CAREY W P & CO LLC
Form 10-K
March 02, 2009

Table of Contents

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

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

For the fiscal year ended December 31, 2008

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: 001-13779

W. P. CAREY & CO. LLC

(Exact name of registrant as specified in its charter)

Delaware	**13-3912578**
(State of incorporation)	(I.R.S. Employer Identification No.)
50 Rockefeller Plaza New York, New York	**10020**
(Address of principal executive offices)	(Zip code)

Registrant s telephone numbers, including area code:

Investor Relations (212) 492-8920

(212) 492-1100

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

Listed Shares, No Par Value

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 o No þ

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 þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this report 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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

As of June 30, 2008, the aggregate market value of the registrants Listed Shares held by non-affiliates was $769,197,848.

As of February 23, 2009, there are 39,424,989 Listed Shares of registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference its definitive Proxy Statement with respect to its 2009 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days following the end of its fiscal year, into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

Forward-Looking Statements

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this Report, contains forward-looking statements within the meaning of the federal securities laws. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. 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 which 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 (the SEC), including but not limited to those described below in Item 1A. Risk Factors of this Report. We do not undertake to revise or update any forward-looking statements. Additionally, a description of our critical accounting estimates is included in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this Report.

As used in this Report, the terms we, us and our include W. P. Carey & Co. LLC, its consolidated subsidiaries and predecessors, unless otherwise indicated.

Table of Contents

PART I

Item 1. Business.

(a) General Development of Business

Overview:

We are a provider of long-term net lease financing for companies worldwide. We invest primarily in commercial properties that are each triple-net leased to single corporate tenants, domestically and internationally, and earn revenue as the advisor to publicly owned, non-traded real estate investment trusts (CPA® REITs) sponsored by us that invest in similar properties. We are currently the advisor to the following CPA® REITs: Corporate Property Associates 14 Incorporated (CPA®:14), Corporate Property Associates 15 Incorporated (CPA®:15), Corporate Property Associates 16 Global Incorporated (CPA®:16 Global) and Corporate Property Associates 17 Global Incorporated (CPA®:17), and were the advisor to Corporate Property Associates 12 Incorporated (CPA®:12) until its merger with CPA®:14 in 2006 (the CPA®:12/14 Merger).

Our real estate investment portfolio, as well as those of the CPA® REITs we advise, consists primarily of single-tenant commercial real property. Generally, we place primary emphasis on the creditworthiness of the tenant, but we also fully evaluate the underlying real estate. Our leases generally are full recourse obligations of the tenant or its affiliates and place the economic burden of ownership largely on the tenant by requiring it to pay the costs of maintenance, insurance, taxes, structural repairs and other operating expenses (referred to as triple-net leases).

Most of our properties either were acquired as a result of our consolidation in 1998 with nine affiliated Corporate Property Associates limited partnerships and their successors or were subsequently acquired from certain CPA® REITs in connection with the provision of liquidity to shareholders of those REITs, as further described below.

Because our advisory agreements with the existing CPA® REITs require that we use our best efforts to present to them a continuing and suitable program of investment opportunities that meet their investment criteria, we generally provide investment opportunities to these funds first and earn revenues from transaction and asset management services performed on their behalf. Our principal focus on our owned real estate portfolio in recent years has therefore been on enhancing the value of our existing properties.

Under advisory agreements that we have with each of the CPA® REITs, we perform services and earn asset management revenue related to the day-to-day management of the CPA® REITs and provide transaction-related services and earn structuring revenue in connection with structuring and negotiating real estate and real estate-related investments and mortgage financing on their behalf. In addition, we provide further services and earn revenue when each CPA® REIT is liquidated. We are also reimbursed for certain costs incurred in providing services, including broker-dealer commissions paid on behalf of the CPA® REITs, marketing costs and the cost of personnel provided for the administration of the CPA® REITs. As a result of electing to receive certain payments for services in shares, we also hold ownership interests in the CPA® REITs.

We were formed as a limited liability company under the laws of Delaware on July 15, 1996. We commenced operations on January 1, 1998 by combining the limited partnership interests of nine CPA® partnerships, at which time we listed on the New York Stock Exchange (NYSE) under the symbol WPC. As a limited liability company, we are not subject to federal income taxation as long as we satisfy certain requirements relating to our operations and pass through any tax liabilities or benefits to our shareholders; however, certain of our subsidiaries engaged in investment management operations are subject to federal, state and local income taxes and certain subsidiaries may be subject to foreign taxes.

In October 2007, we completed a restructuring whereby we transferred our real estate assets from a wholly owned subsidiary into a newly formed, wholly owned REIT subsidiary (Carey REIT II). Carey REIT II elected to be treated as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), with the filing of its 2007 return.

Our principal executive offices are located at 50 Rockefeller Plaza, New York, NY 10020 and our telephone number is (212) 492-1100. As of December 31, 2008, we employed 154 individuals through our wholly-owned subsidiaries.

Significant Developments during 2008 include:

Acquisition Activity During 2008, we structured investments totaling approximately $457 million on behalf of the CPA® REITs. Approximately 46% of the real estate investments were for international transactions.

Table of Contents

Fundraising Activity Since commencing its initial public offering to raise up to $2 billion of common stock in December 2007, CPA®:17 Global has raised approximately $380 million through February 23, 2009. We earn a wholesaling fee of up to $0.15 per share sold, which we use, along with any retained portion of the selected dealer revenue, to cover other underwriting costs incurred in connection with CPA®:17 Global s offering and are reimbursed for marketing and personnel costs incurred in raising capital on behalf of CPA®:17 Global, subject to certain limitations.

International Operations In July 2008, we opened an office in Amsterdam to establish a European base for the management of the CPA® REITs growing portfolio of international assets under our management.

(b) Financial Information About Segments

Refer to Note 17 in the accompanying consolidated financial statements for financial information about segments.

(c) Narrative Description of Business

Business Objectives and Strategy

Our objective is to increase shareholder value and earnings through expansion of our investment management operations and prudent management of our owned real estate assets. We will continue to own real estate properties as long as we believe ownership helps us attain our objectives.

We have two primary business segments, investment management and real estate ownership. These segments are each described below.

Investment Management

We earn revenue as the advisor to the CPA® REITs, each of which we formed and initially offered to the public. Under the advisory agreements with the CPA® REITs, we perform various services, including but not limited to the day-to-day management of the CPA® REITs and transaction-related services.

Because of limitations on the amount of non-real estate related income that may be earned by a limited liability company that is taxed as a publicly traded partnership, our Investment Management operations are currently conducted primarily through taxable subsidiaries.

From time to time, we explore alternatives for expanding our Investment Management operations beyond advising the CPA® REITs. Any such expansion could involve the purchase of properties or other investments as principal, either for our own portfolio or with the intention of transferring such investments to a newly created fund, as well as the sponsorship of one or more funds to make investments other than primarily net lease investments.

Asset Management Revenue

Generally, we earn asset management revenues based on a percentage of average invested assets for each CPA® REIT, with additional revenues (performance revenue) being contingent upon specific performance criteria for each CPA® REIT (generally, the payment of a specified cumulative distribution return to shareholders). For CPA®:14, CPA®:15 and CPA®:16 Global, asset management revenues and performance revenues total 1% per annum. For CPA®:17 Global, asset management revenues will be 1/2 of 1% per annum of average market value for long-term net leased properties and certain other assets and 1.5% to 1.75% of average equity value for certain types of real-estate related loans and marketable real estate securities. In addition, through a subsidiary that is and intends to remain qualified as a REIT, we may receive up to 10% of distributions of available cash made by CPA®:17 Global s operating partnership subsidiary, which we would include in our investment management segment for financial reporting purposes. We seek to increase our base asset management and performance revenue by increasing assets under management, both as the CPA® REITs make new investments and from organizing new investment entities. Such revenue may also increase, or decrease, based on changes in the value of the assets of the individual CPA® REITs. Estimated real property asset valuations are performed annually by a third party, beginning for each CPA® REIT generally three years after completion of its public offering. Assets under management, and the resultant revenue earned by us, may also decrease if investments are disposed of, either individually or in connection with the liquidation of a CPA® REIT. The advisory agreements allow us to elect to receive restricted stock for any revenue due from a CPA® REIT.

Structuring Revenue

In connection with structuring and negotiating investments and related mortgage financing for the CPA® REITs, the advisory agreements provide for acquisition revenue based on the cost of investments. Under each of the advisory agreements, we may charge acquisition revenue of up to an average of 4.5% of the total cost of all long-term net lease investments made by each CPA® REIT. A portion of this revenue (generally 2.5%) is paid when the transaction is completed while the remainder (generally 2%) is payable in equal annual installments ranging from three to eight years, subject to the relevant CPA® REIT meeting its performance criterion. For certain types of non-long term net lease investments made by CPA®:17 Global, a lower acquisition revenue schedule may apply. Unpaid installments bear interest at annual rates ranging from 5% to 7%. The amount of this revenue is primarily dependent on the volume of new investments, which is affected by numerous factors, including general economic, market and competitive conditions, and may be subject to considerable fluctuation from period to period. In addition, we may be entitled to loan refinancing revenue of up to 1% of the principal amount refinanced. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue.

Other Revenue

We may also earn revenue related to the disposition of properties, subject to subordination provisions, which will only be recognized as the relevant conditions are met. Such revenue may include subordinated disposition revenue of no more than 3% of the value of any assets sold, payable only after shareholders have received back their initial investment plus a specified preferred return, and subordinated incentive revenue of 15% of the net cash proceeds distributable to shareholders from the disposition of properties, after recoupment by shareholders of their initial investment plus a specified preferred return. We may also, in connection with the termination of the advisory agreement for CPA®:14, CPA®:15 and CPA®:16 Global, be entitled to a termination payment based on the amount by which the fair value of a CPA® REIT s properties, less indebtedness, exceeds investors capital plus a specified preferred return. CPA®:17 Global, upon certain terminations, has the right, but not the obligation, beginning two years after the start of its operations, to repurchase our interest in its operating partnership at its then fair market value. We will not receive a termination payment in circumstances where we receive subordinated incentive revenue.

