included within Asset management fees in the consolidated statements of operations.

(b) Included within General and administrative expenses in the consolidated statements of operations.

The following table presents a summary of amounts due to affiliates, which are included within Accounts payable, accrued expenses and other liabilities in the consolidated financial statements (in thousands):

	September 30, 2024	December 31, 2023
Asset management fees payable	\$ 480	\$ 1,245
Administrative reimbursements payable and other	344	676
	<u>\$ 824</u>	<u>\$ 1,921</u>

Other Transactions with WPC**NLOP Share Costs**

Historically, prior to the Spin-Off, NLOP was managed and operated in the normal course of business consistent with other affiliates of WPC. Accordingly, certain shared costs were allocated to NLOP and reflected as expenses in the consolidated statements of operations. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical WPC expenses attributable to NLOP for purposes of the consolidated financial statements of NLOP. However, the expenses reflected in the consolidated statements of operations may not be indicative of the actual expenses that would have been incurred during the periods presented if NLOP historically operated as a separate, stand-alone entity. In addition, the expenses reflected in the consolidated statements of operations may not be indicative of related expenses that will be incurred in the future by NLOP.

The following table presents amounts of shared costs that were allocated to NLOP (in thousands):

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
General and administrative ^(a)	\$ 3,426	\$ 9,970
Interest expense ^(b)	5,945	16,376
Total	<u>\$ 9,371</u>	<u>\$ 26,346</u>

(a) General and administrative fees are inclusive of expenses such as employee compensation and benefits, stock-based compensation and professional fees.

(b) NLOP's income statement prior to the Spin-Off includes an allocation of interest expense associated with WPC unsecured debt utilized partially to fund property assets of NLOP.

Net parent investment shown in the consolidated statements of equity include contributions from WPC, which are the result of treasury activities and net funding provided by WPC prior to the Spin-Off, and also includes the indirect costs and expenses allocated to NLOP by WPC as described in [Note 2](#).

Other Transactions with Related Parties

At September 30, 2024, we owned an interest in one jointly owned investment in real estate, with the remaining interest held by a third party. We consolidate this investment.

Note 4. Land, Buildings and Improvements

Land, Buildings and Improvements

Land and buildings leased to others, which are subject to operating leases, are summarized as follows (in thousands):

	September 30, 2024	December 31, 2023
Land	\$ 117,000	\$ 168,200
Buildings and improvements	750,072	1,035,791
Less: Accumulated depreciation	(174,572)	(213,034)
	<u>\$ 692,500</u>	<u>\$ 990,957</u>

During the nine months ended September 30, 2024, the U.S. dollar strengthened against the Norwegian krone and weakened against the British pound sterling and euro. As a result of this fluctuation in foreign currency exchange rates, the carrying value of our Land, buildings and improvements decreased by \$2.3 million from December 31, 2023 to September 30, 2024.

Depreciation expense, including the effect of foreign currency translation, on our buildings and improvements subject to operating leases was \$5.3 million and \$7.8 million for the three months ended September 30, 2024 and 2023, respectively, and \$18.6 million and \$23.3 million for the nine months ended September 30, 2024 and 2023, respectively.

Dispositions of Properties

During the nine months ended September 30, 2024, we disposed of nine properties, which were classified as Land, buildings and improvements. As a result, the carrying value of our Land, buildings and improvements decreased by \$245.5 million from December 31, 2023 to September 30, 2024 ([Note 13](#)).

Leases

Operating Lease Income

Lease income related to operating leases recognized and included in the consolidated statements of operations is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Lease income — fixed	\$ 22,781	\$ 34,184	\$ 81,325	\$ 102,109
Lease income — variable ^(a)	7,194	7,793	22,113	22,863
Total operating lease income	<u>\$ 29,975</u>	<u>\$ 41,977</u>	<u>\$ 103,438</u>	<u>\$ 124,972</u>

(a) Includes (i) rent increases based on changes in the U.S. Consumer Price Index (“CPI”) and other comparable indices and (ii) reimbursements for property taxes, insurance, and common area maintenance services.

Other Lease-Related Income

For the three and nine months ended September 30, 2024, other lease-related income on our consolidated statements of operations included lease termination income of \$0.7 million and \$8.5 million, respectively, recognized from three tenants.

In addition, other lease-related income on our consolidated statements of operations included income from a parking garage attached to one of our net-leased properties totaling \$0.5 million for both the three months ended September 30, 2024 and 2023, and \$1.5 million and \$1.4 million for the nine months ended September 30, 2024 and 2023, respectively.

Note 5. Finance Receivables

Assets representing rights to receive money on demand or at fixed or determinable dates are referred to as finance receivables. Our finance receivables portfolio consists of our Net investments in finance leases. Operating leases are not included in finance receivables.

Net Investments in Sales-Type Leases

One property was classified as a net investment in sales-type leases as of December 31, 2023. We had previously entered into an agreement to sell the property to the tenant occupying the property during the fourth quarter of 2023 and recognized a Loss on sale of real estate, net, of \$8.3 million during the three months ended December 31, 2023 related to this transaction. During the nine months ended September 30, 2024, we sold this property, which had an aggregate carrying value of \$10.5 million as of December 31, 2023. Net investments in sales-type leases is summarized in the table below (in thousands):

	September 30, 2024	December 31, 2023
Lease payments receivable	\$ —	\$ 10,614
	—	10,614
Less: unearned income	—	(92)
	\$ —	\$ 10,522

At December 31, 2023, there was no reserve or estimate of credit loss on the financing leases.

Earnings from our net investments in sales-type leases were included in Income from finance leases in the consolidated financial statements, and totaled less than \$0.1 million for the nine months ended September 30, 2024. Prior to its reclassification to net investments in sales-type leases, earnings from this investment were recognized in Lease revenues in the consolidated financial statements.

Net Investments in Direct Financing Leases

During the third quarter of 2023, we reclassified an investment classified as a direct financing lease (comprised of four properties) with an aggregate carrying value of \$14.6 million from Net investments in direct finance leases to Land, buildings and improvements in connection with a change in lease classification due to an extension of the underlying lease. Income from this direct financing lease was \$0.3 million and \$1.2 million for the three and nine months ended September 30, 2023, respectively. We had no net investments in direct financing leases as of September 30, 2024 and December 31, 2023.

Credit Quality of Finance Receivables

We evaluate the credit quality of our finance receivables utilizing an internal five-point credit rating scale, with one representing the highest credit quality and five representing the lowest. A credit quality of one through three indicates a range of investment grade to stable. A credit quality of four through five indicates a range of inclusion on the watch list to risk of default. The credit quality evaluation of our finance receivables is updated quarterly.

Our finance receivable internal credit quality rating was one as of December 31, 2023.

Note 6. Intangible Assets and Liabilities

In-place lease intangibles, at cost are included in In-place lease intangible assets and other in the consolidated financial statements. Above-market rent intangibles, at cost are included in Above-market rent intangible assets in the consolidated financial statements. Accumulated amortization of in-place lease and above-market rent intangibles is included in Accumulated depreciation and amortization in the consolidated financial statements. Below-market rent intangibles are included in Below-market rent intangible liabilities, net in the consolidated financial statements.

Intangible assets and liabilities are summarized as follows (in thousands):

	September 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-Lived Intangible Assets						
In-place lease	\$ 236,286	\$ (142,574)	\$ 93,712	\$ 353,525	\$ (212,456)	\$ 141,069
Above-market rent	40,104	(25,311)	14,793	57,954	(32,940)	25,014
Total intangible assets	<u>\$ 276,390</u>	<u>\$ (167,885)</u>	<u>\$ 108,505</u>	<u>\$ 411,479</u>	<u>\$ (245,396)</u>	<u>\$ 166,083</u>
Finite-Lived Intangible Liabilities						
Below-market rent	\$ (19,419)	\$ 11,925	\$ (7,494)	\$ (26,801)	\$ 16,158	\$ (10,643)
Total intangible liabilities	<u>\$ (19,419)</u>	<u>\$ 11,925</u>	<u>\$ (7,494)</u>	<u>\$ (26,801)</u>	<u>\$ 16,158</u>	<u>\$ (10,643)</u>

During the nine months ended September 30, 2024, the U.S. dollar strengthened against the Norwegian krone and weakened against the British pound sterling and euro, resulting in a decrease of \$0.3 million in the carrying value of our net intangible assets from December 31, 2023 to September 30, 2024.

Net amortization of intangibles, including the effect of foreign currency translation, was \$7.4 million and \$10.8 million for the three months ended September 30, 2024 and 2023, respectively, and \$28.9 million and \$32.3 million for the nine months ended September 30, 2024 and 2023, respectively. Amortization of below-market rent and above-market rent intangibles is recorded as an adjustment to Lease revenues and amortization of in-place lease intangibles is included in Depreciation and amortization.

