Issue:
March 23, 2012

CEOCFO Magazine - The Most Powerful Name In Corporate News and Information

With a 5.7% Annual Dividend Yield that Has Grown in Each of the Last 22 Years, and 1,422 High-Quality Net-Leased Retail Properties in 47 States, National Retail Properties Is Continuing to Build Shareholder Value

Financial
REIT - Diversified
(NNN-NYSE)

Craig Macnab
Chairman, CEO and Director

Kevin Habicht
Chief Financial Officer

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Executive Bios:
Craig Macnab
Chairman & Chief Executive Officer
Craig Macnab joined National Retail Properties as Chief Executive Officer in February 2004, sharpening the company's investment focus on net-leased retail properties. In 2008, he was appointed to the additional post of Chairman of the Board of Directors.

Prior to joining NNN, Mr. Macnab was Chief Executive Officer of JDN Realty from April 2000 to 2003, where he initiated and led the restructuring of the company including successfully refinancing its credit facilities, settling its class action litigation, and altering its business strategy to include becoming a grocery-anchored developer. JDN was acquired by Developers Diversified Realty.

Previously, Mr. Macnab was President of Tandem Capital, a private investment company that he founded in January 1997. Tandem Capital provided growth capital, primarily mezzanine debt, to small public companies and was acquired by Finova Capital in 1999.

Mr. Macnab's prior experience includes having been an investment banker for seven years at Lazard Freres and Company in New York and six years at JC Bradford where he was co-head of the merger and acquisition department.

Mr. Macnab serves on the Board of Directors of Developers Diversified Realty Corporation (DDR), a self-administered and self-managed real estate investment trust specializing in shopping centers. Up until August 2010, Mr. Macnab served as an independent director of Eclipsys, a leading provider of information solutions for hospitals and healthcare systems, prior to its acquisition by Allscripts. He has a B.Com from the University of Witwatersrand and an MBA from Drexel University.

Kevin Habicht
Chief Financial Officer
Mr. Habicht has served as Executive Vice President and Chief Financial Officer of the Company since December 1993 and as Treasurer of the Company since January 1998. Mr. Habicht has served on the Board of Directors since June 2000. Mr. Habicht is a Certified Public Accountant and a Chartered Financial Analyst.

Company Profile:
National Retail Properties invests primarily in high-quality single-tenant retail properties subject generally to long-term, net leases. As of December 31, 2011, the company owned 1,422 properties in 47 states with a gross leasable area of approximately 16.4 million square feet.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Macnab, what is the philosophy at National Retail?
Mr. Macnab: Our philosophy is to build value for shareholders over the medium term. We do that by maxi-

mizing the value of our existing properties, adding additional properties, maintaining a close control of costs and maintaining a strong balance sheet.

CEOCFO: What does National Retail look for in a property?

Mr. Macnab: We focus on retail properties leased to a single tenant under the triple net-leased format, which means that the tenant pays the cost of the insurance, taxes, utilities and maintenance. Specifically, we look for well located real estate leased to retailers that we think are going to able to pay their rent for the long duration of our leases. Our average remaining lease term is about twelve years.

CEOCFO: The biggest concentration for National Retail is in convenience stores; is that by design or has that been opportunistic?

Mr. Macnab: It is by design. Five years ago, we targeted the convenience store industry after identifying two things. Firstly, the excellent real estate attributes on which most convenience stores are located and secondly, the very strong financial performance of good convenience store operators, which gave us confidence moving into the sector. Let me tell you about some of the things we really like about this category. For example, our second biggest overall tenant, Susser Holdings, which is a public company, announced their year-end earnings results and we are delighted they were extremely good results with record profitability and very good financial and operating metrics. If you live outside a major metropolitan market where there is very little public transportation, you need a car to get to work. In most cases, people stop to fill up their car with gasoline when they are traveling along a busy street. Therefore, they identify a real estate location that has good visibility, excellent access, good ingress and good egress. For us, these are good fundamental retail real estate locations and in most of the cases in our convenience store portfolio, the land is 40-45% of the cost of the property, which of course is going to retain its value for a long period of time.

