LEXINGTON REALTY TRUST
Form 10-K
February 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2012
or

o	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 1-12386
LEXINGTON REALTY TRUST
(Exact name of registrant as specified in its charter)

Maryland	13-3717318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Penn Plaza, Suite 4015	
New York, NY	10119-4015
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 692-7200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Shares of beneficial interest, par value $0.0001, classified as Common Stock	New York Stock Exchange
6.50% Series C Cumulative Convertible Preferred Stock, par value $0.0001	New York Stock Exchange
7.55% Series D Cumulative Redeemable Preferred Stock, par value $0.0001	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o.
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x.
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o.
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x.
The aggregate market value of the shares of beneficial interest, par value $0.0001 per share, classified as common stock (“common shares”) of the registrant held by non-affiliates as of June 29, 2012, which was the last business day of the registrant's most recently completed second fiscal quarter, was $1,293,326,650 based on the closing price of the common shares on the New York Stock Exchange as of that date, which was $8.47 per share.
Number of common shares outstanding as of February 21, 2013 was 188,840,892.
DOCUMENTS INCORPORATED BY REFERENCE
Certain information contained in the Definitive Proxy Statement for registrant's Annual Meeting of Shareholders, to be held on May 21, 2013, is incorporated by reference in this Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I.
Introduction

When we use the terms "Lexington," the "Company," "we," "us" and "our," we mean Lexington Realty Trust and all entities owned by us, including non-consolidated entities, except where it is clear that the term means only the parent company or only the parent company and consolidated entities. All interests in properties are held through special purpose entities, which we refer to as property owner subsidiaries or lender subsidiaries, which are separate and distinct legal entities, but in some instances are consolidated for financial statement purposes and/or disregarded for income tax purposes.
References herein to this Annual Report are to this Annual Report on Form 10-K for the fiscal year ended December 31, 2012. When we use the term "REIT" we mean real estate investment trust. All references to 2012, 2011 and 2010 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively.
Management of our interests in properties is generally conducted through Lexington Realty Advisors, Inc., a taxable REIT subsidiary, which we refer to as LRA, or through a property management joint venture subsidiary.
When we use the term "GAAP" we mean United States generally accepted accounting principles.
Cautionary Statements Concerning Forward-Looking Statements

This Annual Report, together with other statements and information publicly disseminated by us contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "believes," "expects," "intends," "anticipates," "estimates," "projects," "may," "plans," "predicts," "will," "will likely result" or similar expressions. Readers sh rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. In particular, among the factors that could cause actual results, performances or achievements to differ materially from current expectations, strategies or plans include, among others, those risks discussed below under "Risk Factors" in Part I, Item 1A of this Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Annual Report. Except as required by law, we undertake no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect occurrence of unanticipated events. Accordingly, there is no assurance that our expectations will be realized.

Item 1. Business

General

We are a self-managed and self-administered REIT formed under the laws of the state of Maryland. Our primary business is the investment in and acquisition, ownership, financing and management of a geographically diverse portfolio consisting of predominantly single-tenant office, industrial and retail properties. Our core assets primarily consist of general purpose, efficient, single-tenant office and industrial assets, in well-located and growing markets or critical to the tenant's business. A majority of these properties are subject to net or similar leases, where the tenant bears all or substantially all of the costs, including cost increases, for real estate taxes, utilities, insurance and ordinary repairs. In addition, we acquire, originate and hold investments in loan assets and debt securities related to single-tenant real estate.
As of December 31, 2012, we had equity ownership interests in approximately 220 consolidated real estate properties, located in 41 states and containing an aggregate of approximately 41.2 million square feet of space, approximately

97.3% of which was leased. In 2012, 2011 and 2010, no tenant/guarantor represented greater than 10.0% of our annual base rental revenue.

