

Comparison of Expenses from Continuing Operations – 2012 versus 2011

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2012, as compared to the same period in 2011, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2012, is primarily attributable to an increase in stock based incentive compensation.

Real Estate. Real estate expenses increased for the year ended December 31, 2012 compared to the same period in 2011, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2012 and a full year of reimbursable expenses from certain properties acquired in 2011. The increase for the year ended December 31, 2012, was partially offset by a reduction of real estate expenses due to the leasing of certain vacant properties.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses and increased as a percentage of revenues from continuing operations for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The increase in expenses is primarily due to the acquisition of 232 properties in continuing operations with an aggregate gross leasable area of approximately 2,955,000 square feet in 2012 and 218 properties in continuing operations with an aggregate gross leasable area of approximately 3,448,000 square feet during 2011.

Impairment – Commercial Mortgage Residual interests valuation. In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2012 and 2011, NNN recorded an other than temporary valuation adjustment of \$2,812,000 and \$1,024,000, respectively, as a reduction of earnings from operations.

Impairment Losses and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive price. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the year ended December 31, 2012, NNN recorded \$3,258,000 of real estate impairments. Although no real estate impairments were recorded, the recovery of \$2,931,000 of a mortgage receivable charge, partially offset by the impairment of goodwill of \$1,500,000, were recorded during the year ended December 31, 2011.

Interest Expense. Interest expense increased for the year ended December 31, 2012, as compared to the same period in 2011, and increased as a percentage of revenues from continuing operations but remained relatively stable as a percentage of total operating expenses.

The following represents the primary changes in debt that have impacted interest expense:

- (i) the issuance of \$300,000,000 in July 2011 of notes payable with a maturity of July 2021, and stated interest rate of 5.500%;
- (ii) the issuance of \$325,000,000 in August 2012 of notes payable with a maturity of October 2022, and stated interest rate of 3.800%;
- (iii) the repayment of the \$50,000,000 7.750% notes payable in June 2012;
- (iv) the repayment of a mortgage in July 2012, with a balance of \$18,488,000 at December 31, 2011 and an interest rate of 6.900%;
- (v) the settlement of \$123,163,000 of the \$138,700,000 3.950% convertible notes payable in the fourth quarter 2012; and
- (vi) the decrease of \$51,225,000 in the weighted average debt outstanding on the credit facility for the year ended December 31, 2012, as compared to the same period in 2011.