In current and past years, we have earned substantial disposition and incentive or termination revenue in connection with providing liquidity to CPA® REIT shareholders. In general, we begin evaluating liquidity alternatives for CPA® REIT shareholders about eight years after a CPA® REIT has substantially invested the net proceeds received in its initial public offering. These liquidity alternatives may include listing the CPA® REIT s shares on a national securities exchange, selling the assets of the CPA® REIT or merging the affected CPA® REIT with another entity, which could include another CPA® REIT. However, the timing of liquidity events depends on market conditions and may also depend on other factors, including approval of the proposed course of action by the independent directors, and in some instances the shareholders, of the affected CPA® REIT, and may occur well after the eighth anniversary of the completion of an offering. Because of these factors, CPA® REIT liquidity events have not typically taken place every year. In consequence, given the relatively substantial amounts of disposition revenue, as compared with the ongoing revenue earned from asset management and structuring investments, income from this business segment may be significantly higher in those years where a liquidity event takes place. As CPA®:14 was substantially fully invested in 2000, we began discussing liquidity alternatives with the board of directors of CPA®:14 during 2008. However, in light of evolving market conditions during the year, we recommended, and the board of CPA®:14 agreed, that further consideration of liquidity alternatives be postponed until market conditions become more stable. As a result, we are unable to predict when a liquidity event for CPA®:14 will occur.

We are also reimbursed by our affiliates for certain costs, primarily broker-dealer commissions paid on behalf of the CPA® REITs and marketing and personnel costs. We are also reimbursed by the CPA® REITs for many of our costs associated with the evaluation of transactions on behalf of the CPA® REITs that are not completed. Marketing and personnel costs are apportioned based on the assets of each entity. These reimbursements may be substantial. These reimbursements, together with asset management revenue payable by a specific CPA® REIT, may be subject to deferral or reduction if they exceed a specified percentage of that CPA® REIT s income or invested assets. We also earn a wholesaling fee from CPA®:17 Global of up to $0.15 per share sold, which we use, along with any retained portion of the selected dealer revenue, to cover other underwriting costs incurred in connection with CPA®:17

Global s offering.

Equity Investments in CPA® REITs

As discussed above, we may elect to receive certain of our revenues from the CPA® REITs in restricted shares of those entities. As of December 31, 2008, we owned 7.5% of the outstanding shares of CPA®:14, 5.6% of the outstanding shares of CPA®:15, 3.8% of the outstanding shares of CPA®:16 Global and 0.2% of the outstanding shares of CPA®:17 Global. As a result of our election to receive asset management revenue for 2009 in restricted shares of these entities, we expect our ownership percentages to increase in 2009. We account for these investments under the equity method of accounting, pursuant to which we include in equity investments in real estate our proportionate share of the net income of each of these entities. We also receive distributions on these shares from the CPA®c REITs, and include any distributions in excess of equity income in our cash flows from investing activities.

Real Estate Ownership

We invest in commercial properties that are leased to companies domestically and internationally, primarily on a single-tenant, triple-net leased basis. While our acquisition of new properties is constrained by our obligation to provide a continuing and suitable investment program to the CPA® REITs, we seek to maximize the value of our existing portfolio through prudent management of our real estate assets, which may involve follow-on transactions, dispositions and favorable lease modifications, as well as refinancing of existing debt. In connection with providing liquidity alternatives to CPA® REIT shareholders, we may acquire additional properties from the liquidating CPA® REIT, as we did during 2006. We have also acquired properties and interests in properties through tax-free exchanges and as part of joint ventures with the CPA® REITs. We may also, in the future, seek to increase our portfolio by making investments, including non-net lease investments and investments in emerging markets, that may not meet the investment criteria of the CPA® REITs, particularly investments that are not current-income oriented. See Our Portfolio below for an analysis of our portfolio as of December 31, 2008.

While no tenant at any of our consolidated investments represented more than 9% of our total lease revenues from our real estate ownership during 2008, a joint venture, accounted for under the equity method of accounting, that leases property to Carrefour France, S.A. earned lease revenue of $21.4 million. We have a 46% interest in this joint venture.

The Investment Strategies, Financing Strategies, Asset Management, Competition and Environmental Matters sections described below pertain to both our Investment Management and Real Estate Ownership segments.

Investment Strategies

As discussed above, our property acquisitions in recent years have generally been made on behalf of the CPA® REITs. The following description of our investment process applies to investments we make on behalf of the CPA® REITs. In general, we would expect to follow a similar process in connection with any investments in triple-net lease, single-tenant commercial properties we may make directly, but we are not required to do so.

In analyzing potential investments, we review all aspects of a transaction, including tenant and real estate fundamentals, to determine whether a potential investment and lease can be structured to satisfy the CPA® REITs investment criteria. In evaluating net lease transactions, we generally consider, among other things, the following aspects of each transaction:

Tenant/Borrower Evaluation We evaluate each potential tenant or borrower for its creditworthiness, typically considering factors such as management experience, industry position and fundamentals, operating history, and capital structure, as well as other factors that may be relevant to a particular investment. We seek opportunities in which we believe the tenant may have a stable or improving credit profile or credit potential that has not been recognized by the market. In evaluating a possible investment, the creditworthiness of a tenant or borrower often will be a more significant factor than the value of the underlying real estate, particularly if the underlying property is specifically suited to the needs of the tenant; however, in certain circumstances where the real estate is attractively valued, the creditworthiness of the tenant may be a secondary consideration. Whether a prospective tenant or borrower is creditworthy will be determined by us or the investment committee. Creditworthy does not mean investment grade.

Properties Important to Tenant/Borrower Operations We generally will focus on properties that we believe are essential or important to the ongoing operations of the tenant. We believe that these properties provide better protection generally as well as in the event of a bankruptcy, since a tenant/borrower is less likely to risk the loss of a mission critical lease or property in a bankruptcy proceeding or otherwise.

Diversification We attempt to diversify the CPA® REIT portfolios to avoid dependence on any one particular tenant, borrower, collateral type, geographic location or tenant/borrower industry. By diversifying these portfolios, we seek to reduce the adverse effect of a single under-performing investment or a downturn in any particular industry or geographic region. While we have not endeavored to maintain any particular standard of diversity in our own portfolio, we believe that our own portfolio is reasonably well diversified (see Our Portfolio below).

Lease Terms Generally, the net leased properties in which the CPA® REITs and we invest will be leased on a full recourse basis to the tenants or their affiliates. In addition, we will seek to include a clause in each lease that provides for increases in rent over the term of the lease. These increases are fixed or tied generally to increases in indices such as the Consumer Price Index (CPI). In the case of retail stores and hotels, the lease may provide for participation in gross revenues of the tenant at the property above a stated level. Alternatively, a lease may provide for mandated rental increases on specific dates, and we may adopt other methods in the future.

Table of Contents

Collateral Evaluation We review the physical condition of the property, and conduct a market evaluation to determine the likelihood of replacing the rental stream if the tenant defaults, or of a sale of the property in such circumstances. We also generally engage a third party to conduct, or require the seller to conduct, Phase I or similar environmental site assessments (including a visual inspection for the potential presence of asbestos) in an attempt to identify potential environmental liabilities associated with a property prior to its acquisition. If potential environmental liabilities are identified, we generally require that identified environmental issues be resolved by the seller prior to property acquisition or, where such issues cannot be resolved prior to acquisition, require tenants contractually to assume responsibility for resolving identified environmental issues post-closing and provide indemnification protections against any potential claims, losses or expenses arising from such matters. Although we generally rely on our own analysis in determining whether to make an investment on behalf of the CPA® REITs, each real property to be purchased by them will be appraised by an independent appraiser. The contractual purchase price (plus acquisition fees, but excluding acquisition expenses, for properties acquired on behalf of the CPA® REITs) for a real property we acquire for ourselves or on behalf of a CPA® REIT will not exceed its appraised value. The appraisals may take into consideration, among other things, the terms and conditions of the particular lease transaction, the quality of the lessee s credit and the conditions of the credit markets at the time the lease transaction is negotiated. The appraised value may be greater than the construction cost or the replacement cost of a property, and the actual sale price of a property if sold may be greater or less than the appraised value. In cases of special purpose real estate, a property is examined in light of the prospects for the tenant/borrower s enterprise and the financial strength and the role of that asset in the context of the tenant s overall viability. Operating results of properties and other collateral may be examined to determine whether or not projected income levels are likely to be met. We will also consider factors particular to the laws of foreign countries, in addition to the risks normally associated with real property investments, when considering an investment outside the United States.

Transaction Provisions that Enhance and Protect Value We will attempt to include provisions in the leases that require our consent to specified tenant activity, require the tenant to provide indemnification protections, or require the tenant to satisfy specific operating tests. These provisions may help protect an investment from changes in the operating and financial characteristics of a tenant that may affect its ability to satisfy its obligations to the CPA® REIT or reduce the value of the investment. We may also seek to enhance the likelihood of a tenant s lease obligations being satisfied through a guaranty of obligations from the tenant s corporate parent or other entity or a letter of credit. This credit enhancement, if obtained, provides additional financial security. However, in markets where competition for net lease transactions is strong, some or all of these provisions may be difficult to negotiate. In addition, in some circumstances, tenants may retain the right to repurchase the property leased by the tenant. The option purchase price is generally the greater of the contract purchase price and the fair market value of the property at the time the option is exercised.

Other Equity Enhancements We may attempt to obtain equity enhancements in connection with transactions. These equity enhancements may involve warrants exercisable at a future time to purchase stock of the tenant or borrower or their parent. If warrants are obtained, and become exercisable, and if the value of the stock subsequently exceeds the exercise price of the warrant, equity enhancements can help achieve the goal of increasing investor returns.