In addition to our shares of beneficial interest, par value $0.0001 per share, classified as common stock, which we refer to as common shares, as of December 31, 2012, we had two outstanding classes of beneficial interest classified as preferred stock, which we refer to as preferred shares: (1) 6.50% Series C Cumulative Convertible Preferred Stock, par value $0.0001 per share, which we refer to as our Series C Preferred Shares, and (2) 7.55% Series D Cumulative Redeemable Preferred Stock, par value $0.0001 per share, which we refer to as our Series D Preferred Shares. Our common shares, Series C Preferred Shares and Series D Preferred Shares are traded on the New York Stock Exchange, or NYSE, under the symbols “LXP”, “LXPPRC” and “LXPPRD”, respectively.

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, commencing with our taxable year ended December 31, 1993. We intend to continue to qualify as a REIT. If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net taxable income that is currently distributed to our common shareholders.

History

Our predecessor was organized in the state of Delaware in October 1993 upon the combination of two investment programs, Lepercq Corporate Income Fund L.P., which we refer to as LCIF, and Lepercq Corporate Income Fund II L.P., which we refer to as LCIF II, which were formed to acquire net-lease real estate assets providing current income. Our predecessor was merged into Lexington Corporate Properties Trust, a Maryland statutory REIT, on December 31, 1997. On December 31, 2006, Lexington Corporate Properties Trust changed its name to Lexington Realty Trust and was the successor in a merger with Newkirk Realty Trust, or Newkirk, which we refer to as the Newkirk Merger. All of Newkirk's operations were conducted, and all of its assets were held, through its master limited partnership, subsequently named The Lexington Master Limited Partnership, which we refer to as the MLP. As of December 31, 2008, the MLP was merged with and into us.

We are structured as an umbrella partnership REIT, or UPREIT, as a portion of our business is conducted through our two operating partnership subsidiaries: (1) LCIF and (2) LCIF II. On December 31, 2010, a third operating partnership subsidiary, Net 3 Acquisition L.P., was merged with and into us. We refer to these subsidiaries as our operating partnerships and to limited partner interests in these operating partnerships as OP units. We are party to funding agreements with our operating partnerships under which we may be required to fund distributions made on account of OP units. The UPREIT structure enables us to acquire properties through our operating partnerships by issuing OP units to a seller of property, as a form of consideration in exchange for the property. The outstanding OP units are generally redeemable for our common shares on a one OP unit for approximately 1.13 common shares basis, or, at our election in certain instances, cash. We believe that this structure facilitates our ability to raise capital and to acquire portfolio and individual properties by enabling us to structure transactions which may defer tax gains for a contributor of property. As of December 31, 2012, there were approximately 3.8 million OP units outstanding, other than OP units held directly or indirectly by us, that are currently redeemable for approximately 4.3 million common shares if we satisfy redemptions entirely with common shares.

Current Economic Uncertainty and Capital Market Volatility

Our business continues to be impacted in a number of ways by the continued uncertainty in the overall economy and volatility in the capital markets. We encourage you to read “Risk Factors” in Part I, Item 1A of this Annual Report for a discussion of certain risks we are facing and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this Annual Report for a detailed discussion of the trends we believe are impacting our business.

Objectives and Strategy

General. We continue to implement strategies which we believe will provide shareholders with dividend growth and capital appreciation. We believe that having a strong balance sheet supports these objectives. Since 2008, we believe we have strengthened our balance sheet primarily by (1) repurchasing and retiring our debt and senior securities or by extending their maturity date, (2) financing our properties with non-recourse mortgage debt or corporate credit facilities and term loans at what we believe are favorable rates and using the proceeds to retire higher rate or shorter term debt, (3) issuing equity when market conditions are favorable and (4) selling non-core and underperforming assets. We have used proceeds from non-core and underperforming asset sales and issuances of common shares primarily to repurchase or retire our debt and acquire core assets.