CEOCFO: What is National Retail's strategy for geographic distribution?

Mr. Macnab: In the last couple of years, we have increased our exposure to the Sunbelt states and that is really an outcome of population growth rather than a strategic decision. Our tenants are increasing their exposure where the population is growing. Texas for example, has become a far bigger state for us as many of our tenants are opening new locations in parts of Texas where the economy continues to be strong. Unemployment in Texas is considerably lower than it is in many other parts of the United States. Obviously, they have a strong oil and gas business, but something people may not be aware of their strong agricultural business. Texas has a diversified economy with many large companies located there and a lot of jobs have been created. Therefore, retailers are expanding there. Obviously, we are headquartered in Florida, so we have more than our share of properties in Florida, but again, many people choose to leave the Midwest, as well as the northeast and retire to Florida. Our retail partners have followed that population shift.

…a 5.7 % annual dividend yield and that dividend has grown in each of the last twenty-two years. - Craig Macnab

CEOCFO: Are you typically buying existing properties with existing tenants?

Mr. Macnab: We buy the vast majority of our properties directly from our retailer tenants. These are existing, occupied stores, which have a proven track record for the retailer. As a company, we do not currently develop real estate.

CEOCFO: Why is it advantageous for the retailers to have someone else own the properties?

Mr. Macnab: For the vast majority of our tenants, they can make more money by taking the capital from a sale-leaseback of the land and buildings than they can make from the appreciation in the real estate. This is even true when they are opening new locations. Therefore, it is purely and simply a financial decision made by the corporation. Big companies such as Walgreen's, or CVS, are financially very strong, very big companies, but they choose to lease the vast majority of their retail locations. Having said that, right now they are pursuing the strategy of owning their real estate. So, for different companies there are different strategies. One thing that is under appreciated about our niche, freestanding retail real estate, is how big the segment is. We think that our segment is bigger than the entire mall sector in this country. We are playing in a very big sandbox.

CEOCFO: Do investors understand the market for NNN's type of properties?

Mr. Macnab: I do not think they do, because the average property size in our portfolio is about $2.6 million. When we acquire an additional say, ten properties, it is a $25 million transaction. Many investors are attracted to the bigger transactions where companies might buy an office building for $200 million.

Mr. Habicht: A key component to NNN performing so well over many years in terms of total return to shareholders is due in part to the relatively small asset size of our investments, which keeps many institutional real estate investors out of our sector. Therefore, we are able to get a higher return on our investment, which ends up translating into higher returns to our shareholders, coupled with the stability and consistency of cash flow that a long-term net lease structure provides.

CEOCFO: National Retail has had 22 years of consecutive annual dividend increases!

Mr. Habicht: Yes, and that is an important track record for us. It is one we intend to perpetuate. We believe the dividend yield will continue to be an important part of a total return story to shareholders in the future and we have seen that play out over the last fifteen or twenty years as NNN's total shareholder returns have meaningfully outperformed industry averages as well as general equity averages.

CEOCFO: Has the economic scenario over the last few years helped or hurt National Retail?

Mr. Macnab: One of the things we are very proud about is the resiliency of our portfolio. In each of the last nine years, we have been better than 96% occupied. This is because many of our retail tenants are providing value to the customer and these retailers performed quite satisfactorily in the difficult economic environment that we have had. Going forward, although the consumer continues to be stretched financially, they still have to drive their cars to work, and purchase gasoline, which makes many of our tenants necessity retailers.

CEOCFO: How often does National Retail swap out properties; what are the criteria?