As other opportunities arise, we may also seek to expand the CPA® REIT portfolios to include other types of real estate-related investments, such as:

- equity investments in real properties that are not long-term net leased to a single tenant and may include partially leased properties, multi-tenanted properties, vacant or undeveloped properties and properties subject to short-term net leases, among others;

- mortgage loans secured by commercial real properties;

- subordinated interests in first mortgage real estate loans, or B Notes;

- mezzanine loans related to commercial real estate, which are senior to the borrower s equity position but subordinated to other third-party financing;

commercial mortgage-backed securities, or CMBS; and

equity and debt securities (including preferred equity and other higher-yielding structured debt and equity investments) issued by companies that are engaged in real-estate related businesses, including other REITs.

To date, our investments on behalf of the CPA® REITs have not included significant amounts of these types of investments.

Investment Committee We have an investment committee that provides services to the CPA® REITs and may provide services to us. Our investment department, under the oversight of our chief investment officer, is primarily responsible for evaluating, negotiating and structuring potential investment opportunities. Before a property is acquired by a CPA® REIT, the transaction is reviewed by the investment committee. The investment committee is not directly involved in originating or negotiating potential investments but instead functions as a separate and final step in the investment process. We place special emphasis on having experienced individuals serve on our investment committee and, subject to limited exceptions, generally do not invest in a transaction on behalf of the CPA® REITs unless the investment committee approves it. In addition, the investment committee may at the request of our board of directors or executive committee also review any initial investment in which we propose to engage directly, although it is not required to do so. Our board of directors or executive committee may also determine that certain investments that may not meet the CPA® REITs investment criteria (particularly transactions in emerging markets and investments that are not current income oriented) may be acceptable to us. For transactions that meet the investment criteria of more than one CPA® REIT, our chief investment officer has discretion as to which CPA® REIT or REITs will hold the investment. In cases where two or more CPA® REITs (or one or more CPA® REITs and us) will hold the investment, a majority of the independent directors of each CPA® REIT investing in the property must also approve the transaction.

The following people currently serve on our investment committee:

Nathaniel S. Coolidge Former senior vice president and head of the bond and corporate finance department of John Hancock Mutual Life Insurance (currently known as John Hancock Life Insurance Company). Mr. Coolidge s responsibilities included overseeing its entire portfolio of fixed income investments.

Trevor P. Bond Co-founder of Credit Suisse s real estate equity group. Currently managing member of private investment vehicle, Maidstone Investment Co., LLC.

Axel K.A. Hansing Currently serving as a senior partner at Coller Capital, Ltd., a global leader in the private equity secondary market, and responsible for investment activity in parts of Europe, Turkey and South Africa.

Frank J. Hoenemeyer Former vice chairman and chief investment officer of the Prudential Insurance Company of America. As chief investment officer, he was responsible for all of Prudential Insurance Company of America s investments including stocks, bonds and real estate.

Dr. Lawrence R. Klein Currently serving as professor emeritus of economics and finance at the University of Pennsylvania and its Wharton School. Recipient of the 1980 Nobel Prize in economic sciences and former consultant to both the Federal Reserve Board and the President s Council of Economic Advisors.

George E. Stoddard Former officer-in-charge of the direct placement department of The Equitable Life Assurance Society of the United States and our former chief investment officer.

Nick J.M. van Ommen Former chief executive officer of the European Public Real Estate Association promoting, developing and representing the European public real estate sector, with over twenty years of financial industry experience.

Dr. Karsten von Köller Currently chairman of Lone Star Germany. Former chairman and member of the board of managing directors of Eurohypo AG, Frankfurt am Main, Germany.

Messrs. Coolidge, Bond, Klein and von Köller also serve as members of our board of directors.

We are required to use our best efforts to present a continuing and suitable investment program to the CPA® REITs but we are not required to present to the CPA® REITs any particular investment opportunity, even if it is of a character which, if presented, could be taken by one or more of the CPA® REITs.

Self-Storage Investments

In November 2006, we formed a subsidiary (Carey Storage) for the purpose of investing in self-storage real estate properties and their related businesses within the United States. In December 2006, we contributed $5 million in cash for equity interests in Carey Storage and loaned Carey Storage $5.9 million, and Carey Storage began acquiring domestic self-storage properties using a portion of the proceeds from our contribution and loan along with borrowings under its $105 million secured credit facility. Through 2007, Carey Storage acquired 13 properties at a total cost of $60 million. Carey Storage did not acquire any properties during 2008. In January 2009, Carey Storage completed a transaction with a third party, whereby it received cash proceeds of $21.9 million plus a commitment to invest up to a further $8.1 million of equity to fund the purchase of self-storage assets in the future in exchange for a 60% interest in its self storage portfolio. See Part II, Item 7, Financial Condition Subsequent Events for more information.

Table of Contents

Our Portfolio

As of December 31, 2008, we own and manage over 880 commercial properties domestically and internationally, including our own portfolio. Our portfolio is comprised of our full or partial ownership interest in 174 commercial properties, substantially all of which are net leased to 84 tenants, with a total of approximately 17 million square feet (on a pro rata basis) and an occupancy rate of approximately 94%.

Our portfolio has the following property and lease characteristics:

Geographic Diversification

Information regarding the geographic diversification of our properties as of December 31, 2008 is set forth below (dollars in thousands):

	Consolidated Investments		Equity Investments in Real Estate [b]	
Region	**Annualized Contractual Lease Revenue** [a]	**% of Annualized Contractual Lease Revenue**	**Annualized Contractual Lease Revenue** [a]	**% of Annualized Contractual Lease Revenue**
United States				
South	$ 27,608	35%	$ 2,945	11%
West	20,522	26	1,941	8
Midwest	14,987	19	2,366	9
East	8,069	11	2,142	8
Total U.S.	71,186	91	9,394	36
International				
Europe [c]	6,942	9	16,429	64
Total	$ 78,128	100%	$ 25,823	100%

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2008.

(b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2008 from equity investments in real estate.

(c) Represents investments in France, Germany and Poland.

Property Diversification

Information regarding our property diversification as of December 31, 2008 is set forth below (dollars in thousands):

	Consolidated Investments		Equity Investments in Real Estate [b]	
Property Type	**Annualized Contractual Lease Revenue [a]**	**% of Annualized Contractual Lease Revenue**	**Annualized Contractual Lease Revenue [a]**	**% of Annualized Contractual Lease Revenue**
Industrial	$ 29,756	38%	$ 5,225	20%
Office	27,671	36	5,574	22
Warehouse/Distribution	10,366	13	11,288	44
Retail	6,173	8		
Other Properties	4,162	5	3,736	14
Total	$ 78,128	100%	$ 25,823	100%

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2008.

(b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2008 from equity investments in real estate.

Table of Contents

Tenant Diversification

Information regarding our tenant diversification as of December 31, 2008 is set forth below (dollars in thousands):

	Consolidated Investments		Equity Investments in Real Estate [b]	
Tenant Industry [c]	Annualized Contractual Lease Revenue [a]	% of Annualized Contractual Lease Revenue	Annualized Contractual Lease Revenue [a]	% of Annualized Contractual Lease Revenue
Business and Commercial Services	$ 11,771	15%	$ 1,863	7%
Telecommunications	11,729	15		
Retail Stores	6,905	9	10,837	41
Electronics	5,833	7	1,194	5
Automobile	5,327	7		
Beverages, Food, and Tobacco	4,842	6	395	2
Aerospace and Defense	4,674	6		
Forest Products and Paper	4,418	6		
Transportation - Personal	4,416	6		
Healthcare, Education and Childcare	3,897	5	5,408	21
Media: Printing and Publishing	2,757	4		
Chemicals, Plastics, Rubber, and Glass	1,846	2		
Machinery	680	1	2,372	9
Transportation - Cargo	326		2,807	11
Other [d]	8,707	11	947	4
Total	$ 78,128	100%	$ 25,823	100%

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2008.

(b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2008 from equity investments in real estate.

(c) Based on the Moody s classification system and information provided by the tenant.

(d) Includes revenue from tenants in our consolidated investments in the following industries: consumer goods (2.4%), hotels (1.6%), construction (1.5%), governmental (1.5%), textiles (1.3%), leisure (1.2%), mining (1.2%) and grocery (0.7%).

Lease Expirations

As of December 31, 2008, lease expirations of our properties are as follows (dollars in thousands):

	Consolidated Investments		Equity Investments in Real Estate (b)	
Year of Lease Expiration	**Annualized Contractual Lease Revenue (a)**	**% of Annualized Contractual Lease Revenue**	**Annualized Contractual Lease Revenue (a)**	**% of Annualized Contractual Lease Revenue**
2009	$ 5,276	7%	$ 395	2%
2010	14,924	19	3,220	12
2011	9,587	12	8,119	31
2012	6,755	9	2,718	11
2013	6,567	8	1,863	7
2014	10,792	14		
2015	5,124	7		
2016	1,151	1	516	2
2017	5,218	7		

2018	3,938	5		
2019 - 2023	7,792	10	5,673	22
2024 - 2028	1,004	1	3,319	13
Total	$ 78,128	100%	$ 25,823	100%

Table of Contents

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2008.

(b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2008 from equity investments in real estate.

Financing Strategies

Consistent with our investment policies, we use leverage when available on favorable terms. Substantially all of our mortgage loans, as well as those of the CPA® REITs, are non-recourse and bear interest at fixed rates. We may refinance properties or defease a loan when a decline in interest rates makes it profitable to prepay an existing mortgage loan, when an existing mortgage loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing, if any, and/or an increase in property ownership if some refinancing proceeds are reinvested in real estate. The prepayment of loans may require us to pay a yield maintenance premium to the lender in order to pay off a loan prior to its maturity.

A lender on non-recourse mortgage debt generally has recourse only to the property collateralizing such debt and not to any of our other assets, while full recourse financing would give a lender recourse to all of our assets. The use of non-recourse debt, therefore, helps us to limit the exposure of all of our assets to any one debt obligation. Lenders may, however, have recourse to our other assets in limited circumstances not related to the repayment of the indebtedness, such as under an environmental indemnity or in the case of fraud.

We also have secured and unsecured credit facilities that can be used in connection with refinancing existing debt and making new investments, as well as to meet other working capital needs. Our secured and unsecured credit facilities are discussed in detail in the Cash Resources section of Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition.