Our core assets consist of general purpose, single-tenant net-leased office and industrial assets, in well-located and growing markets or which are critical to the tenant's business, but may also include other asset types subject to long-term net-leases, such as retail facilities, schools and medical facilities. We believe education and health care are growing sectors of the U.S. economy and we have seen demand for build-to-suit transactions involving charter schools, private schools and medical facilities. A component of our business strategy includes exploring these other asset types when they are subject to long-term leases that will extend the weighted-average lease term of our portfolio.

We intend to mitigate residual value risk associated with such assets by acquiring such assets primarily through joint ventures or disposing of such assets when there is sufficient remaining lease term to generate favorable sale prices. When opportunities arise, we intend to make investments in single-tenant assets, which we believe will generate favorable returns. We seek to grow our portfolio primarily by (1) engaging in, or providing funds to developers who are engaged in, build-to-suit projects for single-tenant corporate users, (2) providing capital to corporations by buying properties and leasing them back to the sellers under net or similar leases, (3) acquiring properties already subject to net or similar leases and (4) making mortgage and mezzanine loans generally secured by single-tenant properties subject to net or similar leases.

As part of our ongoing business efforts, we expect to continue to (1) recycle capital in compliance with regulatory and contractual requirements, (2) refinance or repurchase outstanding indebtedness when advisable, including converting secured debt to unsecured debt, (3) effect strategic transactions, portfolio and individual property acquisitions and dispositions, (4) expand existing properties, (5) execute new leases with tenants, (6) extend lease maturities in advance of or at expiration and (7) explore new business lines and operating platforms. Additionally, we may continue to enter into joint ventures and co-investment programs with third-party investors as a means of creating additional growth and expanding the revenue realized from advisory and asset management activities as situations warrant.

Portfolio diversification is central to our investment strategy as we seek to create and maintain an asset base that provides steady, predictable and growing cash flows while being insulated against rising property operating expenses, regional recessions, industry-specific downturns and fluctuations in property values and market rent levels. Regardless of capital market and economic conditions, we intend to stay focused on (1) enhancing operating results, (2) improving portfolio quality, (3) mitigating risks relating to interest rates and the real estate cycle and (4) implementing strategies where our management skills and real estate expertise can add value. We believe that our business strategy will continue to improve our liquidity and strengthen our overall balance sheet while creating meaningful shareholder value.

Capital Recycling. We began to dispose of our interests in non-core assets following the Newkirk merger, subject to regulatory and contractual requirements. During 2012 and 2011, we used the proceeds from dispositions to primarily make investments and retire debt and preferred securities. During 2010, we used the proceeds from dispositions to primarily retire debt. We continue to be focused on the disposition of our interests in non-core assets, including vacant and under-performing assets.

Occasionally, we provide seller financing as a means of efficiently disposing of an asset. As a result, if a buyer defaults under the seller financing, we will once again be the owner of the underlying asset.

Acquisition Strategies. When market conditions warrant, we seek to enhance our single-tenant property portfolio through acquisitions of interests in core assets, including build-to-suit transactions and investments in loan assets and debt securities directly or indirectly secured by core assets. Prior to effecting any acquisition, our underwriting includes analyzing the (1) property's design, construction quality, efficiency, functionality and location with respect to the immediate sub-market, city and region, (2) lease integrity with respect to term, rental rate increases, corporate guarantees and property maintenance provisions, (3) present and anticipated conditions in the local real estate market and (4) prospects for selling or re-leasing the property on favorable terms in the event of a vacancy. To the extent of information publicly available or made available to us, we also evaluate each potential tenant's financial strength, growth prospects, competitive position within its respective industry and a property's strategic location and function within a tenant's operations or distribution systems. We believe that our comprehensive underwriting process is critical to the assessment of long-term profitability of any investment by us.