Note 7. Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities, and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps, interest rate swaps, and foreign currency collars; and Level 3, for securities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring us to develop our own assumptions.

Items Measured at Fair Value on a Recurring Basis

The methods and assumptions described below were used to estimate the fair value of each class of financial instrument. For significant Level 3 items, we have also provided the unobservable inputs.

Derivative Assets — Our derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate caps ([Note 8](#)).

The valuation of our derivative instruments is determined using a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, as well as observable market-based inputs, including interest rate curves, spot and forward rates, and implied volatilities. We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative instruments for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. These derivative instruments were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

Our material financial instruments had the following carrying values and fair values as of the dates shown (in thousands):

	Level	September 30, 2024		December 31, 2023	
		Carrying Value	Fair Value	Carrying Value	Fair Value
NLOP Mortgage Loan, net ^{(a) (b) (c)}	3	\$ 47,767	\$ 49,599	\$ 266,844	\$ 291,358
NLOP Mezzanine Loan, net ^{(a) (b) (c)}	3	75,810	80,513	106,299	113,797
Non-recourse mortgages, net ^{(a) (b) (c)}	3	115,835	104,932	168,836	165,077

- (a) The carrying value of the NLOP Mortgage Loan, net ([Note 9](#)) includes unamortized deferred financing costs of \$0.4 million and \$6.7 million at September 30, 2024 and December 31, 2023, respectively. The carrying value of the NLOP Mezzanine Loan, net ([Note 9](#)) includes unamortized deferred financing costs of \$1.2 million and \$2.4 million at September 30, 2024 and December 31, 2023, respectively. The carrying value of Non-recourse mortgages, net includes unamortized deferred financing costs of less than \$0.1 million at December 31, 2023. There were no unamortized deferred financing costs on our Non-recourse mortgages, net as of September 30, 2024.
- (b) The carrying value of the NLOP Mortgage Loan, net ([Note 9](#)) includes unamortized discount of \$0.9 million and \$15.3 million at September 30, 2024 and December 31, 2023, respectively. The carrying value of the NLOP Mezzanine Loan, net ([Note 9](#)) includes unamortized discount of \$2.7 million and \$5.6 million at September 30, 2024 and December 31, 2023, respectively. The carrying value of Non-recourse mortgages, net includes unamortized premium of \$0.2 million and unamortized discount of \$0.7 million at September 30, 2024 and December 31, 2023, respectively.
- (c) We determined the estimated fair value of our NLOP Mortgage Loan, NLOP Mezzanine Loan, and non-recourse mortgage loans using a discounted cash flow model that estimates the present value of the future loan payments by discounting such payments at current estimated market interest rates. The estimated market interest rates consider interest rate risk and the value of the underlying collateral, which includes quality of the collateral, the credit quality of the tenant/obligor, and the time until maturity.

We estimated that our other financial assets and liabilities, excluding finance receivables ([Note 5](#)), had fair values that approximated their carrying values at both September 30, 2024 and December 31, 2023.

Items Measured at Fair Value on a Non-Recurring Basis (Including Impairment Charges)

We periodically assess whether there are any indicators that the value of our real estate investments may be impaired or that their carrying value may not be recoverable. There have been no significant changes in our impairment policies from what was disclosed in the 2023 Annual Report.

The following table presents information about assets for which we recorded an impairment charge and that were measured at fair value on a non-recurring basis (in thousands):

	Three Months Ended September 30,			
	2024		2023	
	Fair Value Measurements	Impairment Charges	Fair Value Measurements	Impairment Charges
Impairment Charges				
Real estate	\$ 25,196	\$ 34,164	\$ —	\$ —
		<u>\$ 34,164</u>		<u>\$ —</u>
	Nine Months Ended September 30,			
	2024		2023	
	Fair Value Measurements	Impairment Charges	Fair Value Measurements	Impairment Charges
Impairment Charges				
Real estate	\$ 113,661	\$ 46,451	\$ —	\$ —
		<u>\$ 46,451</u>		<u>\$ —</u>

Impairment charges, and their related triggering events and fair value measurements, recognized during the three and nine months ended September 30, 2024, were as follows (we did not incur any impairment charges during the three and nine months ended September 30, 2023):

Real Estate

The impairment charges described below are reflected within Impairment charges — real estate in our consolidated statements of operations.

2024 — During the three and nine months ended September 30, 2024, we recognized impairment charges totaling \$21.9 million on two properties and \$34.2 million on six properties, respectively, in order to reduce their carrying values to their estimated fair values, which approximated their estimated selling prices. One of these properties was sold in August and one was sold in October 2024 ([Note 15](#)).

Additionally, for the three and nine months ended September 30, 2024, we recognized an impairment charge of \$12.2 million on a property due to changes in expected cash flows related to the existing tenant's lease expiration in 2025, in order to reduce its carrying value to its estimated fair value. The fair value measurement for this property was determined by using the following unobservable inputs:

- Market rents ranging from \$7 per square foot to \$15 per square foot;
- Terminal capitalization rate of 9.0%; and
- Cash flow discount rate of 14.0%.

Note 8. Risk Management and Use of Derivative Financial Instruments

Risk Management

In the normal course of our ongoing business operations, we encounter economic risk. There are four main components of economic risk that impact us: interest rate risk, credit risk, market risk, and foreign currency risk. We are primarily subject to interest rate risk on our interest-bearing liabilities, including our unhedged variable-rate non-recourse mortgage loans. Credit risk is the risk of default on our operations and our tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of our properties and related loans, due to changes in interest rates or other market factors. We own investments in the United States and Europe and are subject to risks associated with fluctuating foreign currency exchange rates.

Derivative Financial Instruments

There have been no significant changes in our derivative financial instrument policies from what was disclosed in the 2023 Annual Report. At both September 30, 2024 and December 31, 2023, no cash collateral had been posted nor received for any of our derivative positions.

The following table sets forth certain information regarding our derivative instruments (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value at	
		September 30, 2024	December 31, 2023
Interest rate cap	Other assets, net	\$ —	\$ 433
		—	433
Derivatives Not Designated as Hedging Instruments			
Interest rate cap	Other assets, net	10	
		10	—
Total derivatives		\$ 10	\$ 433

The following tables present the impact of our derivative instruments in the consolidated financial statements (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized on Derivatives in Other Comprehensive Income (Loss)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest rate cap	\$ 407	\$ —	\$ 1,191	\$ —
Total	\$ 407	\$ —	\$ 1,191	\$ —

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) on Derivatives Reclassified from Other Comprehensive Income (Loss)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2024	2023	2024	2023
Interest rate cap	Other gains and (losses)	\$ (412)	\$ —	\$ (951)	\$ —
Interest rate cap	Interest expense	(96)	—	(477)	—
Total		\$ (508)	\$ —	\$ (1,428)	\$ —

Amounts reported in Other comprehensive income related to interest rate derivative contracts will be reclassified to Interest expense as interest is incurred on our variable-rate debt.

Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) on Derivatives Recognized in Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2024	2023	2024	2023
Interest rate cap	Interest expense	\$ —	\$ —	\$ (17)	\$ —
Derivatives Not in Cash Flow Hedging Relationships		Three Months Ended September 30,		Nine Months Ended September 30,	
Interest rate cap	Other gains and (losses)	(431)	—	(431)	—
Total		\$ (431)	\$ —	\$ (448)	\$ —

See below for information on our purposes for entering into derivative instruments.

Interest Rate Caps

We are exposed to the impact of interest rate changes primarily through our borrowing activities. We have obtained, and may in the future obtain, variable-rate debt (our NLOP Financing Arrangements ([Note 9](#))), and, as a result, we have entered into, and may continue to enter into, interest rate cap agreements with counterparties. Interest rate caps limit the effective borrowing rate of variable-rate debt obligations. Our objective in using these derivatives is to limit our exposure to interest rate movements.

During the third quarter of 2024, we de-designated our interest rate cap as a hedging instrument, since we determined that the derivative is no longer highly effective, given mismatches between the hedged notional of the interest rate cap versus the outstanding principal on the NLOP Mortgage Loan.