Mr. Macnab: Last year we purchased 218 properties, investing $722 million. That productivity, which amounts to over four properties a week, is probably not a consistently sustainable number going forward. However, as Kevin said, we do have plenty of opportunities to continue to grow our company. In the past, we have been very active sellers of real estate. In 2006 and 2007, over a 30-month timeframe, we sold about $1 billion of retail properties. Although we haven't sold quite as much in the last couple of years, we execute the vast majority of sales using our own employees rather than third-party brokers. Therefore, it is a very cost efficient process for us and we sell real estate for both defensive and offensive purposes. For example, we might sell real estate to manage a portfolio concentration. That would be an example of defensive. Alternatively, if we can sell a property leased to an existing tenant at a full retail price, reinvest those proceeds at a better yield and better location to the same tenant; we would do that.

CEOCFO: Is there much oversight, such as keeping up the property or is it standard for your tenants to be good stewards of their space?

Mr. Macnab: It is two things. As institutional portfolio managers with a long track record, we have a very good property management team that does a good job. For our retail tenants to continue to be successful, they need to maintain the stores in excellent condition. If their stores are in great shape, customers will choose to visit those locations. Therefore, we have a shared interest with our tenants in maintaining very good properties.

CEOCFO: What is the financial picture of National Retail Properties?

Mr. Habicht: In terms of our balance sheet, we are in a very good position. We have maintained a cautious leverage profile over the years. We are investment grade rated by all three rating agencies and we have nearly no secured mortgage debt. Despite the fact that we completed $772 million of property acquisitions in 2011, we ended 2011 less leveraged than when we started by virtue of the fact that we raised over $520 million of common equity in 2011 as a part of our capital plan. Therefore, we have maintained a fairly conservative leverage profile and intend to continue that going forward. We also have in place a $450 million unsecured credit facility, which allows us to make acquisitions without any financing contingencies.

CEOCFO: What surprised you most as National Retail has developed?

Mr. Macnab: Two things. One is that our industry is constantly evolving. Retail is an intensively competitive business and the companies that we did a lot of business with ten years ago are frequently different from our primary tenants today, and I think that trend is going to continue. Many of the retailers that we were doing business with ten years ago are not growing today and some are out of business. Therefore, we constantly need to adapt and that gets to the second thing, which is that one of the great satisfactions to senior management is that despite our location in central Florida, we have been able to attract national caliber colleagues that have been a joy to work with.

Mr. Habicht: The other thing that has been confirmed over the years, maybe it is a little bit of a surprise, is the power of a safe and growing dividend. It has been the dividend yield that has driven a double digit total return for NNN shareholders over the last fifteen years. That has been a return that, in hindsight, has beaten not only many in our industry, but also general equities like the S&P 500 or the Russell 2000. Therefore, it has been a pleasant surprise in the power of that safe and consistent dividend driving above average total returns.

CEOCFO: Do you do much investor outreach?

Mr. Macnab: Our investment base is about 65% institutional, 35% retail depending on how you count some of those categories. In terms of our retail shareholder base, many of them have been investors for a long time and, as Kevin pointed out, many are attracted to the growing annual dividend. So, we have a modest outreach to them. Then secondly, on the institutional investors, the bigger national mutual fund managers for example, it is a little easier to target that audience, because they are well defined and bigger companies. Therefore, Kevin and I spent about a third of our time meeting and talking to that investment audience.

CEOCFO: Final thoughts; why should investors pay attention to National Retail?

Mr. Macnab: Our multiyear track record as well as our conservative balance sheet suggests that if the economic climate remains the same, we have a better than even chance of outperforming for the next many years. If you think about it, for an investor buying NNN shares today, they start out with a 5.7 % annual dividend yield and that dividend has grown in each of the last twenty-two years. If we continue to manage our portfolio carefully and underwrite our new acquisitions with a high level of prudence, one would think that we would be able to continue to build shareholder value going forward. Therefore, Kevin and I are very optimistic about our business. We have disproportionate amounts of our personal net-worth invested in the company and plan to continue to run the company going forward in the same conservative fashion.

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