

Realty Income: How Fast Should the Portfolio Grow?

Internal ID: S&F-STR-472

Topic: Mergers & Acquisitions, Corporate Strategy, Capital Allocation

Industry: Retail REITs

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Strategy case | Information cutoff: November 4, 2024, 4:15 p.m. Eastern Time

Realty Income had just reported another quarter of portfolio investment and raised its 2024 investment-volume outlook to approximately \$3.5 billion. The company also reported net debt equal to 5.4 times annualized pro forma Adjusted EBITDA, a company-defined leverage measure. The figures left a practical question for the next capital-allocation cycle: how should the company weigh continued investment against financial flexibility and per-share value?

The question followed Realty Income's January 2024 merger with Spirit Realty Capital. The all-stock merger added properties, tenants and scale. In the third quarter, Realty Income invested \$740.1 million across property acquisitions, development and other activities, reporting an initial weighted-average cash yield of 7.4%. Management described a robust opportunity pipeline and projected 4.8% growth at the midpoint of its revised 2024 AFFO-per-share guidance.

Those measures offered reasons to keep investing. They did not, by themselves, show the expected return on the new capital. An initial cash yield captures first-year cash income relative to investment cost. Financing costs, lease duration, tenant credit, future rent increases, property expenses, development timing, currency and residual value also affect the economics. At the same time, slowing investment could reduce growth opportunities and leave the company with less ability to use its scale and sourcing platform.

A diversified net-lease platform

Realty Income owns and actively manages freestanding commercial properties leased under long-term net leases. Tenants generally pay some or all property operating costs, while lease contracts specify rent and any escalators. The landlord still faces tenant credit risk, vacancies, re-leasing costs, capital needs and changing property values. Acquisitions, sale-leasebacks, development, dispositions and selected other investments are routes to deploy or recycle capital.

At September 30, 2024, Realty Income owned or held interests in 15,457 properties leased to 1,552 clients across 90 industries. Portfolio occupancy was 98.7%, and weighted-average remaining lease term was about 9.4 years. The company reported a 105.0% rent-recapture rate for properties re-leased during the quarter. That rate compares rent on the units re-leased with their prior rent; it does not describe properties that remained vacant or were sold.[1]

The platform had expanded through acquisitions as well as individual property transactions. In January, Realty Income closed its announced all-stock merger with Spirit Realty. Spirit common shareholders received 0.762 Realty Income common shares for each Spirit share. In announcing the transaction, management highlighted scale, diversification and expected synergies. By the

third quarter, the company continued to report merger and transaction costs: \$8.6 million for Q3 and \$105.5 million for the first nine months of 2024. The disclosed costs did not isolate integration spending from other items or establish whether expected merger benefits had been realized.[2]

Growth and funding at the same time

For Q3, Realty Income reported \$915.6 million in AFFO available to common shareholders, or \$1.05 per diluted share, compared with \$721.4 million and \$1.02 per share a year earlier. AFFO is a company-reported non-GAAP measure. Quarterly GAAP net income available to common stockholders was \$261.8 million, or \$0.30 per share; the company noted that impairment and transaction costs affected its results.[1] The company paid \$0.789 per share in dividends during Q3, three monthly payments of \$0.263. After a dividend increase announced in September, its September 30 run rate was \$0.2635 per month, or \$3.162 annualized. The Q3 dividends paid represented 75.1% of Q3 diluted AFFO per share.[1]

Portfolio-level growth was less uniform. Same-store rental revenue increased 0.2% in Q3 and 0.3% for the first nine months, on the company's stated constant-currency basis and pool definitions. Spirit properties entered the quarterly comparison if they met the other criteria, but were excluded from the year-to-date comparison because Realty Income had not owned them for the full comparative period. Management's AFFO guidance and the same-store measure therefore answer different questions.[1]

The September 30 balance sheet and funding activity provided another view of the choices. Realty Income reported \$26.7 billion of net debt and a 5.4× net-debt-to-annualized-pro-forma-Adjusted-EBITDA ratio. It reported \$5.2 billion in total liquidity, comprising \$397 million in cash, \$958 million of expected net proceeds from unsettled ATM forward equity agreements and \$3.8 billion of availability under its revolving credit facility. The company described the revolver as a liquidity backstop for commercial-paper repayment. The liquidity figure combined cash, potential equity proceeds and borrowing capacity; it was not all cash on hand.[1][3]

During the quarter, Realty Income raised \$271.0 million through common-stock sales, primarily through its at-the-market program, at a weighted-average price of \$62.25. It also issued \$500 million of 5.375% US dollar senior notes due 2054, and sterling-denominated notes with coupons of 5.000% due 2029 and 5.250% due 2041. Those are observed financing transactions, not a complete estimate of the company's marginal cost of capital. Debt currency, maturity, hedging and the required return on equity differ.[1]

What did Q3 investment produce?