The interest rate caps that our consolidated subsidiaries had outstanding at September 30, 2024 are summarized as follows (currency in thousands):

Interest Rate Derivatives	Number of Instruments	Notional Amount	Fair Value at September 30, 2024
Not Designated as Cash Flow Hedging Instruments			
Interest rate cap	1	150,904 USD	\$ 10
			<u>\$ 10</u>

Credit Risk-Related Contingent Features

We measure our credit exposure on a counterparty basis as the net positive aggregate estimated fair value of our derivatives, net of any collateral received. No collateral was received as of September 30, 2024. At September 30, 2024, both our total credit exposure and the maximum exposure to any single counterparty was less than \$0.1 million.

Note 9. Debt

Debt Facility

On September 20, 2023, in connection with the Spin-Off ([Note 1](#)), we and certain of our wholly-owned subsidiaries entered into financing arrangements for which funding was subject to certain conditions (including the closing of the Spin-Off), including (i) a \$335.0 million senior secured mortgage loan with an original maturity on November 9, 2025, with two separate one-year extension options subject to certain conditions (the “NLOP Mortgage Loan”) and (ii) a \$120.0 million mezzanine loan facility maturing on November 9, 2028 (the “NLOP Mezzanine Loan” and, together with the NLOP Mortgage Loan, the “NLOP Financing Arrangements”). Upon closing of the Spin-Off on November 1, 2023 ([Note 1](#)), the NLOP Financing Arrangements were drawn in full, and approximately \$343.9 million of the proceeds from the financing (net of transaction expenses) was transferred to WPC in connection with the Spin-Off.

The NLOP Financing Arrangements were initially collateralized by the assignment of 40 of our previously unencumbered real estate properties. As of September 30, 2024, the NLOP Financing Arrangements were collateralized by 30 of our properties, following the dispositions of ten properties during 2023 and 2024.

The NLOP Mortgage Loan bears interest at an annual rate of one-month forward-looking term rate based on the Secured Overnight Financing Rate (“SOFR”), subject to a floor of 3.85%, plus 5.0%. In addition, we entered into an interest rate cap agreement that limits our SOFR rate exposure to 5.35% ([Note 8](#)). The NLOP Mezzanine Loan bears interest at an annual rate of 14.5% (10.0% of which is required to be paid current on a monthly basis, and 4.5% of which is a payment-in-kind accrual, on a quarterly basis).

The NLOP Mortgage Loan was subject to certain deleveraging thresholds that required us to make repayments on the original loan balance totaling (i) 15% (or \$50.3 million) on or prior to November 1, 2024, which is 12 months following the funding date of the loan; (ii) 25% (or \$83.8 million) on or prior to November 1, 2025, which is 12 months following the initial deleveraging threshold of the loan, such that no less than 40% of the loan has been repaid, and (iii) in the event we exercise the first one-year extension option, 30% (or \$100.5 million) on or prior to November 1, 2026, which is 12 months following the second deleveraging threshold of the loan, such that no less than 70% of the loan has been repaid. To the extent the deleveraging thresholds were not met, we were subject to certain fees and restrictions, in accordance with the terms of the NLOP Financing Arrangements, until these thresholds were met. We reached the 15%, 25%, and 30% deleveraging thresholds during the first, second, and third quarters of 2024, respectively.

We are required to use the net proceeds from property sales collateralizing the NLOP Financing Arrangements to repay the portions of the NLOP Mortgage Loan and NLOP Mezzanine Loan representing the release amount for any individual property sale, with excess net proceeds, if any, used to repay the NLOP Mortgage Loan. Property sales are subject to the satisfaction of certain conditions, including satisfaction of a debt yield test and minimum release prices. During the nine months ended September 30, 2024, we repaid \$239.8 million and \$34.6 million of outstanding principal on the NLOP Mortgage Loan and NLOP Mezzanine Loan, respectively, using proceeds from certain dispositions and lease terminations, as well as excess cash from operations. In October 2024, we repaid \$10.0 million of outstanding principal on the NLOP Mortgage Loan using disposition proceeds and excess cash from operations ([Note 15](#)).

The following table presents a summary of our NLOP Financing Arrangements (dollars in thousands):

NLOP Financing Arrangements	Original Principal Balance	Interest Rate at September 30, 2024	Maturity Date at September 30, 2024	Principal Outstanding Balance at	
				September 30, 2024	December 31, 2023
NLOP Mortgage Loan ^{(a) (b) (c)}	\$ 335,000	9.8%	11/9/2025	\$ 49,108	\$ 288,895
NLOP Mezzanine Loan ^(d)	120,000	14.5%	11/9/2028	79,715	114,336
				<u>\$ 128,823</u>	<u>\$ 403,231</u>

(a) Interest rate is based on SOFR plus 5.0%. The interest rate is subject to an interest rate cap that limits our SOFR rate exposure at 5.35%.

(b) The NLOP Mortgage Loan is subject to two separate one-year extension options.

(c) Balance excludes unamortized discount of \$0.9 million and \$15.3 million at September 30, 2024 and December 31, 2023, respectively, and unamortized deferred financing costs of \$0.4 million and \$6.7 million at September 30, 2024 and December 31, 2023, respectively.

(d) Balance excludes unamortized discount of \$2.7 million and \$5.6 million at September 30, 2024 and December 31, 2023, respectively, and unamortized deferred financing costs of \$1.2 million and \$2.4 million at September 30, 2024 and December 31, 2023, respectively.

Non-Recourse Mortgages

Non-recourse mortgages consist of mortgage notes payable, which are collateralized by the assignment of real estate properties. At September 30, 2024, our non-recourse mortgage notes payable encumbered seven properties, with an aggregate weighted-average interest rate of 4.5% (fixed-rate and variable-rate non-recourse mortgage notes payable were 4.4% and 4.8%, respectively), and maturity dates ranging from January 2025 to May 2026.

Repayments

During the nine months ended September 30, 2024, we prepaid one non-recourse mortgage loan for \$19.2 million. We recognized a net loss on extinguishment of debt of \$0.3 million on this repayment, which is included within Other gains and (losses) on our consolidated statements of operations. The interest rate for this non-recourse mortgage loan on its date of repayment was 5.2%. As a result of this repayment, WPC no longer serves as guarantor for any of our non-recourse mortgage loans.

Parent Debt

Prior to the Spin-Off, certain wholly-owned affiliates of WPC entered into debt agreements with the international NLOP entities to provide the funding necessary to acquire certain international assets. In connection with the Spin-Off, WPC assigned to us the receivable related to these debt amounts, which eliminates in consolidation. These debt instruments were reflected in these financials as Parent debt. During the nine months ended September 30, 2023, we prepaid Parent debt totaling \$4.6 million.

Foreign Currency Exchange Rate Impact

During the nine months ended September 30, 2024, the U.S. dollar strengthened against the Norwegian krone, resulting in a decrease of \$1.4 million in the aggregate carrying value of our Non-recourse mortgages, net from December 31, 2023 to September 30, 2024.

Scheduled Mortgage Debt Principal Payments

Scheduled mortgage debt principal payments as of September 30, 2024 are as follows (in thousands):

Years Ending December 31,	Total
2024 (remainder)	\$ 334
2025	157,015
2026	7,379
2027	—
2028	79,716
Total principal payments	244,444
Unamortized discount, net	(3,399)
Unamortized deferred financing costs	(1,633)
Total	<u>\$ 239,412</u>

Certain amounts in the table above are based on the applicable foreign currency exchange rate at September 30, 2024.

Note 10. Commitments and Contingencies

At September 30, 2024, we were not involved in any material litigation. Various claims and lawsuits arising in the normal course of business are pending against us. The results of these proceedings are not expected to have a material adverse effect on our consolidated financial position or results of operations.

Note 11. Stock-Based Compensation and Equity**Stock-Based Compensation**

We maintain a stock-based compensation plan, which is more fully described in the 2023 Annual Report. The total compensation expense for awards issued under this plan was less than \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2024, respectively, which was included in General and administrative expense in the consolidated financial statements.

Restricted and Conditional Awards

As of both September 30, 2024 and December 31, 2023, we had 28,653 shares of nonvested restricted stock units (“RSUs”) with a weighted-average grant date fair value of \$10.47. The grant date fair value of RSUs reflect our share price on the date of grant on a one-for-one basis. At September 30, 2024, total unrecognized compensation expense related to these awards was approximately \$0.1 million, with an aggregate weighted-average remaining term of 0.1 years.

Equity**Common Shares**

During the fourth quarter of 2023, our Board of Trustees declared a dividend of \$0.34 per share, which was paid on January 29, 2024 to shareholders of record as of December 18, 2023. Shareholders had the option to elect to receive their dividend in the form of cash or additional NLOP shares, with the aggregate amount of cash distributed by NLOP limited to a maximum of 20% of the total dividend. The total number of shares issued in the share dividend was 164,199 shares. Cash paid in connection with the share dividend totaled \$1.1 million, which includes cash paid in lieu of fractional shares.