Some of our financing may require us to make a lump-sum or balloon payment at maturity. Because of current conditions in the credit markets, refinancing is at present very difficult. Scheduled balloon payments for the next five years are as follows (in thousands):

2009	$ 66,764 (a) (b)
2010	6,612
2011	103,325 (a) (c)
2012	28,260
2013	

(a) Excludes our pro rata share of mortgage obligations of equity investments in real estate totaling $2.2 million in 2009 and $24.9 million in 2011.

(b) Includes $35 million outstanding under our secured credit facility. The secured credit facility was subsequently repaid in January 2009.

(c) Includes amounts that will be due upon maturity of our unsecured credit facility in June 2011. Such amounts are prepayable at any time. As of December 31, 2008, we had drawn $81 million from this line of credit, which allows us to borrow, repay, prepay, and reborrow at any time prior to the scheduled maturity date.

Asset Management

We believe that effective management of our assets is essential to maintain and enhance property values. Important aspects of asset management include restructuring transactions to meet the evolving needs of current tenants, re-leasing properties, refinancing debt, selling properties and knowledge of the bankruptcy process.

We monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of any of our properties. Monitoring involves receiving assurances that each tenant has paid real estate taxes, assessments and other expenses relating to the properties it occupies and confirming that appropriate insurance coverage is being maintained by the tenant. For international compliance, we often rely on third party asset managers. We review financial statements of tenants and undertake regular physical inspections of the condition and maintenance of properties. Additionally, we periodically analyze each tenant s financial condition, the industry in which each tenant operates and each tenant s relative strength in its industry.

Table of Contents

Competition

In raising funds for investment by the CPA® REITs, we face active competition from other funds with similar investment objectives that seek to raise funds from investors through publicly registered, non-traded funds, publicly-traded funds, or private funds, such as hedge funds. In addition, we face broad competition from other forms of investment. Currently, we raise substantially all of our funds for investment in the CPA® REITs within the United States; however, in the future we may seek to raise funds for investment from outside the United States.

While historically we faced active competition from many sources for investment opportunities in commercial properties net leased to major corporations both domestically and internationally, there has been a decrease in such competition as a result of the continued deterioration in the credit and real estate financing markets. In general, we believe that our management s experience in real estate, credit underwriting and transaction structuring should allow us to compete effectively for commercial properties. However, competitors may be willing to accept rates of return, lease terms, other transaction terms or levels of risk that we may find unacceptable.

Environmental Matters

We and the CPA® REITs have invested, and expect to continue to invest, in properties currently or historically used for industrial, manufacturing and commercial properties. Under various federal, state and local environmental laws and regulations, current and former owners and operators of property may have liability for the cost of investigating, cleaning-up or disposing of hazardous materials released at, on, under, in or from the property. These laws typically impose responsibility and liability without regard to whether the owner or operator knew of or was responsible for the presence of hazardous materials or contamination, and liability under these laws is often joint and several. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous materials.

While we typically engage third parties to perform assessments of potential environmental risks when evaluating a new acquisition of property, no assurance can be given that we have performed such assessments on all of our or the CPA® REITs properties or that the environmental assessments we do perform will disclose all potential environmental liabilities. We or the CPA® REITs may purchase a property that contains hazardous materials in the building or that is known to have or be near soil or groundwater contamination. In addition, new environmental conditions, liabilities or compliance concerns may arise or be discovered during our or the CPA® REITs ownership.

While we frequently obtain contractual protection (indemnities, cash reserves, letters of credit or other instruments) from property sellers, tenants, a tenant s parent company or another third party to address these known or potential issues, we cannot eliminate our or the CPA® REITs statutory liability or the potential for claims against us or the CPA® REITs by governmental authorities or other third parties. The contractual protection may not cover all potential damages or liabilities, and the indemnifying party may fail to meet its contractual obligations. In addition, the existence of any environmental conditions, liabilities or compliance concerns at or near our or the CPA® REITs properties could adversely affect our or the CPA® REITs ability to rent or sell property or to borrow using the property as collateral and could also adversely affect the tenant s ability to make rental payments.

As a result of all of the foregoing, we have incurred in the past, and will incur in the future, costs to investigate environmental matters and to address environmental conditions, liabilities and compliance concerns. Although we do not currently anticipate incurring any material liabilities in connection with environmental matters, we cannot assure you that future environmental costs and liabilities will not be material or will not adversely affect our business.

(d) Financial Information About Geographic Areas

See Our Portfolio above and Note 17 of the accompanying consolidated financial statements for financial data pertaining to our geographic operations.

(e) Available Information

All filings we make with the SEC, including our Annual Report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, and any amendments to those reports, are available for free on our website, http://www.wpcarey.com as soon as reasonably practicable after they are filed or furnished to the SEC. Our SEC filings are available to be read or copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our filings can also be obtained for free on the SEC s Internet site at http://www.sec.gov. We are providing our website address solely for the information of investors. We do not intend our website to be an active link or to otherwise incorporate the information contained on our website into this report or other filings with the SEC. We will supply to any shareholder, upon written request and without charge, a copy of the Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC. Generally, we also post the dates of our upcoming scheduled financial press releases, telephonic investor calls, and investor presentations on the Investor Relations portion of our website at least ten days prior to the event. Our investor calls are open to the public and remain available on our website for at least two weeks thereafter.

In accordance with the rules of the NYSE, Gordon F. DuGan, our Chief Executive Officer, has certified, without qualification, that he is not aware of any violation by us of the NYSE s corporate governance listing standards. Further, Mr. DuGan has filed with the SEC, as Exhibit 31.1 to our most recently filed Form 10-K, the Sarbanes-Oxley Act Section 302 Certification regarding the quality of our public disclosure.

Item 1A. Risk Factors.

Our business, results of operations, financial condition or our ability to pay distributions at the current rate could be materially adversely affected by the conditions below. The risk factors may have affected, and in the future could affect, our actual operating and financial results and could cause such results to differ materially from those in any forward-looking statements. You should not consider this list exhaustive. New risk factors emerge periodically, and we cannot completely assure you that the factors described above list all material risks to us at any specific point in time. We have disclosed many of the important risk factors below in our previous filings with the SEC.

Future results may be affected by risks and uncertainties including the following:

The current financial and economic crisis could adversely affect our business.

The full magnitude, effects and duration of the current financial and economic crisis cannot be predicted. At present, its effects on our business have been somewhat limited, primarily in that it has become very difficult to obtain financing for the sale-leaseback transactions we enter into on behalf of our managed funds. In addition, a number of tenants of those funds have experienced increased levels of financial distress, with several recently having filed for bankruptcy protection. Also, the CPA® REITs are experiencing higher levels of redemption requests by shareholders than in the past. Depending on how long and how severe this crisis is, we could in the future experience a number of additional effects on our business, including higher levels of default in the payment of rent by our tenants, additional bankruptcies, and impairments in the value of our property investments, as well as difficulties in refinancing existing loans as they come due. Any of these conditions may negatively affect our earnings, as well as our cash flow and, consequently, our ability to sustain the payment of dividends at current levels. Our managed funds may also be adversely affected by these conditions, and their earnings or cash flow may also be adversely affected by other events, such as increases in the value of the U.S. Dollar relative to other currencies in which they receive rent, as well as the need to expend cash to fund increased redemptions; additionally, the ability of CPA®:17 Global to make new investments will be affected by the availability of financing as well as its ability to raise new funds. Decreases in the value of the assets held by the CPA® REITs will affect the asset management revenues payable to us, as well as the value of the stock we hold in the REITs, and decreases in these funds earnings or ability to pay dividends may also affect their ability to make the payments due to us, as well as our income and cash flow from CPA® REIT dividend payments.

Earnings from our investment management operations are subject to volatility.

Growth in revenue from our investment management operations is dependent in large part on future capital raising in existing or future managed entities, as well as on our ability to make investments that meet the investment criteria of these entities, both of which are subject to uncertainty, including with respect to capital market and real estate market conditions. This uncertainty creates more volatility in our earnings because of the resulting increased volatility in transaction based revenue from our investment management operations. Asset management revenue may be affected by factors that include not only our ability to increase the CPA® REITs portfolio of properties under management, but also changes in valuation of those properties, as well as sales (through planned liquidation or otherwise) of CPA® REIT properties. In addition, revenue from our investment management operations, including our ability to earn performance revenue, as well as the value of our holdings of CPA® REIT interests and dividend income from those interests, may be significantly affected by the results of operations of the CPA® REITs. Each of the CPA® REITs has invested substantially all of its assets (other than short-term investments) in triple-net leased properties substantially similar to those we hold, and consequently the results of operations of, and cash available for distribution by, each of the CPA® REITs, is likely to be substantially affected by the same market conditions, and subject to the same risk factors, as the properties we own. Four of the sixteen CPA® funds temporarily reduced the rate of distributions to their investors as a result of adverse developments involving tenants.

Each of the CPA® REITs we currently advise and manage may incur significant debt. This significant debt load could restrict their ability to pay revenue owed to us when due, due to either liquidity problems or restrictive covenants contained in their borrowing agreements. In addition, the revenue payable under each of our current investment advisory agreements is subject to a variable annual cap based on a formula tied to the assets and income of that CPA® REIT. This cap may limit the growth of our management revenue. Furthermore, our ability to earn revenue related to the disposition of properties is primarily tied to providing liquidity events for CPA® REIT investors. Our ability to provide that liquidity, and to do so under circumstances that will satisfy the applicable subordination requirements, will depend on market conditions at the relevant time, which may vary considerably over a period of years. In any case, liquidity events typically occur several years apart, and our investment management operations income is likely to be significantly higher in those years in which such events occur.

The inability of a tenant in a single tenant property to pay rent will reduce our revenues.

Most of our properties are occupied by a single tenant and, therefore, the success of our investments is materially dependent on the financial stability of these tenants. Lease payment defaults by tenants negatively impact our net income and reduce the amounts available for distributions to shareholders. As our tenants generally may not have a recognized credit rating, they may have a higher risk of lease defaults than if our tenants had a recognized credit rating. In addition, the bankruptcy of a tenant could cause the loss of lease payments as well as an increase in the costs incurred to carry the property. We have had tenants file for bankruptcy protection. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting the investment and re-leasing the property. If a lease is terminated, there is no assurance that we will be able to re-lease the property for the rent previously received or sell the property without incurring a loss.