Realty Income reported \$740.1 million of total investment in Q3. The schedule below separates property acquisitions from development. "Initial weighted-average cash yield" is the company's supplemental measure of first-twelve-month cash income divided by total property cost, including expenses borne by Realty Income and its pro-rata share of joint-venture cash income. It is not an IRR, a forecast of long-run return, or a financing spread. The quarter's reported yield calculation included \$0.7 million of settlement credits reimbursing free-rent periods.[1]

Q3 investment category	Investment (\$m)	Initial cash yield	Weighted-average lease term (years)
US property acquisitions	267.2	7.4%	10.0

Q3 investment category	Investment (\$m)	Initial cash yield	Weighted-average lease term (years)
Europe property acquisitions	326.5	7.3%	7.5
Total property acquisitions	593.7	7.4%	8.6
Properties under development	146.4	7.5%	15.6
Total Q3 investment	740.1	7.4%	10.0

The company's nine-month schedule included \$1,158.7 million of property acquisitions, \$607.7 million in properties under development and \$377.5 million in other investments. The latter related to a senior secured note issued by the UK parent of Asda. These categories generate different income streams and have different risks; the aggregate yield does not make them economically interchangeable.[1]

Realty Income also sold 92 properties in Q3 for \$249.5 million in net proceeds and recorded a \$50.6 million gain on sale. Dispositions can recycle capital, but reported gains are not a measure of recurring cash yield or a complete comparison with acquisition economics.[1]

A competitive market

Other net-lease landlords were also active. Agree Realty, a smaller US-focused retail net-lease REIT, reported investing \$215.6 million in 66 properties during Q3 at a 7.5% weighted-average capitalization rate and a 9.8-year weighted-average remaining lease term. It raised its full-year acquisition-volume outlook from approximately \$700 million to \$850 million. Its cap rate and portfolio are not directly comparable with Realty Income's cash-yield metric, property mix, scale or geographic reach. The disclosure nevertheless showed that investors and sellers had other active net-lease buyers.[4]

The assignment

Assume you are preparing a recommendation for a hypothetical board finance committee as Realty Income plans the remainder of 2024 and frames its next investment cycle. The committee asks you to assess the pace of external investment after the Spirit merger and propose how new commitments should be evaluated and funded.

Use the evidence in the case to address these questions:

1. What supports continuing the current investment pace, and what supports slowing it?
2. What additional return, leverage, tenant and integration information should management provide before approving the next wave of investments?
3. How should Realty Income treat its \$3.5 billion 2024 investment-volume guidance, its 7.4% initial cash yield and its 5.4× leverage measure when evaluating per-share value?
4. Recommend a Q4 posture and a small set of decision rules for the next investment cycle. State the assumptions your recommendation depends on.

The decision can be to maintain, slow or stage investment. Investment volume, portfolio growth and per-share value need not move together.

Sources and cutoff

[1] Realty Income, Q3 2024 earnings release and supplemental operating and financial data, furnished on November 4, 2024 as Exhibits 99.1 and 99.2 to its Form 8-K. [Earnings release; supplement](#). See release pp. 1-8, especially investment and same-store tables and footnotes; supplement pp. 8-16 and glossary.

[2] Realty Income 2023 Form 10-K, merger note, and joint Spirit merger announcement. [Form 10-K; announcement](#).

[3] Realty Income Q3 2024 supplemental, p. 12 (net debt and leverage reconciliation); earnings release, p. 5 (liquidity components).

[4] Agree Realty, Q3 2024 results, October 22, 2024. [Company release](#).

The information cutoff is November 4, 2024, 4:15 p.m. ET, after the public release of Realty Income's Q3 results and supplemental data. The subsequent earnings call, separately filed Form 10-Q and later company materials are outside the case. All currency amounts are US dollars unless marked otherwise. Figures may be rounded.