Earnings Per Share

The following table summarizes basic and diluted earnings (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net (loss) income — basic and diluted	\$ (40,295)	\$ 2,764	\$ (55,686)	\$ 10,332
Weighted-average shares outstanding – basic and diluted	14,785,020	14,620,919	14,785,085	14,620,919

For the three and nine months ended September 30, 2024, we recognized net loss. Therefore, all potentially dilutive securities are antidilutive and accordingly, basic net loss per share equals diluted net loss per share. For the three and nine months ended September 30, 2023, there were no potentially dilutive securities excluded from the computation of diluted earnings per share.

Reclassifications Out of Accumulated Other Comprehensive Loss

The following tables present a reconciliation of changes in Accumulated other comprehensive loss by component for the periods presented (in thousands):

	Three Months Ended September 30, 2024		
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Beginning balance	\$ (407)	\$ (36,635)	\$ (37,042)
Other comprehensive income before reclassifications	(101)	1,348	1,247
Amounts reclassified from accumulated other comprehensive loss to:			
Other gains (losses)	412	—	412
Interest expense	96	—	96
Total	508	—	508
Net current period other comprehensive income	407	1,348	1,755
Ending balance	\$ —	\$ (35,287)	\$ (35,287)

	Three Months Ended September 30, 2023		
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Beginning balance	\$ —	\$ (42,807)	\$ (42,807)
Net current period other comprehensive income	—	1,282	1,282
Ending balance	\$ —	\$ (41,525)	\$ (41,525)

	Nine Months Ended September 30, 2024		
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Beginning balance	\$ (1,191)	\$ (34,409)	\$ (35,600)
Other comprehensive loss before reclassifications	(237)	(878)	(1,115)
Amounts reclassified from accumulated other comprehensive loss to:			
Other gains (losses)	951	—	951
Interest expense	477	—	477
Total	1,428	—	1,428
Net current period other comprehensive income	1,191	(878)	313
Ending balance	\$ —	\$ (35,287)	\$ (35,287)

	Nine Months Ended September 30, 2023		
	Gains and (Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Total
Beginning balance	\$ —	\$ (42,464)	\$ (42,464)
Net current period other comprehensive income	—	939	939
Ending balance	\$ —	\$ (41,525)	\$ (41,525)

See [Note 8](#) for additional information on our derivatives activity recognized within Other comprehensive income for the periods presented.

Note 12. Income Taxes

We intend to qualify and elect to be treated as a REIT commencing with our taxable year ended December 31, 2023 and believe that we have been organized and have operated in such a manner to qualify as a REIT for federal and state income tax purposes. As a REIT, we would generally not be subject to corporate level federal income taxes on earnings distributed to our shareholders. Accordingly, we have not included any provisions for federal income taxes related to the REIT in the accompanying consolidated financial statements for the three and nine months ended September 30, 2024 and 2023.

Current income tax expense was \$0.6 million and \$0.4 million for the three months ended September 30, 2024 and 2023, respectively. Deferred income tax benefit was \$0.1 million for both the three months ended September 30, 2024 and 2023.

Current income tax expense was \$1.3 million and \$1.1 million for the nine months ended September 30, 2024 and 2023, respectively. Deferred income tax benefit was \$0.4 million and \$0.8 million for the nine months ended September 30, 2024 and 2023, respectively.

Note 13. Property Dispositions

Our property dispositions are also discussed in [Note 4](#) and [Note 5](#).

During the three and nine months ended September 30, 2024, we sold two and eight properties, respectively, for total proceeds, net of selling costs, of \$79.1 million and \$274.3 million, respectively. During the three and nine months ended September 30, 2024, we recognized a net loss on these sales totaling \$0.6 million and net gain on these sales totaling \$23.6 million, respectively (inclusive of income taxes totaling \$0.1 million recognized upon sale during the nine months ended September 30, 2024).

In April 2024, we transferred ownership of a property in Warrenville, Illinois, and the related non-recourse mortgage loan, which had an aggregate net asset carrying value of approximately \$19.3 million and mortgage principal outstanding of \$19.8 million, respectively, on the date of transfer, to the mortgage lender, resulting in a net loss of \$1.0 million (we also wrote off \$1.4 million of working capital).

In April 2024, we transferred ownership of a property in Tempe, Arizona, and the related non-recourse mortgage loan, which had an aggregate net asset carrying value of approximately \$13.3 million and mortgage principal outstanding of \$13.2 million, respectively, on the date of transfer, to the mortgage lender, resulting in a net loss of \$1.3 million (we also wrote off \$1.2 million of working capital).

Note 14. Geographic Information

Our portfolio is comprised of domestic and international investments. At September 30, 2024, our international investments were comprised of investments in Poland, United Kingdom, and Norway. No international tenant or country individually comprised at least 10% of our total lease revenues for the three and nine months ended September 30, 2024 or 2023, or at least 10% of our total long-lived assets at September 30, 2024 or December 31, 2023. One domestic tenant comprised (i) 25.2% and 18.2% of our total lease revenues for the three months ended September 30, 2024 and 2023, respectively, and 21.8% and 17.8% for the nine months ended September 30, 2024 and 2023, respectively, and (ii) 20.1% and 14.4% of our total long-lived assets at September 30, 2024 and December 31, 2023, respectively. Another domestic tenant comprised 13.1% and 9.8% of our total lease revenues for the three months ended September 30, 2024 and 2023, respectively, and 11.8% and 9.7% for the nine months ended September 30, 2024 and 2023, respectively. The following tables present the geographic information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues				
Domestic	\$ 29,499	\$ 39,253	\$ 107,023	\$ 117,169
International	1,982	3,853	7,494	11,402
Total	<u>\$ 31,481</u>	<u>\$ 43,106</u>	<u>\$ 114,517</u>	<u>\$ 128,571</u>

	September 30, 2024	December 31, 2023
Long-lived Assets ^(a)		
Domestic	\$ 748,489	\$ 1,025,078
International ^(b)	54,535	146,747
Total	<u>\$ 803,024</u>	<u>\$ 1,171,825</u>

(a) Consists of Net investments in real estate.

(b) We sold two international properties during the nine months ended September 30, 2024 ([Note 4](#), [Note 5](#), [Note 13](#)).

Note 15. Subsequent Events**Dispositions**

In October 2024, we sold a property located in Houghton le Spring, United Kingdom, for gross proceeds of \$3.9 million.

Repayments of NLOP Financing Arrangements

In October 2024, we repaid \$10.0 million of outstanding principal on the NLOP Mortgage Loan using disposition proceeds and excess cash from operations ([Note 9](#)).

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding our financial statements and the reasons for changes in certain key components of our financial statements from period to period. This item also provides our perspective on our financial position and liquidity, as well as certain other factors that may affect our future results. Our Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2023 Annual Report and subsequent reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Refer to Item 1 of the 2023 Annual Report for a description of our business.

Basis of Presentation

Prior to the Spin-Off

The historical results of operations and liquidity and capital resources of NLOP prior to the Spin-Off do not represent the historical results of operations and liquidity and capital resources of a legal entity, but rather a combination of entities under common control that have been “carved-out” of WPC’s consolidated financial statements and presented herein, in each case, in accordance with U.S. GAAP. Intercompany transactions and balances have been eliminated in combination. The preparation of the financial results of NLOP prior to the Spin-Off required management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the relevant reporting periods and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The financial results of NLOP prior to the Spin-Off reflect the revenues and direct expenses of NLOP and include material assets and liabilities of WPC that are specifically attributable to NLOP. Equity represents the excess of total assets over total liabilities. Equity is impacted by contributions from and distributions to WPC, which are the result of treasury activities and net funding provided by or distributed to WPC prior to the Separation, as well as the allocated costs and expenses.

The financial results of NLOP prior to the Spin-Off also include an allocation of indirect costs and expenses incurred by WPC related to NLOP, primarily consisting of compensation and other general and administrative costs using the relative percentage of property revenue of NLOP and WPC management’s knowledge of NLOP. In addition, the financial results reflect the allocation of interest expense from WPC unsecured debt, excluding debt that is specifically attributable to NLOP; interest expense was allocated by calculating the unencumbered net investment in real estate of each property held by NLOP as a percentage of WPC’s total consolidated unencumbered net investment in real estate and multiplying that percentage by the interest expense on WPC unsecured debt. The amounts allocated in the financial results of NLOP prior to the Spin-Off are not necessarily indicative of the actual amount of such indirect expenses that would have been recorded had the NLOP been a separate independent entity during the applicable periods. NLOP believes the assumptions underlying NLOP’s allocation of indirect expenses prior to the Spin-Off are reasonable.