We depend on major tenants.

Revenues from several of our tenants and/or their guarantors constitute a significant percentage of our lease revenues. Our five largest tenants/guarantors represented approximately 31%, 29% and 31% of total lease revenues in 2008, 2007 and 2006, respectively. The default, financial distress or bankruptcy of any of these tenants could cause interruptions in the receipt of lease revenues from these tenants and/or result in vacancies in the respective properties, which would reduce our revenues at least until the affected property is re-leased, and could decrease the ultimate sale value of each such property.

We may recognize substantial impairment charges on our properties.

Historically, we have incurred substantial impairment charges, which we are required to recognize whenever we sell a property for less than its carrying value or we determine that the property has experienced an other-than-temporary decline in its carrying value (or, for direct financing leases, that the unguaranteed residual value of the underlying property has declined). By their nature, the timing or extent of impairment charges are not predictable. We may incur impairment charges in the future, which may reduce our net income, although it will not necessarily affect our cash flow from operations.

Deterioration in the credit markets could adversely affect our ability to finance or refinance investments and the ability of our tenants to meet their obligations, which could affect our ability to make distributions.

Credit markets, both domestically and internationally, have experienced substantial contraction in recent periods. This deterioration has been particularly severe in the real estate lending sector, where available liquidity, including through collateralized debt obligations (CDOs) and other securitizations, remains depressed as of the date of this filing. While our investment portfolio does not include investments in residential mortgage loans or in CDOs backed by residential mortgage loans, the continued reduction in available financing for real-estate related investments may impact our financial condition by increasing our cost of borrowing, reducing our overall leverage (which may reduce our returns on investment) and making it more difficult for us to obtain financing on future acquisitions or to refinance existing debt. These effects could in turn adversely affect our ability to make distributions.

In addition, the creditworthiness of our tenants may be adversely affected if their assets include investments in CDOs and residential mortgage loans, or if they have difficulty obtaining financing to fund their business operations. Any such effects could adversely impact our tenants ability to meet their ongoing lease obligations to us, which could in turn adversely affect our ability to make distributions.

The revenue streams from the investment advisory agreements with the CPA® REITs are subject to limitation or cancellation.

The agreements under which we provide investment advisory services may generally be terminated by each CPA® REIT upon 60 days notice, with or without cause. There can be no assurance that these agreements will not be terminated. A termination without cause may, however, entitle us to termination revenue, equal to 15% of the amount by which the net fair value of the relevant CPA® REIT s assets exceeds the remaining amount necessary to provide investors with total distributions equal to their investment plus a preferred return. (In the case of CPA®:17 Global, that entity has the right, but not the obligation, upon certain terminations to repurchase our interests in its operating partnership at fair market value. If such right is not exercised, we would remain as a limited partner of the operating partnership.) Nonetheless, any such termination could have a material adverse effect on our business, results of operations and financial condition.

Changes in investor preferences or market conditions could limit our ability to raise funds or make new investments.

Substantially all of our and the CPA® REITs current investments, as well as the majority of the investments we expect to originate for the CPA® REITs in 2009, are investments in single-tenant commercial properties that are subject to triple-net leases. In addition, we have relied predominantly on raising funds from individual investors through the sale by participating selected dealers to their customers of publicly-registered, non-traded securities of the CPA® REITs. Our recent fund raising efforts have primarily been through one major selected dealer. If, as a result of changes in market receptivity to investments that are not readily liquid and involve high selected dealer fees, or for other reasons, this capital raising method were to become less available as a source of capital, our ability to raise funds for CPA® REIT programs, and consequently our ability to make investments on their behalf, could be adversely affected. While we are not limited to this particular method of raising funds for investment (and, among other things, the CPA® REITs may themselves be able to borrow additional funds to invest), our experience with other means of raising capital is limited. Also, many factors, including changes in tax laws or accounting rules, may make these types of investments less attractive to potential sellers and lessees, which could negatively affect our ability to increase the amount of assets of this type under management.

A substantial amount of our leases will expire within the next three years.

Within the next three years, approximately 38% of our leases are due to expire. If these leases are not renewed, or if the properties cannot be re-leased on terms that yield payments comparable to those currently being received, then our lease revenues could be substantially adversely affected. The terms of any new or renewed leases of these properties may depend on market conditions prevailing at the time of lease expiration. In addition, if properties are vacated by the current tenants, we may incur substantial costs in attempting to re-lease such properties. We may also seek to sell these properties, in which event we may incur losses, depending upon market conditions prevailing at the time of sale.

Our use of debt to finance investments could adversely affect our cash flow.

Most of our investments are made by borrowing a portion of the total investment and securing the loan with a mortgage on the property. If we are unable to make our debt payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment, which in turn could cause the value of our portfolio, and revenues available for distribution to our shareholders, to be reduced. We generally borrow on a non- recourse basis to limit our exposure on any property to the amount of equity invested in the property.

Some of our financing may also require us to make a lump-sum or balloon payment at maturity. Our ability to make balloon payments on debt will depend upon our ability either to refinance the obligation when due, invest additional equity in the property or to sell the related property. When the balloon payment is due, we may be unable to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. Our ability to accomplish these goals will be affected by various factors existing at the relevant time, such as the state of the national and regional economies, local real estate conditions, available mortgage rates, our equity in the mortgaged properties, our financial condition, the operating history of the mortgaged properties and tax laws. A refinancing or sale could affect the rate of return to shareholders.

We face active competition.

In raising funds for investment by the CPA® REITs, we face competition from other funds with similar investment objectives that seek to raise funds from investors through publicly registered, non-traded funds, publicly-traded funds, or private funds. This competition, as well as any change in the attractiveness to investors of an investment in the type of property principally held by the CPA® REITs, relative to other types of investments, could adversely affect our ability to raise funds for future investments, which in turn could ultimately reduce, or limit the growth of, revenues from our investment management operations.

As a result of the continued deterioration in the credit and real estate financing markets, we believe there has been a recent decrease in the level of competition for the acquisition of office and industrial properties net leased to major corporations both domestically and internationally. Historically, however, we have faced active competition from many sources, including insurance companies, credit companies, pension funds, private individuals, financial institutions, finance companies and investment companies. We have also faced competition from institutions that provide or arrange for other types of commercial financing through private or public offerings of equity or debt or traditional bank financings. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants. In addition, our evaluation of the acceptability of rates of return on behalf of the CPA® REITs is affected by such factors as the cost of raising capital, the amount of revenue we can earn and the performance hurdle rates of the relevant CPA® REITs. Thus, the effect of the cost of raising capital and the revenue we can earn may be to limit the amount of new investments we make on behalf of the CPA® REITs, which will in turn limit the growth of revenues from our investment management operations.

Table of Contents

We and Carey Financial, LLC (Carey Financial) have settled an SEC investigation. If other actions are brought against us or Carey Financial, we could be adversely affected.

As previously disclosed, we and Carey Financial, our wholly-owned broker-dealer subsidiary, have settled all matters relating to an investigation by the SEC of us and Carey Financial, including matters relating to payments by certain CPA® REITs during 2000-2003 to broker-dealers that distributed their shares. Under the settlement, we were required to cause payments to be made to the affected CPA® REITs of approximately $20 million and paid a civil monetary penalty of $10 million. Also, in connection with implementing the settlement, a federal court injunction has been entered against us and Carey Financial enjoining us from violating a number of provisions of the federal securities laws. Any further violation of these laws by us or Carey Financial could result in civil remedies, including sanctions, fines and penalties, which may be more severe than if the violation had occurred without the injunction being in place. Additionally, if we or Carey Financial breaches the terms of the injunction, the SEC may petition the court to vacate the settlement and restore the SEC s original action to the active docket for all purposes.

The settlement is not binding on other regulatory authorities, including FINRA, which regulates Carey Financial, state securities regulators, or other regulatory organizations, which may seek to commence proceedings or take action against us or our affiliates on the basis of the settlement or otherwise. As reported in Item 3, Legal Proceedings, the Maryland Securities Commission and the Alabama Securities Commission have each sought information from Carey Financial and/or CPA®:15 relating to matters that were also the subject of the SEC investigation.

Certain participants in a dividend reinvestment plan may have rescission rights with respect to certain shares acquired under that plan.

As a result of changes in the securities laws, our registration statement covering offers and sales of securities under a dividend reinvestment plan (DRIP) expired as of November 30, 2008. Since that date, the acquisition of shares under the DRIP by plan participants may have been subject to the registration requirements of the Securities Act of 1933 (the Securities Act) and may not have qualified for an available exemption from such requirements. The failure to renew the registration statement prior to its expiration was inadvertent and we believe that participants who purchased shares subsequent to the expiration of the registration statement had access to the same information they would have had had a new registration statement been filed. We did not receive any proceeds from the sale of such shares because the plan administrator acquired the shares on the open market. Nevertheless, if the acquisition of shares under the DRIP by plan participants after November 30, 2008 was subject to registration under the Securities Act and no exemption from the registration requirements was available, affected participants would have certain rescission rights. An investor who successfully asserts a rescission right during the applicable time period has the right to require the issuer to repurchase the shares acquired by the investor at the price the investor paid plus interest from the date of acquisition. These rights may apply to up to approximately 23,000 shares acquired pursuant to the DRIP since November 30, 2008. We are currently exploring various options related to this matter, including the possibility of conducting a rescission offer for affected participants.

The failure of Carey REIT II, our real estate subsidiary, to qualify as a REIT would adversely affect our operations and ability to make distributions.