Acquisitions of Individual Net-lease Properties. We seek to acquire individual properties from (1) creditworthy companies in sale/leaseback transactions for properties that are integral to the sellers'/tenants' ongoing operations, (2) developers of newly constructed properties built to suit the needs of a corporate tenant by financing the project during the construction phase and/or agreeing to purchase the property upon completion of construction and occupancy by the tenant, and (3) sellers of properties subject to an existing lease. We believe that our geographical diversification and acquisition experience will allow us to continue to compete effectively for the acquisition of such properties.

Strategic Transactions with Other Real Estate Investment Companies. We seek to capitalize on the unique investment experience of our management team as well as their network of relationships in the industry to achieve appropriate risk-adjusted yields through strategic transactions. Accordingly, we occasionally pursue the (1) acquisition of portfolios of assets and equity interests in companies with a significant number of single-tenant assets, including through mergers and acquisitions activity, and (2) participation in strategic partnerships, co-investment programs and joint ventures.

In connection with the Newkirk Merger, we acquired an interest in Concord Debt Holdings LLC, which we refer to as Concord, which owned real estate loan and bond assets. CDH CDO LLC, which we refer to as CDH CDO, was spun off of Concord to the members of Concord. In 2012, we sold our interest in these investments for $7.0 million.

In 2007, we established Net Lease Strategic Assets Fund L.P., which we refer to as NLS, a co-investment program with a wholly-owned subsidiary of Inland American Real Estate Trust, Inc., which we refer to as Inland NLS, to invest in specialty net-leased real estate. In 2012, we acquired Inland NLS's interest in NLS for a cash payment of $9.4 million and the assumption of all outstanding liabilities. As a result, we now control, including through one of our operating partnership subsidiaries, 100% of NLS. At acquisition, NLS had (1) 41 properties totaling 5.8 million square feet in 23 states, plus a 40% tenant-in-common interest in an office property, (2) cash balances of $8.1 million and (3) approximately $258.0 million of consolidated debt. NLS is now a consolidated subsidiary.

We received a waiver from the U.S. Securities and Exchange Commission, which we refer to as the SEC, to not provide the 2012 financial statements of NLS, which was consolidated as of September 1, 2012, required under Rule 3-09 of Regulation S-X, as long as we provide the audited financial statements of NLS for the years ended December 31, 2011, 2010 and 2009 and the unaudited financial statements of NLS for the six months ended June 30, 2012, which are filed as Exhibit 99.1 and 99.2, respectively, to this Annual Report.

In 2012, we formed two joint ventures in which we have minority ownership interests of 15% and 36%, respectively. The venture in which we have a 15% interest acquired an inpatient rehabilitation hospital in Humble, Texas for $27.8 million and the venture in which we have a 36% interest acquired a retail property in Palm Beach Gardens, Florida for $29.8 million. We are also a partner in six other partnerships, including an entity acquired in the NLS transaction, with ownership percentages ranging between 27% and 40%, which own primarily net-leased properties. All profits, losses and cash flows are distributed in accordance with the respective joint venture or partnership agreements. As of December 31, 2012, these joint ventures and partnerships had $47.2 million in non-recourse mortgage debt (our proportionate share was $13.3 million), with interest rates ranging from 4.7% to 10.6%, a weighted-average interest rate of 7.0% and maturity dates ranging from 2015 to 2017.

In 2011, we acquired a majority interest in a joint venture that acquired an office property in Aurora, Illinois for $15.9 million, which was subject to a net-lease. We sold our interest in the joint venture in 2012 for $13.2 million and continue to manage the investment for the buyer.

We believe that entering into co-investment programs and joint ventures with institutional investors and other real estate investment companies may mitigate our risk in certain assets and increase our return on equity to the extent we earn management or other fees. However, investments in co-investment programs and joint ventures limit our ability to make unilateral investment decisions relating to the assets and limit our ability to deploy capital. See Part I, Item 1A “Risk Factors”, below.