Emerging Growth Company

NLOP is an “emerging growth company,” as defined in Section 2(a) of the U.S. Securities Act of 1933, as amended (the “Securities Act”), as modified by the Jumpstart Our Business Startups Act of 2012, as amended (the “JOBS Act”), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, reduced disclosure obligations regarding executive compensation in NLOP’s periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation, and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. NLOP has elected to take advantage of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, NLOP, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of NLOP's financial statements with certain other public companies difficult or impossible because of the potential differences in accounting standards used.

NLOP will remain an emerging growth company until the earlier of: (i) the last day of the fiscal year (a) following the fifth anniversary of the closing of the Spin-Off, (b) in which NLOP has total annual gross revenue of at least \$1.235 billion, or (c) in which NLOP is deemed to be a large accelerated filer, which means the market value of the common equity of NLOP that is held by non-affiliates exceeds \$700 million as of the last business day of its most recently completed second fiscal quarter; and (ii) the date on which NLOP has issued more than \$1.00 billion in non-convertible debt securities during the prior three-year period. References herein to "emerging growth company" have the meaning associated with it in the JOBS Act.

Financial Highlights

During the nine months ended September 30, 2024 and through the date of this Report, we completed the following (as further described in the consolidated financial statements):

Dispositions

- During the nine months ended September 30, 2024, we sold eight properties for total proceeds, net of selling costs, of \$274.3 million ([Note 13](#)).
- In April 2024, we disposed of two properties by transferring ownership to the respective mortgage lenders, in satisfaction of non-recourse mortgage loans encumbering the properties totaling \$33.0 million ([Note 13](#)).
- In October 2024, we sold one property for gross proceeds of \$3.9 million ([Note 15](#)).

Debt Repayments

- During the nine months ended September 30, 2024, we repaid \$239.8 million and \$34.6 million of outstanding principal on the NLOP Mortgage Loan and NLOP Mezzanine Loan, respectively, using proceeds from certain dispositions and lease terminations, as well as excess cash from operations ([Note 9](#)).
- During the nine months ended September 30, 2024, we prepaid one non-recourse mortgage loan for \$19.2 million, which had an interest rate of 5.2% on its date of repayment ([Note 9](#)).
- In October 2024, we repaid \$10.0 million of outstanding principal on the NLOP Mortgage Loan using disposition proceeds and excess cash from operations ([Note 15](#)).

Summary Results

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Total revenues	\$ 31,481	\$ 43,106	\$ 114,517	\$ 128,571
Net (loss) income attributable to NLOP	(40,295)	2,764	(55,686)	10,332
Net cash provided by operating activities ^(a)			61,378	63,869
Net cash provided by (used in) investing activities			254,695	(4,617)
Net cash used in financing activities			(298,108)	(59,016)
Supplemental financial measures ^(b) :				
Funds from operations attributable to NLOP (FFO)	6,836	20,497	14,774	63,403
Adjusted funds from operations attributable to NLOP (AFFO)	13,106	24,212	50,522	72,310

- (a) Amount for the nine months ended September 30, 2024 includes \$10.3 million of proceeds from the sale of a net investment in sales-type lease [\(Note 5\)](#). Such proceeds are included within Net cash provided by operating activities in accordance with Accounting Standards Codification 842, *Leases*.
- (b) We consider Funds from operations (“FFO”) and Adjusted funds from operations (“AFFO”), supplemental measures that are not defined by GAAP (a “non-GAAP measure”), to be important measures in the evaluation of our operating performance. See [Supplemental Financial Measures](#) below for our definition of this non-GAAP measure and a reconciliation to its most directly comparable GAAP measure.

Revenues

Total revenues decreased for the three and nine months ended September 30, 2024 as compared to the same periods in 2023, primarily due to the impact of disposition activity and tenant vacancies at certain properties, partially offset by higher other lease-related income.

Net (Loss) Income Attributable to NLOP

We recognized net loss attributable to NLOP for the three months ended September 30, 2024, compared to net income attributable to NLOP for the three months ended September 30, 2023, primarily due to impairment charges and higher interest expense recognized during the current year period.

We recognized net loss attributable to NLOP for the nine months ended September 30, 2024, compared to net income attributable to NLOP for the nine months ended September 30, 2023, primarily due to impairment charges and higher interest expense recognized during the current year period, partially offset by gain on sale of real estate recognized during the current year period.

FFO

FFO decreased for the three and nine months ended September 30, 2024 as compared to the same periods in 2023, primarily due to higher interest expense (including amortization of deferred financing costs) and the impact of disposition activity, partially offset by higher other lease-related income during the nine months ended September 30, 2024.

AFFO

AFFO decreased for the three and nine months ended September 30, 2024 as compared to the same periods in 2023, primarily due to higher interest expense (excluding amortization of deferred financing costs) and the impact of disposition activity, partially offset by higher other lease-related income during the nine months ended September 30, 2024.

Portfolio Overview

Portfolio information is provided on a pro rata basis, unless otherwise noted below, to better illustrate the economic impact of our one jointly owned investment. See Terms and Definitions below for a description of pro rata amounts.

Portfolio Summary

	September 30, 2024	December 31, 2023
ABR (in thousands)	\$ 97,783	\$ 142,438
Number of properties	45	55
Number of tenants	48	59
Occupancy	81.6 %	97.0 %
Weighted-average lease term (in years)	4.3	5.8
Leasable square footage (in thousands) ^(a)	6,495	8,379

(a) Excludes 570,999 of operating square footage for a parking garage at a domestic property.

Portfolio

The tables below represent information about our portfolio at September 30, 2024 on a pro rata basis. See Terms and Definitions below for a description of pro rata amounts and ABR.

Top Ten Tenants by ABR (dollars in thousands)

Tenant/Lease Guarantor	State/Country	ABR	ABR Percent	Square Footage ^(a)	Number of Properties	Weighted-Average Lease Term (Years)
KBR, Inc.	Texas	\$ 20,156	20.6 %	913,713	1	5.7
JPMorgan Chase Bank, N.A.	Florida, Texas	9,069	9.3 %	666,869	3	4.7
Siemens AS ^(b)	Norway	4,535	4.6 %	165,905	1	1.2
Pharmaceutical Product Development, LLC	North Carolina	3,983	4.1 %	219,812	1	9.2
Omnicom Group, Inc.	California	3,961	4.1 %	120,000	1	4.0
Northrup Grumman Systems Corporation	Minnesota	3,821	3.9 %	191,336	1	5.2
E.On UK PLC ^{(b)(c)}	United Kingdom	3,819	3.9 %	217,339	1	0.8
R.R. Donnelley & Sons Company	Illinois	3,393	3.5 %	167,215	1	3.0
Board of Regents, State of Iowa	Iowa	3,254	3.3 %	191,700	1	6.1
Bankers Financial Corporation	Florida	3,228	3.3 %	111,357	1	0.8
Total		\$ 59,219	60.6 %	2,965,246	12	4.6

(a) Excludes 570,999 of operating square footage for a parking garage at a domestic property.

(b) ABR amounts are subject to fluctuations in foreign currency exchange rates.

(c) This property was sold in October 2024 ([Note 15](#)).

Lease Expirations
(dollars in thousands)

Year of Lease Expiration ^(a)	Number of Leases Expiring	Number of Tenants with Leases Expiring	ABR	ABR Percent	Square Footage ^(b)	Square Footage Percent
Remaining 2024	2	1	\$ 16	— %	2,120	— %
2025	13	13	21,766	22.3 %	1,001,564	15.4 %
2026	8	8	7,014	7.2 %	458,038	7.0 %
2027	7	6	8,824	9.0 %	499,571	7.7 %
2028	5	4	8,628	8.8 %	371,447	5.7 %
2029	6	5	7,534	7.7 %	423,873	6.5 %
2030	7	6	32,374	33.1 %	1,783,022	27.5 %
2031	1	1	615	0.6 %	50,600	0.8 %
2032	2	2	3,648	3.7 %	257,008	4.0 %
2033	1	1	3,983	4.1 %	219,812	3.4 %
2035	2	2	2,951	3.0 %	201,229	3.1 %
2037	1	1	430	0.5 %	31,120	0.5 %
Vacant	—	—	—	— %	1,195,376	18.4 %
Total	55		\$ 97,783	100.0 %	6,494,780	100.0 %

(a) Assumes tenants do not exercise any renewal options or purchase options.

(b) Excludes 570,999 of operating square footage for a parking garage at a domestic property.