If Carey REIT II, our wholly owned REIT subsidiary formed in 2007 (Note 2), fails to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax on our net taxable income in our real estate subsidiary at corporate rates. In addition, we would generally be disqualified from treatment of Carey REIT II as a REIT for the four taxable years following the year Carey REIT II lost its REIT qualification. Losing the REIT qualification would reduce our net earnings available for investment or distribution to shareholders because of the additional tax liability, and we would no longer be required to make distributions from the real estate subsidiary. We might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify our real estate subsidiary as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements regarding the composition of our assets and the sources of our gross income. Also, our real estate subsidiary must make distributions to its shareholders (primarily us) aggregating annually at least 90% of its net taxable income, excluding net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify our real estate subsidiary as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

The Internal Revenue Service (the IRS) may take the position that specific sale-leaseback transactions we will treat as true leases are not true leases for U.S. federal income tax purposes but are, instead, financing arrangements or loans. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the qualification requirements applicable to REITs.

Possible legislative or other actions affecting REITs could adversely affect our stockholders and us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. It cannot be predicted whether, when, in what forms, or with what effective dates the tax laws applicable to our stockholders or us may be changed.

Our sale-leaseback agreements may permit tenants to purchase a property at a predetermined price, which could limit our realization of any appreciation or result in a loss.

In some circumstances, we grant tenants a right to repurchase the property they lease from us. The purchase price may be a predetermined fixed price or based on the market value at the time of exercise, or it may be based on a formula. If a tenant exercises its right to purchase the property and the property s market value has increased beyond that price, we could be limited in fully realizing the appreciation on that property. Additionally, if the price at which the tenant can purchase the property is less than our purchase price or carrying value (for example, where the purchase price is based on an appraised value), we may incur a loss.

Investments in properties outside of the United States subject us to foreign currency risks, which may adversely affect distributions.

We are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. We attempt to mitigate a portion of the risk of currency fluctuation by financing our properties in local currencies. Changes in the relation of any such foreign currency to U.S. dollars may affect our revenues, operating margins and distributions and may also affect the book value of our assets and the amount of shareholders equity

International investments involve additional risks.

We have invested in and may continue to invest in properties located outside the United States. These investments may be affected by factors particular to the laws of the jurisdiction in which the property is located. These investments may expose us to risks that are different from and in addition to those commonly found in the United States, including:

- Changing governmental rules and policies;
- Enactment of laws relating to the foreign ownership of property and laws relating to the ability of foreign entities to remove invested capital or profits earned from activities within the country to the United States;
- Expropriation;
- Legal systems under which the ability to enforce contractual rights and remedies may be more limited than would be the case under U.S. law;
- The difficulty in conforming obligations in other countries and the burden of complying with a wide variety of foreign laws;
- Adverse market conditions caused by changes in national or local economic or political conditions;
- Tax requirements vary by country and we may be subject to additional taxes as a result of our international investments;
- Changes in relative interest rates;
- Changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- Changes in real estate and other tax rates and other operating expenses in particular countries;
- Changes in land use and zoning laws; and
- More stringent environmental laws or changes in such laws.

In addition, the lack of available information in accordance with accounting principles generally accepted in the United States of America could impair our ability to analyze transactions and may cause us to forego an investment opportunity. It may also impair our ability to receive timely and accurate financial information from tenants necessary to meet our reporting obligations to financial institutions or governmental or regulatory agencies.

Also, we may rely on third-party asset managers in international jurisdictions to monitor compliance with legal requirements and lending agreements with respect to properties we own or manage on behalf of the CPA® REITs. Failure to comply with applicable requirements may expose us or our operating subsidiaries to additional liabilities.

We may have difficulty re-leasing or selling our properties.

Real estate investments are relatively illiquid compared to most financial assets and this illiquidity will limit our ability to quickly change our portfolio in response to changes in economic or other conditions. The net leases we may enter into or acquire may be for properties that are specially suited to the particular needs of the tenant. With these properties, if the current lease is terminated or not renewed, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant. In addition, if we are forced to sell the property, it may be difficult to sell to a party other than the tenant due to the special purpose for which the property may have been designed. These and other limitations, such as a property s location and/or local economic conditions, may affect our ability to release or sell properties without adversely affecting returns to shareholders. See Our Portfolio above for scheduled lease expirations.

We do not fully control the management of our properties.

The tenants or managers of net lease properties are responsible for maintenance and other day-to-day management of the properties. If a property is not adequately maintained in accordance with the terms of the applicable lease, we may incur expenses for deferred maintenance expenditures or other liabilities once the property becomes free of the lease. While our leases generally provide for recourse against the tenant in these instances, a bankrupt or financially troubled tenant may be more likely to defer maintenance and it may be more difficult to enforce remedies against such a tenant. In addition, to the extent tenants are unable to conduct their operation of the property on a financially successful basis, their ability to pay rent may be adversely affected. Although we endeavor to monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of our properties, such monitoring may not in all circumstances ascertain or forestall deterioration either in the condition of a property or the financial circumstances of a tenant.

We are subject to possible liabilities relating to environmental matters.

We own commercial properties and are subject to the risk of liabilities under federal, state and local environmental laws. These responsibilities and liabilities also exist for properties owned by the CPA® REITs and if they become liable for these costs, their ability to pay for our services could be materially affected. Some of these laws could impose the following on us:

- Responsibility and liability for the cost of investigation and removal or remediation of hazardous substances released on our property, generally without regard to our knowledge of or responsibility for the presence of the contaminants;

- Liability for the costs of investigation and removal or remediation of hazardous substances at disposal facilities for persons who arrange for the disposal or treatment of such substances;

- Potential liability for common law claims by third parties based on damages and costs of environmental contaminants; and

- Claims being made against us by the CPA® REITs for inadequate due diligence.

Our costs of investigation, remediation or removal of hazardous or toxic substances, or for third-party claims for damages, may be substantial. The presence of hazardous or toxic substances at any of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination or otherwise adversely affect our ability to sell or lease the property or to borrow using the property as collateral. While we attempt to mitigate identified environmental risks by contractually requiring tenants to acknowledge their responsibility for complying with environmental laws and to assume liability for environmental matters, circumstances may arise in which a tenant fails, or is unable, to fulfill its contractual obligations. In addition, environmental liabilities, or costs or operating limitations imposed on a tenant to comply with environmental laws, could affect its ability to make rental payments to us. Also, and although we endeavor to avoid doing so, we may be required, in connection with any future divestitures of property, to provide buyers with indemnification against potential environmental liabilities.

We may be unable to make investments on an advantageous basis.

A significant element of our business strategy is the enhancement of our portfolio and the CPA® REIT portfolios through new investments. The consummation of any future investment will be subject to satisfactory completion of our analysis and due diligence review and to the negotiation of a definitive agreement. There can be no assurance that we or the CPA® REITs will be able to identify and invest in additional properties or will be able to finance investments in the future. In addition, there can be no assurance that any such investment, if consummated, will be profitable for us or the CPA® REITs. If we are unable to consummate new investments in the future on our own behalf or that of the CPA® REITs, there can be no assurance that we will be able to maintain the cash available for distribution to our shareholders, either through net income on investments we own or through net income generated by our investment management operations.

Our portfolio growth is constrained by our obligations to offer property transactions to the CPA® REITs.

Under our investment advisory agreements with the CPA® REITs, we are required to use our best efforts to present a continuing and suitable investment program to them. In recent years, new property investment opportunities have generally been made available by us to the CPA® REITs. While the allocation of new investments to the CPA® REITs fulfills our duty to present a continuing and suitable investment program and enhances the revenues from our investment management operations, it also restricts the potential growth of revenues from our real estate ownership and our ability to diversity our portfolio.

We may suffer uninsured losses.

There are certain types of losses (such as due to wars or some natural disasters) that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of the limits of our insurance occur, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any such loss would adversely affect our financial condition.

A potential change in United States accounting standards regarding operating leases may make the leasing of facilities less attractive to our potential domestic tenants, which could reduce overall demand for our leasing services.

Under Statement of Financial Accounting Standard (SFAS) No. 13, Accounting for Leases, a lease is classified by a tenant as a capital lease if the significant risks and rewards of ownership are considered to reside with the tenant. This situation is considered to be met if, among other things, the non-cancellable lease term is more than 75% of the useful life of the asset or if the present value of the minimum lease payments equals 90% or more of the leased property s fair value. Under capital lease accounting for a tenant, both the leased asset and liability are reflected on their balance sheet. If the lease does not meet any of the criteria for a capital lease, the lease is considered an operating lease by the tenant and the obligation does not appear on the tenant s balance sheet; rather, the contractual future minimum payment obligations are only disclosed in the footnotes thereto. Thus, entering into an operating lease can appear to enhance a tenant s balance sheet in comparison to direct ownership. In 2005, the SEC conducted a study of off-balance-sheet financing that, among other areas, included lease accounting. This study raised concerns that the current accounting model does not clearly portray the resources and obligations arising from long term lease transactions with sufficient transparency. In July 2006, the Financial Accounting Standards Board (the FASB) and the International Accounting Standards Board announced a joint project to re-evaluate lease accounting. Changes to the accounting guidance could affect both our accounting for leases as well as that of our current and potential customers. These changes may affect how the real estate leasing business is conducted both domestically and internationally. For example, if the accounting standards regarding the financial statement classification of operating leases are revised, then companies may be less willing to enter into leases in general or desire to enter into leases with shorter terms because the apparent benefits to their balance sheets could be reduced or eliminated. This in turn could make it more difficult for us to enter leases on terms we find favorable.

The value of our real estate is subject to fluctuation.

We are subject to all of the general risks associated with the ownership of real estate. While the revenues from our leases and those of the CPA® REITs are not directly dependent upon the value of the real estate owned, significant declines in real estate values could adversely affect us in many ways, including a decline in the residual values of properties at lease expiration; possible lease abandonments by tenants; a decline in the attractiveness of REIT investments that may impede our ability to raise new funds for investment by CPA® REITs and a decline in the attractiveness of triple-net lease transactions to potential sellers. We also face the risk that lease revenue will be insufficient to cover all corporate operating expenses and debt service payments on indebtedness we incur. General risks associated with the ownership of real estate include:

Adverse changes in general or local economic conditions,

Changes in the supply of or demand for similar or competing properties,

Changes in interest rates and operating expenses,

Competition for tenants,

Changes in market rental rates,

Inability to lease or sell properties upon termination of existing leases,

Renewal of leases at lower rental rates,

Inability to collect rents from tenants due to financial hardship, including bankruptcy,

Changes in tax, real estate, zoning and environmental laws that may have an adverse impact upon the value of real estate,

Uninsured property liability, property damage or casualty losses,

Unexpected expenditures for capital improvements or to bring properties into compliance with applicable federal, state and local laws, and

Acts of God and other factors beyond the control of our management.