Competition

Through our predecessor entities, certain members of our management have been in the net-lease real estate business since 1973. Over this period, our management established a broad network of contacts, including major corporate tenants, developers, brokers and lenders. In addition, our management is associated with and/or participates in many industry organizations. Notwithstanding these relationships, there are numerous commercial developers, real estate companies, financial institutions, such as banks and insurance companies, and other investors with greater financial or other resources that compete with us in seeking properties for acquisition and tenants who will lease space in these properties. Our competitors include other REITs, pension funds, banks, private companies and individuals.

Internal Growth and Effectively Managing Assets

Tenant Relations and Lease Compliance. We endeavor to maintain close contact with the tenants in the properties in which we have an interest in order to understand their financial status and future real estate needs. We monitor the financial, property maintenance and other lease obligations of the tenants in properties in which we have an interest, through a variety of means, including periodic reviews of financial statements that we have access to and physical inspections of the properties.

Extending Lease Maturities. Our property owner subsidiaries seek to extend tenant leases in advance of the lease expiration in order for us to maintain a balanced lease rollover schedule and high occupancy levels.

Revenue Enhancing Property Expansions. Our property owner subsidiaries undertake expansions of properties based on lease requirements, tenant requirements or marketing opportunities. We believe that selective property expansions can provide attractive rates of return.

Property Sales. Subject to regulatory and contractual requirements, we generally sell our interests in properties when we believe that the return realized from selling a property will exceed the expected return from continuing to hold such property and/or if there is a better use of capital such as repurchasing our debt and senior securities.

Conversion to Multi-Tenant. If one of our property subsidiaries is unable to renew a single-tenant lease or if it is unable to find a replacement single tenant, we either attempt to sell our interest in the property or the property owner may seek to market the property for multi-tenant use. When appropriate, we seek to sell our interests in these multi-tenant properties.

Property Management. From time to time, our property owner subsidiaries use property managers to manage certain properties. Our property management joint venture with an unaffiliated third party manages substantially all of these properties. We believe this joint venture provides us with (1) better management of our assets, (2) better tenant relationships, (3) revenue-enhancing opportunities and (4) cost efficiencies.

Financing Strategy

General. Since becoming a public company, our principal sources of financing have been the public and private equity and debt markets, property specific debt, revolving loans, corporate level term loans, issuance of OP units and undistributed cash flows.

Property Specific Debt. Our property owner subsidiaries historically financed their assets with non-recourse secured debt. However, beginning in 2008, the availability of single asset non-recourse financing became limited. As a result, we began to rely more on corporate level borrowings. Our property owner subsidiaries now seek non-recourse secured debt on a limited basis including when credit tenant lease financing is available. Credit tenant lease financing allows us to significantly or fully leverage the rental stream from an investment at, what we believe are, attractive rates.

Corporate Level Borrowings. As previously noted, we also use corporate level borrowings, such as revolving loans, term loans, and debt offerings. We expect to finance more of our operations with such corporate level borrowings as (1) non-recourse secured debt matures and (2) such borrowings are available on favorable terms.

Deleveraging and Interest Rate Reduction. In recent years, we have reduced our weighted-average interest rate or used our capital to deleverage our balance sheet by refinancing, satisfying and repurchasing indebtedness. From January 1, 2009 through December 31, 2011, we reduced our overall consolidated indebtedness by $725.2 million. In 2012, our overall consolidated indebtedness increased by $210.5 million primarily due to the acquisition of NLS. However, we reduced our consolidated weighted-average interest rate by approximately 34 basis points. In addition, since the fourth quarter of 2012 through the date of filing this Annual Report, we converted $66.1 million aggregate principal amount of our 6.00% Convertible Guaranteed Notes due 2030, which we refer to as 6.00% Convertible Notes, into 9.5 million common shares, together with a cash payment of $4.7 million, reducing the outstanding balance of the notes to $48.9 million.

Common Share Issuances

During 2012 and 2011, we raised $164.4 million and $99.0 million, respectively, by issuing 18.3 million and 11.1 million common shares through public offerings and under our direct share purchase plan. The proceeds from these common share offerings were used for working capital, including to fund investments and to retire indebtedness.