Terms and Definitions

Pro Rata Metrics — The portfolio information above contains certain metrics prepared on a pro rata basis. We refer to these metrics as pro rata metrics. We have one investment in which our economic ownership is less than 100%. On a full consolidation basis, we report 100% of the assets, liabilities, revenues, and expenses of this investment that is deemed to be under our control, even if our ownership is less than 100%. On a pro rata basis, we generally present our proportionate share, based on our economic ownership of this jointly owned investment, of the portfolio metrics of this investment. Multiplying this jointly owned investment's financial statement line items by our percentage ownership and adding or subtracting those amounts from our totals, as applicable, may not accurately depict the legal and economic implications of holding an ownership interest of less than 100% in our jointly owned investment.

ABR — ABR represents contractual minimum annualized base rent for our properties and reflects exchange rates as of September 30, 2024. If there is a rent abatement, we annualize the first monthly contractual base rent following the free rent period.

Results of Operations

Revenues

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Revenues						
Lease revenues	\$ 29,975	\$ 41,977	\$ (12,002)	\$ 103,438	\$ 124,972	\$ (21,534)
Income from finance leases	—	294	(294)	89	1,175	(1,086)
Other lease-related income	1,506	835	671	10,990	2,424	8,566
	\$ 31,481	\$ 43,106	\$ (11,625)	\$ 114,517	\$ 128,571	\$ (14,054)

Lease Revenues

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, lease revenues decreased by \$12.0 million and \$21.5 million, respectively, primarily due to disposition activity and tenant vacancies at certain properties.

Income from Finance Leases

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, income from direct finance leases decreased by \$0.3 million and \$1.1 million, respectively, primarily due to the reclassification of our remaining direct financing lease investment to operating lease during the third quarter of 2023, as well as the disposition of our remaining property classified as net investments in sales-type lease during the first quarter of 2024 ([Note 5](#)).

Other Lease-Related Income

Other lease-related income is described in [Note 4](#).

Operating Expenses

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Operating Expenses						
Impairment charges — real estate	\$ 34,164	\$ —	\$ 34,164	\$ 46,451	\$ —	\$ 46,451
Depreciation and amortization	12,375	17,785	(5,410)	45,467	53,226	(7,759)
Reimbursable tenant costs	6,415	7,091	(676)	19,804	20,831	(1,027)
Property expenses, excluding reimbursable tenant costs	3,035	2,352	683	7,938	6,479	1,459
General and administrative	1,823	3,435	(1,612)	5,604	10,034	(4,430)
Asset management fees	1,465	—	1,465	4,868	—	4,868
Separation and distribution related costs and other	—	1,343	(1,343)	16	2,882	(2,866)
	<u>\$ 59,277</u>	<u>\$ 32,006</u>	<u>\$ 27,271</u>	<u>\$ 130,148</u>	<u>\$ 93,452</u>	<u>\$ 36,696</u>

Impairment Charges — Real Estate

Our impairment charges on real estate are described in [Note 7](#).

Depreciation and Amortization

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, depreciation and amortization expense decreased by \$5.4 million and \$7.8 million, respectively, primarily due to the impact of disposition activity, partially offset by accelerated amortization of intangible assets during the nine months ended September 30, 2024 in connection with a lease restructuring.

Reimbursable Tenant Costs

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, reimbursable tenant costs decreased by \$0.7 million and \$1.0 million, respectively, primarily due to the impact of dispositions, partially offset by higher insurance premiums paid on certain properties.

Property Expenses, Excluding Reimbursable Tenant Costs

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, property expenses, excluding reimbursable tenant costs, increased by \$0.7 million and \$1.5 million, respectively, primarily due to tenant vacancies during the current year periods (which resulted in property expenses no longer being reimbursable).

General and Administrative

Prior to the Spin-Off on November 1, 2023 ([Note 1](#)), General and administrative expenses were allocated to NLOP based on the relative percentage of annualized based rent of NLOP. The amounts allocated are not necessarily indicative of the actual amount of indirect expenses that would have been recorded had NLOP been a separate independent entity.

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, general and administrative expenses decreased by \$1.6 million and \$4.4 million, respectively, primarily since the current year periods represents actual direct expenses incurred (including \$1.0 million and \$3.0 million, respectively, of administrative reimbursements paid to our Advisor ([Note 3](#))), compared to the allocation of expenses described above for the prior year periods.

Asset Management Fees

Upon completion of the Spin-Off on November 1, 2023 ([Note 1](#)), we began paying asset management fees to our Advisor, which totaled \$1.5 million and \$4.9 million during the three and nine months ended September 30, 2024, respectively ([Note 3](#)).

Separation and Distribution Related Costs and Other

Separation and distribution related costs and other are comprised of costs related to the Spin-Off for the three and nine months ended September 30, 2023.

Other Income and (Expenses), and Provision for Income Taxes

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Other Income and (Expenses), and Provision for Income Taxes						
Interest expense	\$ (11,744)	\$ (8,053)	\$ (3,691)	\$ (60,342)	\$ (24,433)	\$ (35,909)
(Loss) gain on sale of real estate, net	(644)	—	(644)	21,303	—	21,303
Other gains and (losses)	395	(25)	420	(94)	26	(120)
Provision for income taxes	(485)	(232)	(253)	(858)	(303)	(555)
	<u>\$ (12,478)</u>	<u>\$ (8,310)</u>	<u>\$ (4,168)</u>	<u>\$ (39,991)</u>	<u>\$ (24,710)</u>	<u>\$ (15,281)</u>

Interest Expense

Interest expense is comprised of interest on Non-recourse mortgages, our NLOP Mortgage Loan, and our NLOP Mezzanine Loan, as well as interest expense on Parent debt specific to NLOP properties and that was allocated to NLOP based on the relative percentage of unencumbered net investment in real estate of each property compared to WPC (prior to the Spin-Off). The amounts allocated to Parent debt in the accompanying consolidated financial statements are not necessarily indicative of the actual amount of interest expense that would have been recorded had NLOP been a separate independent entity during the applicable periods.

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, interest expense increased by \$3.7 million and \$35.9 million, respectively, primarily due to the \$455.0 million of NLOP Financing Arrangements entered into during the fourth quarter of 2023 ([Note 9](#)).

(Loss) Gain on Sale of Real Estate, Net

(Loss) gain on sale of real estate, net, consists of gain on the sale of properties that were disposed of during the reporting period, as more fully described in [Note 4](#), [Note 5](#), and [Note 13](#).

Other Gains and (Losses)

For the three months ended September 30, 2024, other gains and (losses) of \$0.4 million were primarily comprised of (i) interest income on our cash deposits of \$0.7 million, (ii) net realized and unrealized gains on foreign currency exchange rate movements of \$0.1 million, and (iii) net realized and unrealized losses on our interest rate cap derivative of (\$0.4) million ([Note 8](#)).

For the nine months ended September 30, 2024, other gains and (losses) of \$(0.1) million were primarily comprised of (i) net realized and unrealized losses on our interest rate cap derivative of (\$1.0) million ([Note 8](#)), (ii) net realized and unrealized losses on foreign currency exchange rate movements of (\$0.5) million, (iii) a loss on extinguishment of debt of (\$0.3) million ([Note 9](#)), and (iv) interest income on our cash deposits of \$1.7 million.

For the three and nine months ended September 30, 2023, other gains and (losses) were immaterial.

Provision for Income Taxes

For the three and nine months ended September 30, 2024 as compared to the same periods in 2023, provision for income taxes increased by \$0.3 million and \$0.6 million, respectively, primarily due to net income recognized on a taxable entity during the current year periods.

Liquidity and Capital Resources

Sources and Uses of Cash During the Period

We use the cash flow generated from our investments primarily to meet our operating expenses, capital expenditures and debt service. Our cash flows fluctuate periodically due to a number of factors, which may include, among other things: the timing of capital expenditures and sales of real estate; the timing of the repayment of debt and receipt of lease revenues; the timing and amount of other lease-related payments; and the timing of advisory fees and reimbursements paid to our Advisor. Despite these fluctuations, we believe that we will generate sufficient cash from operations to meet our normal recurring short-term and long-term liquidity needs. We may also use existing cash resources and proceeds from dispositions of properties in order to meet these needs. We assess our ability to access capital on an ongoing basis. The following table summarizes the changes in cash flows for the periods presented (in thousands):

	Nine Months Ended September 30,		Change
	2024	2023	
Net cash provided by operating activities	\$ 61,378	\$ 63,869	\$ (2,491)
Net cash provided by (used in) investing activities	254,695	(4,617)	259,312
Net cash used in financing activities	(298,108)	(59,016)	(239,092)

Net Cash Provided by Operating Activities — Net cash provided by operating activities decreased by \$2.5 million during the nine months ended September 30, 2024 as compared to the same period in 2023, primarily due to higher interest expense and the impact of dispositions, partially offset by \$10.3 million of proceeds received from the sale of a net investment in sales-type lease during the current year period ([Note 5](#)).