We depend on key personnel for our future success.

We depend on the efforts of our executive officers and key employees. The loss of the services of these executive officers and key employees could have a material adverse effect on our operations.

Our governing documents and capital structure may discourage a takeover.

Wm. Polk Carey, Chairman, is the beneficial owner of approximately 30% of our outstanding shares. The provisions of our Amended and Restated Limited Liability Company Agreement and the share ownership of Mr. Carey may discourage a tender offer for our shares or a hostile takeover, even though these may be attractive to shareholders.

Proposed legislation may prevent us from qualifying for treatment as a partnership for U.S. federal income tax purposes, which may significantly increase our tax liability and may affect the market value of our shares.

Members of the United States Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. If this or any similar legislation or regulation were to be enacted and to apply to us, we would incur a material increase in our tax liability and the market value of our shares could decline materially.

Item 1B. Unresolved Staff Comments.

None.

Table of Contents

Item 2. Properties.

Our principal offices are located at 50 Rockefeller Plaza, New York, NY 10020. The lease for our primary corporate office space expires in 2016. We believe that this lease is suitable for our operations for the foreseeable future. We also maintain offices in: Dallas, Texas; Amsterdam, the Netherlands; and London, United Kingdom.

See Item 1, Our Portfolio for a discussion of the properties we hold for rental operations and Part II, Item 8, Financial Statements and Supplemental Data Schedule III Real Estate and Accumulated Depreciation for a detailed listing of such properties.

Item 3. Legal Proceedings.

As of December 31, 2008, we were not involved in any material litigation. We note the following:

State Securities Matters

The Maryland Securities Commission and the Alabama Securities Commission have each sought information from Carey Financial, our wholly owned broker/dealer subsidiary, and/or CPA®:15 relating to a previously settled SEC investigation described in Note 12 to our Consolidated Financial Statements in Part II, Item 8, Financial Statements and Supplemental Data. . While it is possible that Maryland, Alabama, or another state could commence proceedings against Carey Financial relating to the SEC investigation, we do not currently expect that any such proceedings, if commenced, would have a material effect on us incremental to that caused by the SEC settlement described in Note 12.

Payson v. Park et al.

On April 24, 2008, a shareholder, Herbert Payson, filed a shareholder derivative complaint in New York state court against us, as nominal defendant, and certain members of the board of directors and several current and former executive officers alleging breach of their fiduciary duties resulting from the matters alleged in the previously settled SEC investigation. Plaintiff claims that the conduct alleged caused damages to us, including but not limited to the $30 million paid by us in connection with our settlement with the SEC and costs incurred in connection with the investigation by the SEC. On June 20, 2008, all defendants filed a motion to dismiss the complaint on the grounds that the shareholder had failed to make a pre-suit demand on the board of directors as required by law and should not be excused from doing so, and a hearing was held on that motion on October 10, 2008. We and the individual defendants intend to defend ourselves vigorously against the action.

Los Angeles Unified School District

In February 2007, following various substantive and procedural motions, the Los Angeles Superior Court dismissed a state court action against our wholly-owned indirect subsidiary, as well as other defendants, by a private plaintiff alleging various claims under the California False Claims Act that focused on alleged conduct by the Los Angeles Unified School District in connection with its direct application and invoicing for school development and construction funding for a new high school, for which our subsidiary acted as the development manager. We and another of our subsidiaries had been named in, but never served with, a revised complaint filed in October 2006, alleging a relationship with the subsidiary that was a party to the development agreement. A subsequent appeal of the dismissal by the Superior Court to the California Court of Appeal and a separate Petition to the California Supreme Court were denied on August 26, 2008 and November 19, 2008, respectively. As a result, the case against the served defendants has been dismissed. Although it is possible that the Plaintiff may seek to amend his pleadings against us and our other subsidiary in this action and then attempt to serve us, we believe, based on the information currently available to us, that this possibility is remote and consider the case closed.

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders.
No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Listed Shares and Distributions

Our common stock is listed on the New York Stock Exchange under the ticker symbol WPC. As of December 31, 2008 there were 26,803 holders of record of our common stock. The following table shows the high and low prices per share and quarterly cash distributions declared for the past two fiscal years:

	2008			2007		
Period	**High**	**Low**	**Cash Distributions Declared**	**High**	**Low**	**Cash Distributions Declared**
First quarter	$34.62	$25.79	$ 0.482	$34.75	$29.84	$ 0.462
Second quarter	33.97	27.67	0.487	35.50	29.71	0.467
Third quarter	31.08	23.44	0.492	33.14	27.67	0.472
Fourth quarter	27.05	16.50	0.494	36.86	31.02	0.477 [a]

(a) Excludes a special distribution of $0.27 per share that was paid in January 2008 to shareholders of record as of December 31, 2007. The special distribution was approved by our board of directors in connection with a corporate restructuring.

Our line of credit contains covenants that restrict the amount of distributions that we can pay.

Issuer Purchases of Equity Securities (in thousands, except share and per share amounts)

	Total number of	Average price	Total number of shares purchased as part of publicly announced	Maximum number (or approximate dollar value) of shares that may yet be purchased under the

2008 Period	shares purchased	paid per share	plans or programs	plans or programs
October [a]	94,600	$ 20.99	94,600	$ 8,015
November [a]	192,000	20.88	192,000	4,006
December [a] [b]	180,935	21.78	180,935	8,126
Total	467,535			

(a) On October 10, 2008, the Executive Committee of our board of directors (the Executive Committee), pursuant to the prior authorization of our board, approved a program to repurchase up to $10 million of our common stock through December 15, 2008. During the term of this program, we repurchased a total of $8.5 million of our common stock.

(b) On December 16, 2008, the Executive Committee approved a further program to repurchase up to $10 million of our common stock through March 4, 2009 or the date the maximum is reached, if earlier. Through December 31, 2008, we repurchased shares totaling $2 million under this program.

Table of Contents

Stock Price Performance Graph

The graph below provides an indicator of cumulative total stockholder returns for our common stock for the period December 31, 2003 to December 31, 2008 compared with the S&P 500 Index and the FTSE NAREIT Equity Index. The graph assumes a $100 investment on December 31, 2003, together with the reinvestment of all dividends.

	12/03	12/04	12/05	12/06	12/07	12/08
W. P. Carey & Co. LLC.	**100.00**	**121.82**	**93.73**	**118.74**	**140.05**	**106.28**
S&P 500	**100.00**	**110.88**	**116.33**	**134.70**	**142.10**	**89.53**
FTSE NAREIT Equity	**100.00**	**131.58**	**147.58**	**199.32**	**168.05**	**104.65**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Table of Contents

Item 6. Selected Financial Data.

	Years ended December 31, 2008	2007	2006	2005	2004
Operating Data [a]					
Revenues from continuing operations [b]	$ 243,873	$ 263,156	$ 267,487	$163,240	$ 214,156
Income from continuing operations	73,874	68,603	85,567	44,868	63,493
Basic earnings from continuing operations per share	1.88	1.80	2.27	1.19	1.70
Diluted earnings from continuing operations per share	1.86	1.78	2.20	1.15	1.63
Net income	78,047	79,252	86,303	48,604	65,841
Basic earnings per share	1.99	2.08	2.29	1.29	1.76
Diluted earnings per share	1.96	2.05	2.22	1.25	1.69
Cash provided by operating activities	63,247	47,471	119,940	52,707	98,849
Cash distributions paid	87,700	71,608	68,615	67,004	65,073
Cash distributions declared per share	1.96	1.88 [c]	1.82	1.79	1.76
Payment of mortgage principal [d]	9,678	16,072	11,742	9,229	9,428
Balance Sheet Data					
Real estate, net [e]	$ 574,329	$ 586,594	$ 574,110	$462,343	$ 485,505
Net investment in direct financing leases	83,792	89,463	108,581	131,975	190,644
Total assets	1,111,136	1,153,284	1,093,010	983,262	1,013,539
Long-term obligations [f]	326,874	316,751	279,314	247,298	294,629

(a) Certain prior year amounts have been reclassified from continuing operations to discontinued operations.

(b) Includes revenue earned in connection with CPA®:16 Global meeting its performance criterion in 2007 as well as CPA® REIT merger transactions in 2006 and 2004.

(c) Excludes a special distribution of $0.27 per share paid in

January 2008 to shareholders of record as of December 31, 2007.

(d) Represents scheduled mortgage principal paid.

(e) Includes real estate accounted for under operating leases, operating real estate and real estate under construction, net of accumulated depreciation.

(f) Represents mortgage and note obligations and deferred acquisition revenue installments.

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

Executive Overview

Business Overview

As described in more detail in Item 1 of this Report, we operate in two operating segments, investment management and real estate ownership. Within our investment management segment, we are currently the advisor to the following affiliated publicly-owned, non-traded real estate investment trusts: CPA®:14, CPA®:15, CPA®:16 Global and CPA®:17 Global and were the advisor to CPA®:12 until the CPA®:12/14 Merger in 2006.

Highlights

Completed investments totaling $457 million on behalf of the CPA® REITs, as compared to $1.1 billion in 2007 and $720 million in 2006.

Raised $342 million for CPA®:17-Global s initial public offering (raised approximately $380 million through February 23, 2009).

Entered into a settlement with the SEC in March 2008 with respect to all matters relating to a previously disclosed investigation (the SEC Settlement). In connection with this settlement, we made payments totaling $30 million in 2008.

Repurchased $15.4 million of our shares through our share repurchase programs. We have repurchased an additional $6 million of our shares through February 23, 2009.

Opened an office in Amsterdam in July 2008 to establish a European base for the management of the CPA® REITs growing portfolio of international assets.

Recognized a gain of $6.5 million on a lease termination in our owned real estate portfolio.