In addition, we issued common shares upon conversion of our 6.00% Convertible Notes, as discussed above.

Preferred Share Repurchases

During 2012 and 2011, we repurchased and retired all outstanding shares of our 8.05% Series B Cumulative Redeemable Preferred Stock, par value $0.0001 per share, which we refer to as Series B Preferred Shares, and an aggregate 0.2 million Series C Preferred Shares for $85.5 million in the aggregate, or a $1.5 million discount to the liquidation preferences of the preferred shares.

Advisory Contracts

Certain members of our management have been in the business of investing in single-tenant net-lease properties since 1973. This experience has enabled us to provide advisory services to various net-lease investors. With the termination of certain of our co-investment programs in 2007 and our acquisition of NLS in 2012, advisory fees have declined in recent years. If and when we increase our co-investment joint venture activity, we expect advisory fees to increase.

In 2012, LRA entered into an agreement to arrange for investments up to $100.0 million on behalf of a third-party investor. Under the agreement, we will be a co-investor with a target to contribute 15% to each venture.We granted the third-party investor an exclusivity, until May 2015, on investment opportunities for (1) properties with a lease due to expire in less than 10 years, and (2) properties that are dedicated to non-office and non-warehouse/distribution uses, including properties with tenants in the medical, hospital and health care industries.

Environmental Matters

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws

often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. Although generally the tenants of the properties in which we have an interest are primarily responsible for any environmental damage and claims related to the leased premises, in the event of the bankruptcy or inability of a tenant of such premises to satisfy any obligations with respect to such environmental liability, a property owner subsidiary may be required to satisfy such obligations. In addition, as the owner of such properties, a property owner subsidiary may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of our business and generally upon acquisition of a property and prior to surrender by a tenant, the property owner subsidiary authorizes the preparation of a Phase I and, when recommended, a Phase II environmental report with respect to its properties. Based upon such environmental reports and our ongoing review of the properties in which we have an interest, as of the date of this Annual Report, we are not aware of any environmental condition with respect to any of the properties in which we have an interest which we believe would be reasonably likely to have a material adverse effect on our financial condition and/or results of operations. There can be no assurance, however, that (1) the discovery of environmental conditions, the existence or severity of which were previously unknown, (2) changes in law, (3) the conduct of tenants or (4) activities relating to properties in the vicinity of the properties in which we have an interest, will not expose us to material liability in the future. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of the tenants of properties in which we have an interest, which would adversely affect our financial condition and/or results of operations.

Impairment Charges

During 2012, 2011 and 2010, we incurred $10.0 million, $117.4 million and $56.9 million, respectively, of non-cash impairment charges primarily related to (1) sales and other dispositions, or the possible sale or disposition, of assets at below book value and (2) vacancies of certain assets. In addition, we may continue to take similar non-cash impairment charges, which could be material in amount, due to (1) the current economic environment and (2) the implementation of our current business strategy, which may include sales of properties acquired in the Newkirk Merger that have a high cost basis because of our common share price at the time of the Newkirk Merger. Furthermore, we may take an impairment charge on a property subject to a non-recourse secured mortgage reducing the book value of such property to its estimated fair value which may be below the balance of the mortgage on our balance sheet. Upon foreclosure or other disposition of such property, we may recognize a gain on debt satisfaction equal to the difference between the fair value of the property and the balance of the mortgage.

Summary of 2012 Transactions and Recent Developments

The following summarizes certain of our transactions during 2012, including transactions disclosed above and in our other periodic reports.

Sales. With respect to sales activity, we:

- disposed of our interests in properties, including a non-consolidated property, to unaffiliated third parties for an aggregate gross disposition price of $181.4 million; and

- sold our interest in Concord and CDH CDO for $7.0 million.