Net Cash Provided by (Used in) Investing Activities — Net cash provided by (used in) investing activities increased by \$259.3 million during the nine months ended September 30, 2024 as compared to the same period in 2023, primarily due to proceeds from dispositions during the current year period.

Net Cash Used in Financing Activities — Net cash used in financing activities increased by \$239.1 million during the nine months ended September 30, 2024 as compared to the same period in 2023, primarily due to higher payments of the NLOP Financing Arrangements and mortgage principal.

Summary of Financing

The table below summarizes our non-recourse mortgages, NLOP Mortgage Loan, and NLOP Mezzanine Loan (dollars in thousands):

	September 30, 2024	December 31, 2023
Carrying Value		
Fixed rate:		
NLOP Mezzanine Loan ^(a)	\$ 75,810	\$ 106,299
Non-recourse mortgages ^(a)	73,193	125,038
	<u>149,003</u>	<u>231,337</u>
Variable rate:		
NLOP Mortgage Loan — Amount subject to interest rate cap ^(a)	47,767	266,844
Non-recourse mortgages ^(a)	42,642	43,798
	<u>90,409</u>	<u>310,642</u>
	<u>\$ 239,412</u>	<u>\$ 541,979</u>
Percent of Total Debt		
Fixed rate	62 %	43 %
Variable rate	38 %	57 %
	<u>100 %</u>	<u>100 %</u>
Weighted-Average Interest Rate at End of Period		
Fixed rate	9.6 %	9.4 %
Variable rate	7.5 %	9.6 %
Total debt	8.8 %	9.5 %

(a) Aggregate debt balance includes unamortized discount, net, totaling \$3.4 million and \$21.6 million as of September 30, 2024 and December 31, 2023, respectively, and unamortized deferred financing costs totaling \$1.6 million and \$9.2 million as of September 30, 2024 and December 31, 2023, respectively.

In connection with the Spin-Off, we and certain of our wholly-owned subsidiaries entered into the NLOP Financing Arrangements, comprised of the NLOP Mortgage Loan and NLOP Mezzanine Loan ([Note 9](#)). The NLOP Financing Arrangements are collateralized by the assignment of certain of our previously unencumbered real estate properties. Additionally, property sales are subject to the satisfaction of certain conditions, including satisfaction of a debt yield test and minimum release prices. We are required to use the net proceeds from property sales collateralizing the NLOP Financing Arrangements to repay the portions of the NLOP Mortgage Loan and NLOP Mezzanine Loan representing the release amount for any individual property sale, with excess net proceeds, if any, used to repay the NLOP Mortgage Loan.

The NLOP Mortgage Loan was subject to certain deleveraging thresholds that required us to make repayments on the original loan balance. During the nine months ended September 30, 2024, we repaid \$239.8 million and \$34.6 million of outstanding principal on the NLOP Mortgage Loan and NLOP Mezzanine Loan, respectively, using proceeds from certain dispositions and lease terminations, as well as excess cash from operations. As a result of these repayments, we reached (i) the first deleveraging threshold, which was repayments on the original loan balance totaling 15% (or \$50.3 million) on or prior to November 1, 2024, (ii) the second deleveraging threshold, which was repayments on the original loan balance totaling 25% (or \$83.8 million) on or prior to November 1, 2025, such that 40% of the loan has been repaid, and (iii) the third and final deleveraging threshold, which was repayments on the original loan balance totaling 30% (or \$100.5 million) on or prior to November 1, 2026, such that 70% of the loan has been repaid ([Note 9](#)). At September 30, 2024, we had \$49.1 million and \$79.7 million total principal outstanding on the NLOP Mortgage Loan and NLOP Mezzanine Loan, respectively. In October 2024, we repaid \$10.0 million of outstanding principal on the NLOP Mortgage Loan using disposition proceeds and excess cash from operations ([Note 15](#)).

Cash Resources

At September 30, 2024, our cash resources consisted of the following:

- cash and cash equivalents totaling \$36.1 million. Of this amount, \$10.2 million, at then-current exchange rates, was held in foreign subsidiaries, and we could be subject to restrictions or significant costs should we decide to repatriate these amounts; and
- unleveraged properties that had an aggregate asset carrying value of approximately \$83.7 million at September 30, 2024, although there can be no assurance that we would be able to obtain financing for these properties.

Cash Requirements and Liquidity

As of September 30, 2024, scheduled debt principal payments total \$0.3 million during the remainder of 2024 and \$157.0 million during 2025 ([Note 9](#)).

During the next 12 months following September 30, 2024 and thereafter, we expect that our significant cash requirements will include:

- making scheduled principal and balloon payments on our non-recourse mortgage debt obligations, totaling \$115.6 million, with \$66.6 million due during the next 12 months;
- making scheduled interest payments on our non-recourse mortgage obligations (future interest payments total \$8.5 million, with \$5.9 million due during the next 12 months);
- making scheduled principal payments on the NLOP Financing Arrangements, totaling \$128.8 million (no amounts are due during the next 12 months);
- making scheduled interest payments on the NLOP Financing Arrangements (future interest payments total \$55.1 million, with \$16.6 million due during the next 12 months); includes 4.5% payment-in-kind interest on the NLOP Mezzanine Loan that we have the option to capitalize into the principal balance;
- funding future capital commitments and tenant improvement allowances; and
- other normal recurring operating expenses.

We expect to fund these cash requirements through cash generated from operations and cash received from dispositions of properties.

Our liquidity could be adversely affected by refinancing debt at higher interest rates, unanticipated costs, and greater-than-anticipated operating expenses.

Certain amounts disclosed above are based on the applicable foreign currency exchange rate at September 30, 2024.

Supplemental Financial Measures

In the real estate industry, analysts and investors employ certain non-GAAP supplemental financial measures in order to facilitate meaningful comparisons between periods and among peer companies. Additionally, in the formulation of our goals and in the evaluation of the effectiveness of our strategies, we use FFO and AFFO, which are non-GAAP measures defined by our management. We believe that these measures are useful to investors to consider because they may assist them to better understand and measure the performance of our business over time and against similar companies. A description of FFO and AFFO and reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are provided below.

Funds from Operations and Adjusted Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the National Association of Real Estate Investment Trusts (“NAREIT”), an industry trade group, has promulgated a non-GAAP measure known as FFO, which we believe to be an appropriate supplemental measure, when used in addition to and in conjunction with results presented in accordance with GAAP, to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental non-GAAP measure. FFO is not equivalent to, nor a substitute for, net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as restated in December 2018. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from the sale of certain real estate, impairment charges on real estate or other assets incidental to the company's main business, gains or losses on changes in control of interests in real estate, and depreciation and amortization from real estate assets; and after adjustments for unconsolidated partnerships and jointly owned investments. Adjustments for unconsolidated partnerships and jointly owned investments are calculated to reflect FFO on the same basis.

We also modify the NAREIT computation of FFO to adjust GAAP net income for certain non-cash charges, such as amortization of real estate-related intangibles, deferred income tax benefits and expenses, straight-line rent and related reserves, other non-cash rent adjustments, non-cash allowance for credit losses on finance leases, stock-based compensation, non-cash environmental accretion expense, amortization of discounts and premiums on debt, and amortization of deferred financing costs. Our assessment of our operations is focused on long-term sustainability and not on such non-cash items, which may cause short-term fluctuations in net income but have no impact on cash flows. Additionally, we exclude non-core income and expenses, such as gains or losses from extinguishment of debt, merger and acquisition expenses, and spin-off expenses. We also exclude realized and unrealized gains/losses on foreign currency exchange rate movements, which are not considered fundamental attributes of our business plan and do not affect our overall long-term operating performance. We refer to our modified definition of FFO as AFFO. We exclude these items from GAAP net income to arrive at AFFO as they are not the primary drivers in our decision-making process and excluding these items provides investors a view of our portfolio performance over time and makes it more comparable to other REITs. AFFO also reflects adjustments for jointly owned investments. We use AFFO as one measure of our operating performance when we formulate corporate goals and evaluate the effectiveness of our strategies.