Expensed $1.6 million in previously capitalized costs related to the potential offering for Carey Watermark Investors Incorporated (Carey Watermark).

Two minority interest holders in WPCI exercised options to increase their ownership in WPCI from approximately 13% to approximately 23%.

In our real estate ownership segment, we incurred impairment charges of $1 million on our consolidated investments. In our investment management segment, equity income was impacted by our share of impairment charges recognized by the CPA® REITs totaling $2.3 million.

Our quarterly cash distribution increased to $0.494 per share for the fourth quarter of 2008, or $1.98 per share on an annualized basis.

Financial Highlights

(in thousands)

	Years ended December 31,		
	2008	**2007**	**2006**
Total revenue (excluding reimbursed costs from affiliates) (a)	$202,694	$249,374	$203,857
Net income (b)	78,047	79,252	86,303
Cash flow from operating activities (c)	63,247	47,471	119,940

(a) Revenues from our investment

management operations during 2007 included the recognition of previously deferred revenue totaling $45.9 million from CPA®:16 Global meeting its performance criterion. During 2006, we earned termination and disposition revenues of $46 million as a result of the CPA®:12/14 Merger (see Factors Affecting Comparability below).

(b) Net income from our investment management operations in 2007 includes the impact of the previously deferred revenue recognized upon the achievement of CPA®:16 Global s performance criterion and the charge taken in connection with the SEC Settlement. These events substantially offset each other. Net income in 2006 includes revenue earned in connection with the CPA®:12/14 Merger (see Factors Affecting Comparability below).

(c) Our cash flows fluctuate period to period due to a number of factors, as described in Financial Condition below. Cash flow in 2008 was affected both by the receipt in January 2008 of $28.3 million of previously deferred revenue from CPA®:16 Global, which had been recognized when CPA®:16 Global met its performance criterion in 2007, and by the payment of $30 million related to the SEC Settlement. Cash flow in 2007 was affected by the payment of taxes of approximately $21 million in connection with revenue earned in December 2006 from the CPA®:12/14 Merger and deferred compensation totaling $6.6 million in connection with CPA®:16 Global achieving its performance criterion. Cash flow in 2006 included revenue of $46 million received in connection with the CPA®:12/14 Merger (see Factors Affecting Comparability below).

Management considers the performance metrics described above as well as certain non-GAAP performance metrics to be important measures in the evaluation of our results of operations, liquidity and capital resources. Management evaluates our results of operations with a primary focus on increasing and enhancing the value, quality and amount of assets under management by our investment management segment and seeking to increase value in our real estate ownership segment. Results of operations by reportable segment are described below.

Table of Contents

Factors Affecting Comparability

Several events have occurred over the past few years that affect comparability of our results of operations for the periods presented in this Report. These events, described below, impacted the results of operations of our investment management segment for the years ended December 31, 2006 and 2007 and as such make it difficult to compare 2008 with 2007 and 2007 with 2006.

In 2006, CPA®:12 and CPA®:14 completed the CPA®:12/14 Merger. In connection with providing this liquidity event for CPA®:12 shareholders, CPA®:12 paid us termination revenue of $25.4 million and subordinated disposition revenue of $24.4 million. Included in subordinated disposition revenue was $3.8 million payable by CPA®:12 related to properties we acquired from CPA®:12 that was not recognized as income for financial reporting purposes but reduced the cost of the properties we acquired from CPA®:12 concurrent with the CPA®:12/14 Merger. Net income recognized in connection with the CPA®:12/14 Merger in 2006 totaled $23.3 million. This event, which did not recur in 2007 or 2008, had a significant impact on the results of our investment management segment for the year ended December 31, 2006.

Under the terms of our advisory agreement with CPA®:16 Global, certain revenues were to be deferred and were not payable to us until CPA®:16 Global met an agreed-upon performance criterion. In June 2007, CPA®:16 Global met its performance criterion, and as a result, we recognized previously deferred revenue totaling $45.9 million (consisting of asset management revenue of $11.9 million, structuring revenue of $31.7 million and interest income on the previously deferred structuring revenue of $2.3 million). Net income recognized in connection with CPA®:16 Global achieving its performance criterion totaled $21.6 million in 2007. In addition, as a result of CPA®:16 Global meeting its performance criterion, we recognized and paid to certain employees incentive and commission compensation of $6.6 million that had previously been deferred. This event, which did not recur in 2008, had a significant impact on the results of our investment management segment for the year ended December 31, 2007.

In March 2008, we entered into a settlement with the SEC with respect to all matters relating to a previously disclosed investigation. In connection with the SEC Settlement, we made payments of $20 million, including interest, to certain of our managed REITs and paid a $10 million civil penalty. In anticipation of this settlement, we took a charge of $30 million in the fourth quarter of 2007 and recognized an offsetting $9 million tax benefit in the same period, which had a negative impact on the results of our investment management segment for the year ended December 31, 2007.

Current Developments and Trends

The deterioration in the credit and real estate financing markets that began in the second half of 2007 continued and substantially worsened in 2008, resulting in a severe financial and economic crisis that persists at the date of this Report and is likely to continue for a significant period of time. The full magnitude, effects and duration of the current financial and economic crisis cannot be predicted. At present, its effects on our business have been somewhat limited, primarily in that it has become very difficult to obtain financing for the sale-leaseback transactions we enter into on behalf of our managed funds. In addition, a number of tenants of those funds have experienced increased levels of financial distress, with several recently having filed for bankruptcy protection. Currently, we are seeing opportunities as well as additional risks in the present environment. The level of market volatility necessarily renders any discussion of current trends highly uncertain. Nevertheless, our view of current trends is presented below:

Investment Opportunities

In times such as the present, when financing is difficult to obtain, we believe sale-leaseback transactions can often be a more attractive alternative for a corporation to raise capital, which may result in increased and more attractive investment opportunities for our managed funds. As a result of the continued deterioration in the credit and real estate financing markets, we believe there has been a decrease in the level of competition for the investments we make on behalf of our managed funds, both domestically and internationally.

While the difficult financing markets have limited our ability to complete transactions, we are beginning to see increasingly attractive pricing on sale-leaseback investment opportunities, such that we may be able to achieve desired returns that would allow us to complete some transactions on behalf of the CPA® REITs during 2009 without financing. We believe the pricing improvements are due, in part, to the continued deterioration in the credit markets, which has made obtaining financing for most companies extremely difficult. Overall, our investment volume on behalf of the CPA® REITs will continue to be negatively affected by the lack of financing available in the

marketplace. We earn structuring revenue on acquisitions completed on behalf of the CPA® REITs and expect such revenue to fluctuate based on changes in our investment volume period over period.
Certain of the sale-leaseback opportunities in which we invest on behalf of our managed funds arise in connection with private equity transactions. While private equity firms have raised a significant amount of capital for investment in recent periods, transaction volume has decreased significantly in part as a result of the deterioration in the credit financing markets. As a result, our participation in new private equity transactions has also decreased. While this is likely to affect us in the near term, we believe that attractive investment opportunities, including future participation in either new private equity transactions or transactions with existing portfolio companies owned by private equity firms, will be available to our managed funds once greater stability returns to the marketplace.

Table of Contents

International investments continue to make up a significant portion of our investment activity on behalf of the CPA® REITs. For the year ended December 31, 2008, international investments accounted for 46% of total real estate investments we made on behalf of the CPA® REITs. For the year ended December 31, 2007, international investments accounted for 55% of total investments. We currently expect international transactions to continue to comprise a significant portion of the investments we make on behalf of the CPA® REITs, although the percentage of international investments in any given period may vary substantially. Other markets, particularly in Europe where the majority of our international investments have been made, have also been severely affected by the current financial and economic downturn.

Financing Conditions

The real estate financing markets continued to deteriorate during 2008 and we believe they are worse now than at any point during 2008. Current market conditions make it increasingly difficult to finance new investments both domestically and internationally. We expect these conditions to continue in the near term and cannot predict when these markets will recover. At present, financing on behalf of the CPA® REITs, particularly for larger transactions and for certain property types, is not available. However, as described above, pricing on potential sales-leaseback transactions is starting to improve and may allow us to complete some transactions without financing.

The deterioration in the real estate financing markets has also made refinancing debt extremely difficult. All of our property level debt is non-recourse, which means that if we default on a mortgage obligation our exposure is generally limited to the equity we have invested in that property. In addition, we have a $250 million line of credit, maturing in 2011 that pursuant to its terms can be increased to $300 million at the discretion of the lenders and extended for an additional year subject to satisfying certain conditions. This line of credit can be used for working capital needs and other commitments and may be used for future investments. The line of credit contains covenants that restrict the amount of distributions that we can pay. We were in compliance with the line of credit s covenants at December 31, 2008.

Fundraising

We began fundraising for CPA®:17 Global in December 2007 and have raised more than $375 million through February 20, 2009. Fundraising trends are very difficult to predict, particularly in the current economic environment. We experienced a decline in the pace of fundraising toward the end of 2008 but have seen a slight increase so far in 2009, albeit not to the levels reached prior to September 2008. During 2008, we added to the number of selected dealers for the CPA®:17 Global offering; however, we do not expect these additional outlets to account for a material percentage of CPA®:17 Global s sales in the near term. To the extent we complete investments on behalf of CPA®:17 Global without financing, we will need to continue to raise significant funds to keep making investments on its behalf, and our ability to take advantage of investment opportunities may be limited by the extent of our fundraising. These factors may inhibit our ability to generate structuring revenue.

Commercial Real Estate

We own shares in the CPA® REITs and earn asset management revenue based on a percentage of average invested assets for each CPA® REIT. As such, we benefit from rising commercial real estate values and are negatively impacted when these values decrease. Over the last several years, commercial real estate values rose significantly as a result of the relatively low long-term interest rate environment and aggressive credit conditions. As a result of market conditions worsening during 2008, we are seeing asset values decline across all asset types and expect that annual estimated net asset valuations for the CPA® REITs will decline as well. We also currently expect individual tenant credits to deteriorate as a result of current market conditions. A decline in the estimated net asset valuations of the CPA® REITs will result in lower asset managemen