Acquisitions/Investments. With respect to acquisitions/investments, we:

- purchased an industrial property in Missouri City, Texas for $23.0 million and an office property in Phoenix, Arizona for $53.2 million;

- completed eight build-to-suit transactions for an aggregate capitalized cost of $107.3 million;

- formed a joint venture, in which we hold a 15% interest, which acquired an inpatient rehabilitation hospital in Humble, Texas for $27.8 million;

- formed a joint venture, in which we hold a 36% interest, which acquired a retail property in Palm Beach Gardens, Florida for $29.8 million and we made a $12.0 million non-recourse mortgage loan to the joint venture,which was repaid in February 2013;

- closed on two construction loans for an aggregate commitment of $40.6 million of which $11.5 million was funded in 2012;

- received $2.5 million in full satisfaction of a loan receivable;

- acquired Inland NLS's interest in NLS for $9.4 million and the assumption of its liabilities;

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- acquired 6.2 acres of land, which was previously leased, in Palm Beach Gardens, Florida for $6.0 million, on which we own the multi-tenant improvements; and

- continued to fund four on-going build-to-suit transactions not yet completed at December 31, 2012 with an aggregate estimated cost of $136.5 million of which $68.9 million was invested as of December 31, 2012.

The 2012 property investments of $241.1 million discussed above have a weighted-average lease term of approximately 16 years and an initial cap rate of 8.5%.

Leasing. Our property owner subsidiaries entered into 69 new leases and lease extensions encompassing an aggregate 7.4 million square feet and raised our overall portfolio occupancy by 140 basis points to 97.3% as of December 31, 2012.

Financing. In 2012, we procured a $255.0 million secured term loan from Wells Fargo Bank, National Association, as agent, which matures in January 2019. The secured term loan requires regular payments of interest only at an interest rate, ranging from 2.00% to 2.85% over LIBOR depending on our leverage ratio, as defined therein. Upon the date when we obtain an investment grade debt rating from at least two of Standard & Poor’s Rating Services, which we refer to as S&P, Moody’s Investor Services, Inc., which we refer to as Moody’s, and Fitch, Inc., which we refer to as Fitch, the interest rate under the secured term loan will be dependent on our debt rating. Prepayments are permitted after January 12, 2013 subject to a premium until January 12, 2016.

Also in 2012, we refinanced our $300.0 million secured revolving credit facility with a new $300.0 million secured revolving credit facility with a maturity date of January 2015 but could have been extended until January 2016 at our option.

We satisfied $60.6 million of term loans procured in 2008, repurchased and retired $62.2 million of original principal amount of 5.45% Exchangeable Guaranteed Notes and repaid $57.5 million of debt assumed in the NLS transaction.

We converted an aggregate $31.1 million original principal amount of 6.00% Convertible Notes into an aggregate 4.5 million common shares and made an aggregate cash payment of approximately $2.4 million plus accrued and unpaid interest on the converted notes.

Our property owner subsidiaries:

- retired $190.5 million in property non-recourse mortgage debt with a weighted-average interest rate of 5.9%; and

- obtained $121.0 million in non-recourse mortgage financings with a weighted-average interest rate of 4.1%.

Capital. With respect to capital activities, we:

- issued an aggregate 18.3 million common shares in a public offering and under our direct share purchase plan, raising net proceeds of approximately $164.4 million; and

- repurchased and retired all outstanding (approximately 2.7 million) Series B Preferred Shares and approximately 35 thousand Series C Preferred Shares for an aggregate purchase price of approximately $70.0 million.

Subsequent to December 31, 2012, we:

- converted $35.0 original principal amount of 6.00% Convertible Notes for approximately 5.0 million common shares and a cash payment of $2.3 million plus accrued and unpaid interest;

implemented an At-The-Market or ATM offering program under which we may issue up to $100.0 million in common shares over the term of the program. As of the date of this Annual Report, we issued 3.4 million common shares under this program raising gross proceeds of $36.9 million;

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