We believe that AFFO is a useful supplemental measure for investors to consider as we believe it will help them to better assess the sustainability of our operating performance without the potentially distorting impact of these short-term fluctuations. However, there are limits on the usefulness of AFFO to investors. For example, impairment charges and unrealized foreign currency losses that we exclude may become actual realized losses upon the ultimate disposition of the properties in the form of lower cash proceeds or other considerations. We use our FFO and AFFO measures as supplemental financial measures of operating performance. We do not use our FFO and AFFO measures as, nor should they be considered to be, alternatives to net income computed under GAAP, or as alternatives to net cash provided by operating activities computed under GAAP, or as indicators of our ability to fund our cash needs.

Consolidated FFO and AFFO were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net (loss) income attributable to NLOP	\$ (40,295)	\$ 2,764	\$ (55,686)	\$ 10,332
Adjustments:				
Impairment charges — real estate	34,164	—	46,451	—
Depreciation and amortization of real property	12,375	17,785	45,467	53,226
Loss (gain) on sale of real estate, net	644	—	(21,303)	—
Proportionate share of adjustments for noncontrolling interests ^(a)	(52)	(52)	(155)	(155)
Total adjustments	47,131	17,733	70,460	53,071
FFO (as defined by NAREIT) attributable to NLOP	6,836	20,497	14,774	63,403
Adjustments:				
Amortization of deferred financing costs	4,766	293	28,824	2,296
Above and below-market rent intangible lease amortization, net	519	905	2,527	2,717
Straight-line and other leasing and financing adjustments	495	259	2,005	(948)
Other (gains) and losses ^(b)	290	25	1,220	(26)
Other amortization and non-cash items	203	96	1,341	280
Stock-based compensation	75	952	225	2,566
Tax benefit — deferred and other	(65)	(145)	(371)	(821)
Separation and distribution related costs and other ^(c)	—	1,343	16	2,882
Proportionate share of adjustments for noncontrolling interests ^(a)	(13)	(13)	(39)	(39)
Total adjustments	6,270	3,715	35,748	8,907
AFFO attributable to NLOP	\$ 13,106	\$ 24,212	\$ 50,522	\$ 72,310
Summary				
FFO (as defined by NAREIT) attributable to NLOP	\$ 6,836	\$ 20,497	\$ 14,774	\$ 63,403
AFFO attributable to NLOP	\$ 13,106	\$ 24,212	\$ 50,522	\$ 72,310

(a) Adjustments disclosed elsewhere in this reconciliation are on a consolidated basis. This adjustment reflects our FFO or AFFO on a pro rata basis.

(b) Primarily comprised of gains and losses on extinguishment of debt, and foreign currency transactions.

(c) Amounts for the three and nine months ended September 30, 2023 are comprised of costs related to the Spin-Off.

While we believe that FFO and AFFO are important supplemental measures, they should not be considered as alternatives to net income as an indication of a company's operating performance. These non-GAAP measures should be used in conjunction with net income as defined by GAAP. FFO and AFFO, or similarly titled measures disclosed by other REITs, may not be comparable to our FFO and AFFO measures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, and equity prices. The primary market risks that we are exposed to are interest rate risk and foreign currency exchange risk.

We are also exposed to further market risk as a result of tenant concentrations in certain industries and/or geographic regions, since adverse market factors can affect the ability of tenants in a particular industry/region to meet their respective lease obligations. In order to manage this risk, we view our collective tenant roster as a portfolio and we attempt to diversify such portfolio so that we are not overexposed to a particular industry or geographic region.

Interest Rate Risk

The values of our real estate and related fixed-rate debt obligations are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, which may affect our ability to refinance debt when balloon payments are scheduled, if we do not choose to repay the debt when due. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the fair value of our assets to decrease. Increases in interest rates may also have an impact on the credit profile of certain tenants.

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the financing and refinancing of our real estate investment portfolio and operations. Our profitability and the value of our real estate investment portfolio may be adversely affected during any period as a result of interest rate changes.

We have borrowed funds at a combination of fixed and variable rates. Interest rate fluctuations will generally not affect future earnings or cash flows on fixed rate debt unless such debt matures or is otherwise terminated. However, interest rate changes will affect the fair value of fixed rate instruments. Movements in interest rates on variable rate debt could change future earnings and cash flows, but not significantly affect the fair value of the debt. However, changes in required risk premiums would result in changes in the fair value of variable rate instruments. We have entered into, and may continue to enter into, interest rate cap agreements with counterparties related to certain of our variable-rate debt. See [Note 8](#) for additional information on our interest rate caps.

At September 30, 2024, fixed-rate debt comprises 62% of our debt and variable-rate debt comprises 38%.

Our debt obligations are more fully described in [Note 9](#) and [Liquidity and Capital Resources — Summary of Financing](#) in Item 2 above. The following table presents principal cash flows based upon expected maturity dates of our debt obligations outstanding at September 30, 2024 (in thousands):

	2024 (Remainder)	2025	2026	2027	2028	Total	Fair Value
Fixed-rate debt ^(a)	\$ 334	\$ 66,325	\$ 7,379	\$ —	\$ 79,716	\$ 153,754	\$ 147,445
Variable-rate debt ^(a)	\$ —	\$ 90,690	\$ —	\$ —	\$ —	\$ 90,690	\$ 87,599

(a) Amounts are based on the exchange rate at September 30, 2024, as applicable.

Annual interest expense on our variable-rate debt at September 30, 2024 would increase or decrease by \$0.9 million, for each respective 1% change in annual interest rates.

Foreign Currency Exchange Rate Risk

We own international investments in Europe, and as a result are subject to risk from the effects of exchange rate movements in three foreign currencies, primarily the Norwegian krone, which may affect future costs and cash flows. We have obtained, and may in the future obtain, non-recourse mortgage financing in the local currency. Volatile market conditions arising from macroeconomic factors, may result in significant fluctuations in foreign currency exchange rates. To the extent that currency fluctuations increase or decrease rental revenues, as translated to U.S. dollars, the change in debt service (comprised of principal and interest, excluding balloon payments), as translated to U.S. dollars, will partially offset the effect of fluctuations in revenue and, to some extent, mitigate the risk from changes in foreign currency exchange rates. We estimate that, for a 1% increase or decrease in the exchange rate between the Norwegian krone, British pound sterling, or euro and the U.S. dollar, there would be a corresponding change in the projected estimated cash flow (scheduled future rental revenues, net of scheduled future debt service payments for the next 12 months) for our consolidated foreign operations at September 30, 2024 of less than \$0.1 million for all three currencies.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company is subject to tenant, geographic and industry concentrations. Any downturn of the economic conditions in one or more of these tenants, geographies or industries could result in a material reduction of our cash flows or material losses to us.

The factors we consider in determining the credit risk of our tenants include, but are not limited to: payment history; credit status (credit ratings for public companies are used as a primary metric); change in tenant space needs (i.e., expansion/downsize); tenant financial performance; economic conditions in a specific geographic region; and industry specific credit considerations. We believe that the credit risk of our portfolio is reduced by the high quality and diversity of our existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

For the nine months ended September 30, 2024, our consolidated portfolio had the following significant characteristics in excess of 10%, based on the percentage of our consolidated total revenues:

- 93% related to domestic operations; which included concentrations of 33% and 21% in Texas and Minnesota, respectively.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our disclosure controls and procedures include internal controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Exchange Act is recorded, processed, summarized, and reported within the required time periods specified in the SEC's rules and forms; and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company's objectives and that future events may impact the effectiveness of a system of controls.

Our chief executive officer and chief financial officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2024, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of September 30, 2024 at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 6. Exhibits.

The following exhibits are filed with this Report. Documents other than those designated as being filed herewith are incorporated herein by reference.

Exhibit No.	Description	Method of Filing
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed herewith

SIGNATURES

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

Net Lease Office Properties

Date: November 6, 2024

By: /s/ ToniAnn Sanzone
ToniAnn Sanzone
Chief Financial Officer
(Principal Financial Officer)

Date: November 6, 2024

By: /s/ Brian Zander
Brian Zander
Chief Accounting Officer
(Principal Accounting Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jason E. Fox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Net Lease Office Properties;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ Jason E. Fox

Jason E. Fox
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, ToniAnn Sanzone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Net Lease Office Properties;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ ToniAnn Sanzone
ToniAnn Sanzone
Chief Financial Officer

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Net Lease Office Properties on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Net Lease Office Properties, does hereby certify, to the best of such officer's knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Net Lease Office Properties.

Date: November 6, 2024

/s/ Jason E. Fox
Jason E. Fox
Chief Executive Officer

Date: November 6, 2024

/s/ ToniAnn Sanzone
ToniAnn Sanzone
Chief Financial Officer

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report as a separate disclosure document of Net Lease Office Properties or the certifying officers.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Net Lease Office Properties and will be retained by Net Lease Office Properties and furnished to the Securities and Exchange Commission or its staff upon request.